GOVERNANCE AND AUDIT COMMITTEE

Date of Meeting	Wednesday, 24th July 2024
Report Subject	Treasury Management Annual Report 2023/24 and Treasury Management Update Q1 2024/25
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

A schedule detailing the reporting cycle for Treasury Management reports in 2024/25 is attached as Appendix 1 for information.

The draft Treasury Management Annual Report for 2023/24 is attached as Appendix 2 for review.

As required by the Council's Financial Procedure Rules the Annual Report will also be considered by Cabinet prior to seeking approval by County Council. The Committee is requested to identify any matters that require bringing to the attention of Cabinet.

A summary of the key points is included within the body of the report.

The report also provides the first quarterly update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2024/25.

RECOMMENDATIONS	
1	Members review the draft Treasury Management Annual Report 2023/24 and identify any matters to be drawn to the attention of Cabinet at its meeting in September.
2	Members review the Treasury Management 2024/25 first quarterly update.

REPORT DETAILS

1.00	**EXPLAINING THE ANNUAL REPORT AND QUARTER 1 UPDATE**
1.01	The Council has nominated the Governance and Audit Committee to be responsible for ensuring effective scrutiny of Treasury Management Strategy and Policies. The Governance and Audit Committee has previously agreed to include treasury management as a standing item on each quarterly agenda to receive an update.
1.02	On 23rd February 2023, Council approved the Treasury Management Strategy 2023/24, following the recommendation of the Cabinet and consideration by the Governance and Audit Committee.
1.03	On 20th February 2024, Council approved the Treasury Management Strategy 2024/25, following the recommendation of the Cabinet and consideration by the Governance and Audit Committee.
	CONSIDERATIONS
1.04	Governance A schedule detailing the reporting cycle for Treasury Management reports in 2024/25 is attached as Appendix 1 for information. Where Members have any specific items of interest, concern or questions on the Council's Treasury Management Policies or Strategies these can be addressed within future reports upon request.
1.05	Annual Treasury Management training for all Members (hosted by the Governance and Audit Committee) and delivered by the Council's Treasury Management advisors, Arlingclose Ltd, is being arranged for December. Prior to the training, should any Member of the Committee require additional information or wish to learn more about a specific Treasury Management topic, officers will be happy to assist.
	Treasury Management Annual Report 2023/24
1.06	The draft Treasury Management Annual Report for 2023/24 is attached as Appendix 2 for review. As required by the Council's Financial Procedure Rules the Annual Report will also be reported to Cabinet prior to seeking approval by County Council.
1.07	Summary of Key Points UK inflation continued to decline throughout the year with headline consumer price inflation (CPI) falling to 3.4% in February from the 8.7% seen at the start of the year, although this was still above the Bank of England's 2% target. Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and

	interest rates. The Bank Rate was maintained at 5.25% through the remainder of the financial year. Section 2 of the report provides a full economic and interest rate review for 2023/24.
1.08	Due to increases in the UK Bank Rate, the short-term money market rates have been higher than expected. The average interest rate on the income earned during the year was 4.87%. Section 4 provides further details of the Council's investment activity during the year.
1.09	During the year a total of £12m Public Works Loan Board (PWLB) loans were taken out to support the strategy of fixing a portion of the long-term borrowing requirement. Section 3 provides more information on borrowing and debt management during the year.
1.10	Options for debt rescheduling were explored in conjunction with our treasury management advisors. The premium charged for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. Therefore, no rescheduling activity was undertaken.
1.11	The treasury function operated within the limits detailed in the Treasury Management Strategy 2023/24.
	Treasury Management 2024/25 – Quarter 1 update
1.12	Investments Update A statement setting out the Council's investments as at 28th June 2024 is attached as Appendix 3. The investment balance at this date was £22.8m spread across 6 counterparties with an average interest receivable of 5.2%.
1.13	Borrowing Update Appendix 4 shows the Council's long-term borrowing as at 28th June 2024. The total amount of loans outstanding was £301.2m with an average interest rate payable of 4.50%. In May 2018 the Cabinet approved loans to NEW Homes to build or purchase affordable housing for rent. During Quarter 1, one loan of £0.118m was taken out with the PWLB to fund the purchase costs relating to a property at Maple Way, Penyffordd. Appendix 5 shows the Council's short-term borrowing as at 28th June 2024. The total amount of loans outstanding was £20m with an average interest rate payable of 6.17%.
1.14	Appendix 6 provides a quarterly update of treasury management indicators, that the Council uses to measure and manage its exposure to treasury management risk.
1.15	As has been reported previously, the borrowing strategy throughout 2023/24 and into 2024/25 has been to monitor capital expenditure plans to confirm the Council's long-term borrowing need. This is to ensure that the

	Council does not commit to long-term borrowing too early and borrow unnecessarily which will be costly. The use of short-term borrowing will assist with such. This will be balanced against securing low long term interest rates which are currently being forecast.

