TREASURY MANAGEMENT ACTIVITY DURING 2023/24

BORROWING REQUIREMENT AND DEBT MANAGEMENT

1. On the 31st March 2024, the council had an increase in its net borrowing requirement of £4M arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investments. These are the core drivers of Treasury Management (TM) Activity, and the year-on-year change is summarised in table 1 below.

2. The current strategy, given the increasing borrowing requirement, is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry (i.e. borrowing cash and paying interest on it before it is needed) in the current interest rate environment. This has resulted in an increase in our internal borrowing of £4.23M during 2023/24 from £157.14M to £161.37M.

Table 1 – Balance Sheet Summary

	31-Mar-23 Actual £M	31-Mar-24 Revised Strategy £M	31-Mar-24 Actual £M	31-Mar-24 Actual Movement in year £M
General Fund CFR	342.57	350.62	345.36	2.79
Housing CFR	174.88	189.85	182.05	7.17
Total CFR	**517.45**	**540.47**	**527.41**	**9.96**
Less Other Debt Liabilities*	(57.11)	(53.45)	(53.45)	3.66
Loans CFR	**460.34**	**487.02**	**473.96**	**13.62**
Less External Borrowing**	(303.20)	(312.60)	(312.59)	(9.39)
Internal (over) Borrowing	**157.14**	**174.42**	**161.37**	**4.23**
Balance sheet Resources	(211.70)	(117.78)	(197.23)	14.47
Treasury Investments	54.56	0.00	35.86	(18.70)
New Borrowing or (Investments)	**0.00**	**56.64**	**0.00**	**0.00**

** finance leases, PFI liabilities and Transferred debt that form part of the council 's total debt*
*** See Table 3 below*

3. The forecast movement in coming years is one of the Prudential Indicators (PIs). When the strategy was updated in February 2024, the CFR for 31 March 2024 was estimated at £540.47M, the Council's actual CFR at the end of the year was £527.41M, a decrease of £13.06M. This was mainly as a result of slippage in borrowing on the capital programme, £5.26M for the General Fund and £7.80M for HRA, as shown in table 2 below.

Table 2 – Capital Financing Requirement Movement in year

Capital Financing Requirement	31/03/2023 Actual £M	31/03/2024 Forecast Revised Strategy £M	31/03/2024 Actual £M	Movement since last reported position £M
Balance Brought forward	339.15	342.57	342.57	0.00
New Borrowing	14.53	20.40	15.14	(5.26)
MRP	(7.61)	(8.69)	(8.69)	0.00
Appropriations (to) from HRA	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.50)	(3.66)	(3.66)	0.00
Total General Fund Debt	**342.57**	**350.62**	**345.36**	**(5.26)**
HRA	174.88	189.85	182.05	(7.80)
Total CFR	**517.45**	**540.47**	**527.41**	**(13.06)**
Estimated Debt (*see below for breakdown*	360.29	420.75	366.05	(54.70)
Under / (Over) Borrowed	**157.16**	**119.72**	**161.36**	**41.64**

4. The movement in actual external debt and usable reserves combine to identify the borrowing requirement and potential investment strategy.

Replacement of maturing debt was, in line with the council's strategy, deferred due to the increase in reserves and a corresponding reduction in our net borrowing need.

This is shown in tables 3 and 4 below together with activity in the year.

5. ***Table 3: Borrowing and Investment Position***

	31-Mar-23 Actual £M	31-Mar-23 Average Yield / Rate %	31-Mar-24 Actual £M	31-Mar-24 Average Yield / Rate %	31-Mar-25 Estimated Balance £M
Long Term Borrowing					
Public Works Loan	289.19	3.52	288.59	3.47	456.50
LOBO Loans from Banks	9.00	4.86	4.00	4.86	4.00
	298.19	**3.63**	**292.59**	**3.58**	**460.50**
Short Term Borrowing					
Other Local Authorities	5.00	3.36	20.00	5.79	0.00
Total External Borrowing	**303.19**	**2.96**	**312.59**	**2.98**	**460.50**
Other Long Term Liabilities					
PFI Schemes	44.37	9.56	41.08	9.82	37.11
Deferred Debt Charges (HCC)	12.73	3.27	12.37	5.19	12.01
Total Gross External Debt	**360.29**	**4.08**	**366.04**	**3.98**	**509.62**
Investments:					
Managed In-House					
Government & Local Authority	(11.06)	4.05			
Cash (Instant access)	(15.49)	4.08	(7.83)	5.27	(20.00)
Long Term Bonds	(1.01)	5.27	(1.03)	5.27	(1.00)
Managed Externally					
Pooled Funds (CCLA)	(27.00)	4.04	(27.00)	4.76	(27.00)
Total Investments	**(54.56)**	**4.08**	**(35.86)**	**4.78**	**(48.00)**
Net Debt	**305.73**		**330.18**		**461.62**

