City of Westminster

Decision Maker:	Audit and Performance Committee
Date:	18 July 2024
Classification:	General Release
Title:	Treasury Management Strategy Outturn 2023/24
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently
Cabinet Member:	Cabinet Member for Finance and Smart City
Financial Summary:	This report forms part of the monitoring of the treasury function as recommended in the Chartered Institute of Public Finance and Accounting (CIPFA) Treasury Management Code of Practice. It reviews the implementation of the strategy and final outturn position.
Report of:	Gerald Almeroth Executive Director for Finance and Resources
Report Author:	Kelly Martin Treasury Manager

EXECUTIVE SUMMARY

1.1. The Council 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 Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2. The purpose of this report is to:

- Present the Council's annual Treasury Management Outturn Report for 2023/24 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council by the 30 September each year.

1.3. Treasury management comprises:

- Managing the Council's borrowing to ensure funding of the Council's future capital programme is at optimal cost;
- Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.

1.4. This report complies with CIPFA's Code of Practice on Treasury Management, and covers the following:

- ➢ Review of the Council's investment portfolio for 2023/24 to include the treasury position as at 31 March 2024.
- ➢ Review of the Council's borrowing strategy for 2023/24.
- ➢ Review of compliance with Treasury and Prudential Limits for the year to 2023/24.
- ➢ Economic update for 2023/24.

1.5. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS).

2. RECOMMENDATIONS

2.1. The Committee is asked to note the annual treasury management final outturn 2023/24.

3. TREASURY POSITION AS AT 31 MARCH 2024

3.1. The Council's treasury management debt and investment position is organised by the Tri-Borough Treasury team in order to ensure security for investments, adequate liquidity for revenue and capital activities and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established, both through member reporting, and officer activity detailed in the Council's Treasury Management Practices (TMPs).

3.2. As at 31 March 2024, net cash invested was £177.1m, a decrease of £260.6m on the position at 31 March 2023 as shown below:

Net Cash Invested	31 March 2024 (£m)	31 March 2023 (£m)
Total Borrowing	(599.5)	(400.1)
Total Cash Invested	776.6	837.8
Net Cash Invested	**177.1**	**437.7**

Investments

3.3. The Council's Annual Investment Strategy which forms part of the annual TMSS for 2023/24, was approved by Full Council on 8 March 2023. The Council's policy objective is the prudent investment of balances to achieve optimum returns on investments, subject to maintaining adequate security of capital and a level of liquidity appropriate to the Council's projected need for funds over time.

3.4. The table below provides a breakdown of investments, together with comparisons with the previous financial year end.

Investment type	Investment Balance 31 March 2024 (£m)	Investment Balance 31 March 2023 (£m)	Movement (£m)
Money Market Funds	200.6	188.3	12.3
Term Deposits	576.0	649.5	(73.5)
Total	**776.6**	**837.8**	**(61.2)**

3.5. Liquid balances are managed through Money Market Funds, providing same day liquidity. Cash has also been invested in less liquid instruments such as term deposits. The average level of funds available for investment in 2023/24 was £1,170.7m.

3.6. Daily investment balances have steadily decreased from £837.8m at 31 March 2023 to £776.6m at 31 March 2024.

3.7. The table below provides a more detailed breakdown of the Council's treasury investment position and interest rate received as at 31 March 2024:

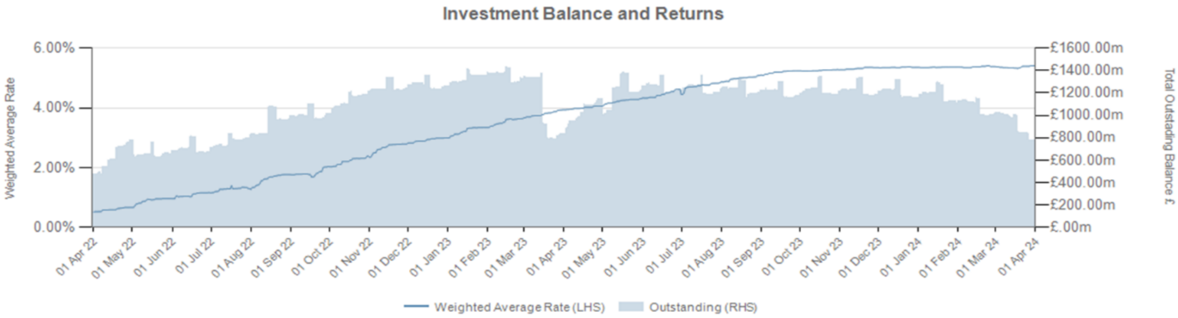
Investment Type	Investment Balance (£m)	Interest Rate (%)
Money Market Funds	200.6	5.28
UK Banks	140.0	5.51
Non UK Banks	110.0	5.59
UK Government	261.0	5.19
Local Authorities	65.0	6.15
Total:	**776.6**	**5.45**

3.8. Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures.