2.00	**RESOURCE IMPLICATIONS**
2.01	Financial implications are addressed in the report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Arlingclose Ltd, being the Council's treasury management advisors.

4.00	**RISK MANAGEMENT**
4.01	Risk Management is directly addressed within the report and appendices including identification of risks and measures to mitigate likelihood and impact of risks identified.

5.00	**APPENDICES**
5.01	1. Treasury Management Reporting Cycle 2024/25 2. Draft Treasury Management Annual Report 2023/24 3. Investment Portfolio as at 28th June 2024 4. Long-term borrowing as at 28th June 2024 5. Short-term borrowing as at 28th June 2024 6. Treasury Management Indicators as at 28th June 2024

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None

7.00	**CONTACT OFFICER DETAILS**
7.01	**Contact Officer:** Chris Taylor – Strategic Finance Manager **Telephone:** 01352 703309 **E-mail:** christopher.taylor@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
8.01	**Authorised Limit:** A statutory limit that sets the maximum level of external debt for the Council. **Balances and Reserves:** Accumulated sums that are held, either for specific future costs or commitments (known as earmarked) or generally held to meet unforeseen or emergency expenditure. **Bank Rate:** The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". **Basis Point:** A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. **Bond:** A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life. **Capital Expenditure:** Expenditure on the acquisition, creation or enhancement of capital assets. **Capital Financing Requirement (CFR):** The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed. **Certificates of Deposits (CD's):** A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks. The term of a CD generally ranges from one month to five years. **Consumer Price Index (CPI):** The UK's main measure of inflation (along with Retail Price Index or 'RPI') The Monetary Policy Committee of the Bank of England set the Bank Rate in order to try and keep CPI at or close to the target set by the Government. The calculation of CPI includes many items of normal household expenditure but excludes some items such as mortgage interest payments and Council Tax. **Corporate Bonds:** Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies. **Cost of Carry:** The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

	Counterparty List: List of approved financial institutions with which the Council can place investments. **Credit Rating:** Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees. **Debt Management Office (DMO):** The DMO is an Executive Agency of His Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Facility (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign credit rating. **Federal Reserve:** The US central bank, the equivalent of the Bank of England. (Often referred to as "the Fed"). **Financial Instruments:** Financial instruments are tradable assets of any kind. They can be cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash or another financial instrument. **Gilts:** Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. They are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity. **IFRS:** International Financial Reporting Standards. **LIBID:** The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). **LIBOR:** The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive. **LOBO:** Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. **Maturity:** The date when an investment or borrowing is repaid. **Maturity Structure / Profile:** A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. **Minimum Revenue Provision (MRP):** An annual provision that the Council is statutorily required to set aside and charge to the Revenue

	Account for the repayment of debt associated with expenditure incurred on capital assets. **Monetary Policy Committee (MPC):** Government Body that sets the Bank Rate. Its primary target is to keep inflation within 1% of a central target of 2%. Its secondary target is to support the Government in maintaining high and stable levels of growth and employment. **Money Market Funds (MMF):** Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity. **Non Specified Investment:** Investments which fall outside the WG Guidance for Specified investments (below). **Operational Boundary:** This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit. **Premiums and Discounts:** In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. **Prudential Code:** Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. **Prudential Indicators:** Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators. **Public Works Loans Board (PWLB):** The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments. **Quantitative Easing (QE):** In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy.

	Retail Price Index (RPI): A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. **Revenue Expenditure:** Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges. **Specified Investments:** Term used in the Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating. **Supported Borrowing:** Borrowing for which the costs are supported by the government or third party. **Supranational Bonds:** Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development. **Temporary Borrowing:** Borrowing to cover peaks and troughs of cash flow, not to fund capital spending. **Term Deposits:** Deposits of cash with terms attached relating to maturity and rate of return (Interest). **Treasury Bills (T-Bills):** Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. They are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have an AAA-rating. **Treasury Management Code:** CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009, 2011 and 2021. **Treasury Management Practices (TMP):** Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities. **Unsupported Borrowing:** Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing. **Yield:** The measure of the return on an investment instrument.