6. *Table 4: Movement in Borrowing during the year*

Movement during the year	2022/23 Actual £M	2023/24 Movement in year £M	31-Mar-24 £M	Average Life
Long-term borrowing Carried Forward	255.30		298.19	
Maturities in year	(7.11)		(15.60)	
New borrowing taken in year	50.00		10.00	
Net Long Term Borrowing	**298.19**	**(5.60)**	**292.59**	**24 Years**
Short-term borrowing Carried Forward	0.36		5.00	
Maturities in year	(0.36)		(5.00)	
New borrowing taken in year	5.00		20.00	
Net Short Term Borrowing	**5.00**	**15.00**	**20.00**	**6 months**
Total Borrowing	**303.19**	**9.40**	**312.59**	

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term so will differ from the maturity analysis.

7. The maturity analysis of the Council's long-term debt at 31 March 2024 is further analysed below, in table 5. Debt due in one year includes both short term and long term loans due in year, LOBO loans are shown as uncertain as although they are within the call option, and given the current interest environment there is a possibility they could be called in.

8. *Table 5: Maturity Structure of Borrowing*

Total Financial Liabilities	**Outstanding 31/03/2024**	**% of Total Portfolio**
Source of Loan	**£M**	**%**
Public Works Loan Board	288.59	99
Other Financial Institutions (borrowing)	4.00	1
	292.59	**100**
Analysis of Loans by Maturity		
Less than 1 Year	10.60	4
Between 1 and 2 years	10.60	4
Between 2 and 5 years	31.80	11
Between 5 and 10 years	60.50	21
Between 10 and 20 years	30.25	10
Between 20 and 40 years	144.84	49
Over 40	0.00	0
Uncertain Date**	4.00	1
	292.59	**100**

Borrowing Update

9. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local

authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

Currently £27M is held in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the council will review the benefits of retaining these investments against cost of future borrowing.

Borrowing Strategy

10. At 31st March 2024 the council held £312.59M of loans, (an increase of £9.40M since 31st March 2023), as part of its strategy for funding previous and current years' capital programmes and the need to externalise borrowing as a result of falling reserves. Outstanding loans are summarised in Table 4 and 5 above.

11. The primary objective when borrowing has been to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the long-term plans change being a secondary objective.

12. We have remained under our CFR limit and had internal borrowing of £161.37M at the end of the year compared to £157.14M for 2022/23.

This strategy enabled the council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

13. Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields fell in late 2023, reaching April 2023 lows in December 2023 before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.

On 31st December, the PWLB certainty rates for maturity loans were 4.74% for 10-year loans, 5.18% for 20-year loans and 5.01% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

14. The cost of short term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates are expected to fall back to more normal market levels in April 2024.

15. A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15th June 2023 and will be available to June 2025. The discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing and to replace £12M of loans relating to the HRA maturing during this time frame.

16. During the year a mixture of PWLB and short term borrowing was taken, as shown in Table 6 below. Rates were monitored throughout the year and timing of loans was taken in consultation with our advisors to secure rates when rates dipped in the year and to avoid having to borrow during the peak year end period.

Table 6: New loans taken in 2023/24

Long Term Loans	Date	Amount £M	Rate %	Period
PWLB Maturity Loan	08/07/2023	10,000	4.11%	6 Years
Local Authority Loan 1	24/08/2023	5,000	5.75%	8 Months
Local Authority Loan 2	06/09/2023	5,000	5.75%	8 Months
Local Authority Loan 3	01/09/2023	5,000	5.80%	8 Months
Local Authority Loan 4	18/09/2023	5,000	5.85%	9 Months
Total Borrowing		**30,000**		