3.9. Starting April 2023 at 4.25%, Bank Rate increased by increments of either 0.25% or 0.50%, reaching 5.25% by August 2023. By the end of the financial year, no further increases were anticipated. The market is pricing in a first cut in Bank Rate in August or Septmeber 2024.

3.10. While the Council has taken a cautious approach to investing, 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 financial crisis. 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.

3.11. Westminster's surplus cash for investment remained high throughout the year and the weighted average rate has increased since the start of April 2023. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Council's capital programme.



3.12. Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. The Bank Rate had initially been forecast to peak at 4.50% but it is now expected to have peaked at 5.25%.

3.13. By January 2024, it had become clear that inflation was moving down from its 40-year double-digit high, and the Bank of England signalled in March 2024 that cuts to the Bank Rate were possible, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 2.3% (as at April 2024) but is expected to fall materially below 2.0% over the summer months and to stay there throughout 2025 and 2026.

3.14. Nonetheless, there remain 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.

3.15. All investment and overdraft limits specified in the 2023/24 TMSS have been complied with.

3.16. The table below shows the budgeted investment income versus actual income and the variance. The Council's budgeted investment return for 2023/24 was £26.283m, and performance for the year is £34.572m above budget.

Year 2023/24	Budget £000	Actual £000	Variance £000
Investment Income	26,283	60,855	34,572

3.17. Appendix 1 provides a full list of the Council's limits and exposures as at 31 March 2024.

3.18. There is a slight variance to the interest receivable figure reported in the revenue outturn report due to how interest is allocated corporately. For example, interest on loans to Westminster Builds is interest received on what are otherwise treasury reserves, however, is allocated to a separate budget corporately. Additionally, the HRA internal borrowing recharge and accrued income from the Real Lettings Property Fund are also allocated to other budgets corporately.

Borrowing

3.19. The Council's underlying need to borrow for capital expenditure is referred to as 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 capital expenditure which has not yet been financed through revenue provision or other resources.

3.20. A key part of the Council's treasury activities is to address the funding requirements for this borrowing need. 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, through the PWLB, or the money markets, or utilising temporary cash resources within the Council.

3.21. At £599.5m, the Council's borrowing at 31 March 2024 was within the Prudential Indicator for external borrowing. The Prudential Indicator requires borrowing not exceed the estimated CFR for 2023/24 of £1,310m. The final CFR for 2023/24 was £1,129m.

3.22. During 2023/24, the Council maintained an under-borrowed position of £529m. This meant that the CFR was not fully funded with capital resources. The Council's reserves, balances and cash flow, was used as an interim measure to finance capital spend. This strategy was prudent as minimising counterparty risk on the placing of treasury investments needed to be considered.

3.23. The table below shows the details around the Council's external borrowing as at 31 March 2024, split between the General Fund and HRA.

Total Borrowing	31 March 2023 (£m)	31 March 2024 (£m)
HRA	175.6	155.6
General Fund	224.5	443.9
Total Borrowing	**400.1**	**599.5**

3.24. The breakdown of the existing loans is shown below:

Borrowing Type	Loan Balance 31 March 2023 (£m)	Loan Balance 31 March 2024 (£m)	Movement (£m)
PWLB	130.6	130.6	0.0
LOBO	70.0	50.0	(20.0)
Private Placement	199.5	396.6	197.1
Amber MEEF/ Abundance	0.0	22.3	22.3
Total	**400.1**	**599.5**	**199.4**

3.25. During 2023/24, the Council repaid £20.0m of long-term LOBO loans. In October 2023 notification was received from Commerzbank of their intention to increase the borrowing rates on their £10m loan from 4.50% to 5.88%. The Council therefore repaid this LOBO in full on 30th October 2023. On 31st January 2024 a £10m LOBO loan with HSBC bank was repaid. This loan was a 40 year loan at a rate of 10.75% that had reached maturity. Further advances from the forward borrowing loan portfolio were received in May 2023 and loan repayments were also made during the year. This consisted of £200m being received from Rothesay Life Plc and £2.892m being repaid.

3.26. The Council also received scheme specific loans to help fund a range of energy efficiency measures from the Mayor of London's Energy Efficiency Fund (MEEF) and Abundance Investment. The Council secured three loans from MEEF totalling £22.1m to finance new electric refuse collection vehicles and charging infrastructure, electric street cleansing vehicles, and to support the LED rollout programme. The other was the partnership with Abundance Investment, where the Council raised £1m from the public and local residents to help finance energy efficiency projects and carbon reduction measures on Council owned buildings. £0.879m was repaid during 2023/24.

3.27. The Council has also started the process of applying for a global credit rating from Moody's rating agency to demonstrate our financial position within local government and the wider market. Ratings assigned on Moody's Ratings global rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. All submissions and meetings with the assessors will take place in the next financial year.