17.	This will be kept under review during 2024/25 with the need to resource an increasing capital programme. In addition, given the rising costs of materials and of borrowing, the capital programme will be kept under regular review to ensure ongoing Value for Money and the phasing of capital works reviewed to ensure capital financing budgets to accurately reflect the profile of borrowing needed. The council with its advisor Arlingclose will evaluate and pursue options for lower cost solutions and opportunities, together with the 'cost of carry' and breakeven analysis.
18.	The PWLB remained the Council's preferred source of long term borrowing in 2023/24, given the transparency and control that its facilities continue to provide. However, PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly for the HRA who are not restricted to borrowing from PWLB, like the general fund, (as a result of the Council being awarded extraordinary financial support), if rates can be achieved on alternatives which are below gilt yields + 0.80%. This is kept under constant review, in consultation with our TM advisors.
19.	Borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long term borrowing was maintained.
Loan Restructuring	
20.	The continuing rise in gilt yields since early 2022 resulted in some PWLB loans being in or close to a discount position if repaid early. However, as the prepaid loans would need to be replaced by new loans at higher interest rates, this isn't a cost-effective option.
Lender's Option Borrower's Option Loans (LOBOs)	
21.	On 1st April 2023, the council held £9M of LOBO loans, where the lender has the option to propose an increase in the interest rate at set dates, following which, the council has the option to either accept the new rate or to repay the loan at no additional cost. All the LOBOS had options during the year and as market interest rates rose, there was increased probability of call options being exercised by lenders. Two lenders (£5M) exercised this option and after consultation with our advisors were subsequently repaid.
Other Debt Activity	
22.	Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The balance at the end of the year, after allowing for repayment in year of £3.29M is £41.08M.
23.	In addition, the council holds debt in relation to debt transferred from Hampshire County Council on the 1 April 1997 when we became a unitary authority, of £12.37M. This is being repaid over 50 years at £0.36M per annum.
INVESTMENT ACTIVITY	
24.	The CIPFA Treasury Management Code defines TM investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
25.	The Council maintained its strategy of offsetting investment and borrowing to reduce treasury costs.
26.	The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2023/24 the

council's investment balances have ranged between £33.81M and £94.52M and averaged £56.66M. Movement in year is summarised in Table 7 below.

27. ***Table 7: Investment activity during the year***

	Balance on 01/04/2023 £M	Net Movement £M	Balance on 31/03/2024 £M	31/03/2024 Income Return %	Average Life of Investments
Multi- National Bonds (not subject to bail in)	(1.01)	(0.02)	(1.03)	1.63	1 years
Money Market Funds and Call Account	(15.49)	7.66	(7.83)	44.77	on day notice
Government & Local Authority	(11.06)	11.06	0.00	14.46	
Managed Externally (CCLA Pooled funds)	(27.00)	0.00	(27.00)	39.14	Unspecified
Total Investments	**(54.56)**	**18.70**	**(35.86)**	**100.00**	

28. Both the CIPFA Code and government guidance require the council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

29. As demonstrated by the liability benchmark in this report, the council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income

30. Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Money Market Rates also rose and were between 5.14% and 5.29% by the end of March 2024.

31. Security of capital has remained the council's main investment objective. This has been maintained by following the counterparty policy as set out in its TM Strategy Statement. The council has adopted a voluntary measure of its exposure to credit risk, by monitoring the average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	A+

32. Counterparty credit quality is assessed and monitored with reference to credit ratings across rating agencies Fitch, S&P and Moody's. The council's minimum long-term counterparty rating is A-. For financial institutions analysis is of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The council also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

33. The table below summarises the council's investment portfolio as at 31 March 2024 by credit rating and confirms that all investments were made in line with the

	approved credit rating criteria. The investment for Pooled funds includes the unrealised estimated loss of £1.18M.

Table 8: Credit ratings of Investments held at 31st March 2024

Credit Rating	Long Term 2023 £000	Long Term 2024 £000	Short Term 2023 £000	Short Term 2024 £000
AAA	1,006	1,005	53	53
AA+			0	0
AA			0	0
AA-			11,060	0
A+			10,080	7,820
A			5,554	149
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	25,801	24,794	281	314
Total Investments	**26,827**	**25,819**	**27,028**	**8,336**

34. **Benchmarking:** Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary. Details can be seen in Appendix 3. It shows that on average the return on our internal investments at 5.27% is slightly higher than the average for other Local Authorities, 5.17%, this has been achieved without impacting on our average credit rating which at A+, in line with the average for both other Local Authorities and Unitary Authorities. Our overall income return including the Local Authority Property Fund is 5.06% compared to the average of 5.10%.