Forward Borrowing

3.28. As anticipated in the TMSS 2023/24, the Council took no additional long-term borrowing for the financial year due to its high level of cash holdings. Officers are monitoring market conditions and reviewing the need to borrow for either the General Fund or Housing Revenue Account (HRA). The monitoring process includes the setting of various trigger points, the breaking of which will require officer consideration of borrowing requirements and market conditions.

3.29. Due to the overall financial position and the underlying need to borrow for capital purposes, it is prudent for the Council to lock in affordability by placing some forward borrowing for the amounts it can be relatively certain it will need, while maintaining some forward flexibility as projects may or may not proceed within the expected timeframes.

3.30. During the financial year 2019/20, the Council arranged forward borrowing loans totalling £400m. These loans have enabled the Council to agree competitive rates in advance of need which eliminates the “cost of carry”, i.e., the difference between loan interest cost and the rate of return on cash investments.

3.31. An analysis of these loans can be found in the table below.

Counterparty	Amount (£m)	Start Date	Maturity Date	Rate (%)	Profile
Phoenix Group	37.5	15 March 2022	15 March 2062	2.706	Annuity
Barings LLC	150.0	15 August 2022	15 August 2052	1.970	Maturity
Phoenix Group	12.5	15 March 2023	15 March 2063	2.751	Annuity
Rothesay Life Plc	200.0	08 May 2023	08 May 2063	2.887	Equal Instalment of Principal
Weighted average interest rate	**400.0**			**2.579**	

Compliance with Treasury Limits and Prudential Indicators

3.32. During the financial year to 31 March 2024, the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 8 March 2023 as set out below.

PI Ref		2023/24 Forecast	2023/24 Actual	Indicator Met?
1	Capital expenditure	£438m	£357m	Met
2	Capital Financing Requirement (CFR)	£1,310m	£1,129m	Met
3	Net debt vs CFR	£723m underborrowing	£529m underborrowing	Met
4	Ratio of financing costs to revenue stream	GF 8.78% HRA 39.39%	GF 9.83% HRA 62.95%	Met
5a	Authorised limit for external debt	£1,359m	£1,171m	Met
5b	Operational debt boundary	£636m	£642m	Met
6	Working Capital Balance	£0m	£0m	Met
7	Limit on surplus funds invested for more than 364 days (i.e. non specified investments)	£450m	£0m	Met
8	Maturity structure of borrowing	Upper limit under 12 months: 40% Lower limit 10 years and above: 35%	Upper limit under 12 months: 40% Actual: 3% Lower limit 10 years and above: 35% Actual: 74%	Met

Capital Expenditure and Borrowing Limits

3.33. Capital expenditure to 31 March 2024 totalled £357m for the General Fund and the HRA against a forecast for the whole year of £438m. The Council has embarked on an ambitious capital programme with a plan to invest up to £2.296bn (General Fund) over the next 12 years.

3.34. The impact on the Council’s Capital Financing Requirement (CFR) is also shown in the table below:

	2023/24 Indicator (£m)	2023/24 Actual (£m)
General Fund Capital Expenditure	290	197
HRA Capital Expenditure	148	173
Total Capital Expenditure	**438**	**370**
Financed by:		
Capital Receipts	113	74
Capital Grants	192	120
Funded from Revenue	0	15
Major Repairs Allowance	20	20
Prudential Borrowing	113	141
Total Finance	**438**	**370**

	General Fund £m	Housing Revenue Account £m	Total £m
Adjusted Opening CFR 31/03/2023	700	326	1,026
Capital Investment	172	186	358
Capital receipts, government grants & other contributions applied to reduce CFR	(49)	(146)	(195)
Direct Revenue Contributions	(15)	0	(15)
Major Repairs Allowance	0	(20)	(20)
Debt Repayment	(25)	0	(25)
Closing CFR	**783**	**346**	**1129**

3.35. External borrowing was well within the CFR, Authorised Borrowing Limit and the Operational Boundary:

- The Authorised Limit is a level for which the external borrowing cannot be exceeded without reporting back to Full Council. It therefore provides sufficient headroom such that, in the event that the planned capital programme required new borrowing to be raised over the medium term, if interest rates were deemed favourable and a thorough risk analysis determined that the cost of carry was appropriate, this borrowing could be raised ahead of when the spend took place.

- The Operational Boundary is set at a lower level and should take account of the most likely level of external borrowing. Operationally, in accordance with CIPFA best practice for Treasury Risk Management, a liability benchmark is used to determine the point at which any new external borrowing should take place. Officers are monitoring the need for new borrowing in the short/medium term.

3.36. The purpose of the maturity structure of borrowing indicator is to highlight any potential refinancing risk that the Council may be facing if in any one particular period there was a disproportionate level of loans maturing. The table below shows that the maturity structure of the Council's borrowing as at 31 March 2024 was within the limits set and does not highlight any significant issues.