Liquidity Management

35. In keeping with the DLUHC's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Externally Managed Funds

36. For long term investments, 2023 continued to be a difficult year.

The market background for commercial property improved marginally in 2023 and was more stable, in contrast to the very challenging backdrop of 2022. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from hybrid working practices.

37. The Council has invested £27M in property funds which offer the potential for enhanced returns over the longer term but will be more volatile in the shorter term. These funds are managed by professional fund managers which allows diversification

	into asset classes other than cash without the need to own and manage the underlying investments.
38.	The change in the funds' capital values and income earned in 2023/24 is shown below.

Table 9 – Property Fund Performance 2023/24

Quarter Ending	Valuation £M	Movement since Reported in SOA	Dividends £M
1st April	25.80		
30th June	25.77	(0.04)	0.30
30th September	25.46	(0.34)	0.34
31st December	24.96	(0.84)	0.33
31st March	24.79	(1.01)	0.33
Total			1.30

39.	The market value has decreased further since last reported in December, from £24.96M to £24.79M. This is a decrease of £1.01M since the March 2023 value of £25.80M and is £1.2M below the initial investment of £27M. The dividend for the year was £1.30M, 4.82% against the original investment. This is higher than 2023/24 (£1.14M 4.24%), which was higher than that budgeted. The market value of the investment has continued to decrease since year end and at May 2024 was £24.67M, a reduction of £0.12M.
40.	Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the long-term and the latest cash flow forecasts, investment in these funds was maintained but will be reviewed during 2024/25.
41.	**Statutory override**: In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31st March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not. Therefore, for prudence, £0.80M was transferred to the Investment Risk Reserve to cover the risk of the reduction in value on the CCLA pooled property fund not improving and statutory override ceasing in 2026/27, and therefore crystallising a loss.
Non – Treasury Investments	
42.	The definition of investments in CIPFA's revised 2021 TM Code covers all the financial assets, as well as other non-financial assets which are held primarily for financial return. Investments that do not meet the definition of TM investments (i.e., management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).
43.	Investment guidance issued by the DLUHC also broadens the definition of investments to include all such assets held partially or wholly for financial return.
44.	Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council

	services, known as the Property Investment Fund (PIF). To date the council has purchased 3 properties.
45.	The rate of return on investment in 2023/24 before borrowing costs and other on-costs was 6.03%. Borrowing costs of 3.90% were incurred giving a net rate of return of 2.13%.
46.	All of the properties remain fully let and the tenants are meeting their financial obligations under the leases (although one tenant has vacated the premises but continues to honour the lease) and there are currently no concerns regarding the properties that have currently fallen in value below the debt outstanding on it (by £0.89M) due to the current financial environment and market conditions. Details of the properties purchased are shown in table 10 below. Any loss on investment would only be incurred should the council sell its investments.
47.	Investment properties are required to be revalued every year. The current valuation for those within the PIF is £25.19M, an increase in value compared with last year of £1.37M. Under current accounting rules changes in the value of investment properties do not impact on the General Fund.
48.	**Table 10: Property Investment Fund**

Property	Actual	31.03.2023 Actual		31.03.2024 Actual		Outstanding Debt 31.03.2024
	Purchase Cost £M	Value in Accounts	Gain or (Loss) in Year	Value in Accounts	Gain or (Loss) in Year	£M
Property 1	6.47	4.79	(0.09)	5.43	0.64	5.75
Property 2	14.69	10.61	(1.03)	11.52	0.91	13.05
Property 3	8.53	8.42	(0.74)	8.24	(0.18)	7.57
	29.69	23.82	(1.86)	25.19	1.37	26.37

Consultations

49.	In December 2023 DLUHC published two consultations: a “final” consultation on proposed changes to regulations and statutory guidance on MRP closing on 16th February and a “call for views” on capital measures to improve sector stability and efficiency closing on 31st January. Draft regulations and draft statutory guidance are included in the MRP consultation. The proposals remain broadly the same as those in June 2022 – to limit the scope for authorities to (a) make no MRP on parts of the capital financing requirement (CFR) and (b) to use capital receipts in lieu of a revenue charge for MRP. In its call for views on capital measures, government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage ‘invest-to-save’ activity and to manage budget pressures without seeking exceptional financial support. Whilst Government has identified some options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward and no further updates provided.

Compliance

50.	The Chief Finance Officer reports that all TM activities undertaken during the year complied fully with the principles in the TM Code and the council’s approved TM Strategy.