Actual Maturity at 31 March 2024	Duration	Upper Limit	Lower Limit
3	Under 12 Months	40	0
2	12 Months and within 24 Months	35	0
6	24 Months and within 5 Years	35	0
15	5 Years and within 10 Years	50	0
74	10 Years and Above	100	35

3.37. The purpose of the interest rate exposure indicators is to demonstrate the extent of exposure to the Council from any adverse movements in interest rates. The Council is not subject to any adverse movement in interest rates as it only holds fixed interest borrowing.

3.38. The average rate on the fixed interest borrowing is 2.94% with an average redemption period of 20 years. This reflects the historical legacy of borrowing taken out some years ago which is now lower than current comparable PWLB interest rates. Officers have considered loan refinancing but premia for premature redemptions are prohibitively high, making this option poor value for money.

3.39. The Council's borrowing portfolio contains £50m of Lender Option Borrower Option loans (LOBOs). These are long-term loans of up to 60 years, which are subject to periodic rate re-pricing. The rates were comparable with loans for similar durations provided by the PWLB. There is some refinancing risk associated with these loans because of the lender option to redeem. Some banks are offering premature repayment or loan conversion for LOBOs to fixed term loans and officers will remain alert to such opportunities as they arise.

Investment limits

3.40. There are no deposits in non-specified investments as at 31 March 2024 as all of the Council's investments have a life of less than 12 months.

3.41. While the short duration is within approved limits, there is scope within the Investment Strategy to extend the duration of investments for up to five years. Using longer duration investments and marginally lower credit ratings is likely to increase the yield the Council earns from its investments.

3.42. There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target.

4. THE ECONOMY AND INTEREST RATES

4.1. Against a backdrop of stubborn CPI inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

4.2. Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024. UK, EZ and US ten-year yields have all stayed stubbornly high throughout 2023/24.

4.3. The Bank of England in their March meeting left interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

4.4. The UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.

4.5. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation, which peaked at 11.1% in October 2022, is now due to slide below the 2.0% target rate and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics.

4.6. The impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

4.7. From a fiscal perspective, the further cuts to national insurance tax (from April 2024) will boost real household disposable income by 0.5 to 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

4.8. With regards to equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, while communications and basic materials have fared poorly. Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

5. BACKGROUND

5.1. The Local Government Act 2003 ("the Act") requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

6. FINANCIAL IMPLICATIONS

6.1. Financial implications are contained in the body of this report.

7. LEGAL IMPLICATIONS

7.1. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Act to monitor its borrowing and investment activities.

7.2. Legal implications verified by Michael Carson, Principal Solicitor Employment, Criminal and Commercial Litigation.

8. BACKGROUND PAPERS

Full Council Report

Treasury Management Strategy Statement 2023/24, including Prudential Indicators and Statutory Borrowing Determinations: 8 March 2023.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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Limits and exposures as at 31st March 2024 **Appendix 1**

Category	Limit per Counterparty (£m)	Duration Limit	Counterparty Name	Current Exposure (£m)	Interest Rate (%)
UK Local Authorities	£100m per Local Authority; £500m in aggregate	3 years	East Ayrshire Council	20.0	5.55
			Moray Council	5.0	5.90
			South Gloucestershire Council	10.0	6.75
			Torfaen County Borough Council	10.0	7.00
			Wrexham County Borough Council	10.0	5.85
			Wrexham County Borough Council	10.0	6.35
DMO Deposits	Unlimited	6 months	DMADF	60.0	5.19
			DMADF	60.0	5.19
			DMADF	60.0	5.19
			DMADF	81.0	5.19
Money Market Funds	£70m per fund. £300m in aggregate.	Three day notice	Aberdeen Sterling Liquidity Fund	60.6	
			Federated Sterling Prime Fund	70.0	
			Morgan Stanley Sterling Liquidity Fund	70.0	
UK Banks (A-/A3/A)	£50m	3 years	Goldman Sachs International	25.0	5.36
			Goldman Sachs International	25.0	5.56
	£50m	3 years	National Westminster Bank	20.0	5.45
			National Westminster Bank	20.0	5.53
	£50m	3 years	Santander UK Bank	25.0	5.36
			Santander UK Bank	25.0	5.79
Non-UK Banks (AA-/Aa2/ AA-)	£50m	5 years	Toronto Dominion Bank	25.0	6.15
	£50m	5 years	Svenska Handelsbanken	25.0	5.30
			Svenska Handelsbanken	25.0	5.52
Non-UK Banks (A/A2/A)	£35m	3 years	Australia and New Zealand Banking Group	15.0	5.39
			Australia and New Zealand Banking Group	20.0	5.51
TOTAL				**776.6**	**5.41**