# Tonbridge and Malling Borough Council

## Treasury Management Annual Report 2023/24

### 1.1 Introduction

1.1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activity 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).

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

- an annual strategy in advance of the year.
- a mid-year review; and treasury update report.
- an annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management updates have been presented to each meeting of the Audit Committee throughout the 2023/24 financial year. Treasury performance is also included in the Financial Planning and Control reports to Cabinet and/or the Finance, Regeneration and Property Scrutiny Select Committee.

1.1.3 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, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the Full Council. Member training on treasury management issues was undertaken during the year on the 19 June 2023 in order to support members' scrutiny role.

## 1.2 Treasury Position 31 March 2024

1.2.1 At the beginning and the end of 2023/24 the Council's debt and investment position was as follows:

| | 31 March 2023 £m | Rate / Return % | Average duration Days | 31 March 2024 £m | Rate / Return % | Average duration Days |
|---|---|---|---|---|---|---|
| Variable rate debt: | | | | | | |
| Overdraft | 0.0 | - | - | 0.0 | - | - |
| **Total debt** | **0.0** | - | - | **0.0** | - | - |
| Fixed rate investments: | | | | | | |
| Cash flow surpluses | 0.0 | - | - | 0.0 | - | - |
| Core cash | 23.0 | 4.49 | 147 | 32.0 | 5.39 | 158 |
| Variable rate investments: | | | | | | |
| Cash flow surpluses | 19.6 | 4.15 | 10 | 10.9 | 5.51 | 9 |
| Core cash | 3.0 | 4.30 | 95 | 3.0 | 5.25 | 95 |
| Sub-total | 45.6 | 4.33 | 85 | 45.9 | 5.40 | 122 |
| Medium term investments: | | | | | | |
| Multi-Asset Income Funds | 4.3 | 4.10 | - | 4.3 | 4.94 | - |
| Long term investments: | | | | | | |
| Property Funds | 5.0 | 3.44 | - | 5.0 | 3.59 | - |
| **Total investments** | **54.9** | **2.60** | - | **55.2** | **5.28** | - |

Table 1

1.2.2 There has been an upward movement in year due to reduction in Short Term Creditors including Government Grants received in advance being paid during 2023/24, which has been offset by the increase in Grants and Contributions in advance held in Long Term Liabilities.

## 1.3 The Strategy for 2023/24

1.3.1 The treasury management strategy for 2023/24 was based on the November 2022 forecast and assumed bank rates would increase to 4.50% in the short term and drop back to 2.50% in 2025/26. In actuality, interest rates peaked at 5.25% and remain elevated due to 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. Bank Rate is expected to remain at 5.25% in early 2024/25 before dropping back in late 2024 by 0.25%.

1.3.2 This has provided the Council with the challenge of proactively investing surplus cash and maintaining the appropriate balance between cash for liquidity purposes while pursuing opportunities to lock in deposits at favourable rates.

1.3.3 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.

## 1.4 Investment Rates in 2023/24

1.4.1 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.

1.4.2 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.

1.4.3 The upward sloping yield curve that prevailed throughout 2023/24 meant that the Council 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.

1.4.4 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.

1.4.5 Bank Rate and investment returns across durations of up to 12 months are depicted in the graphs below.

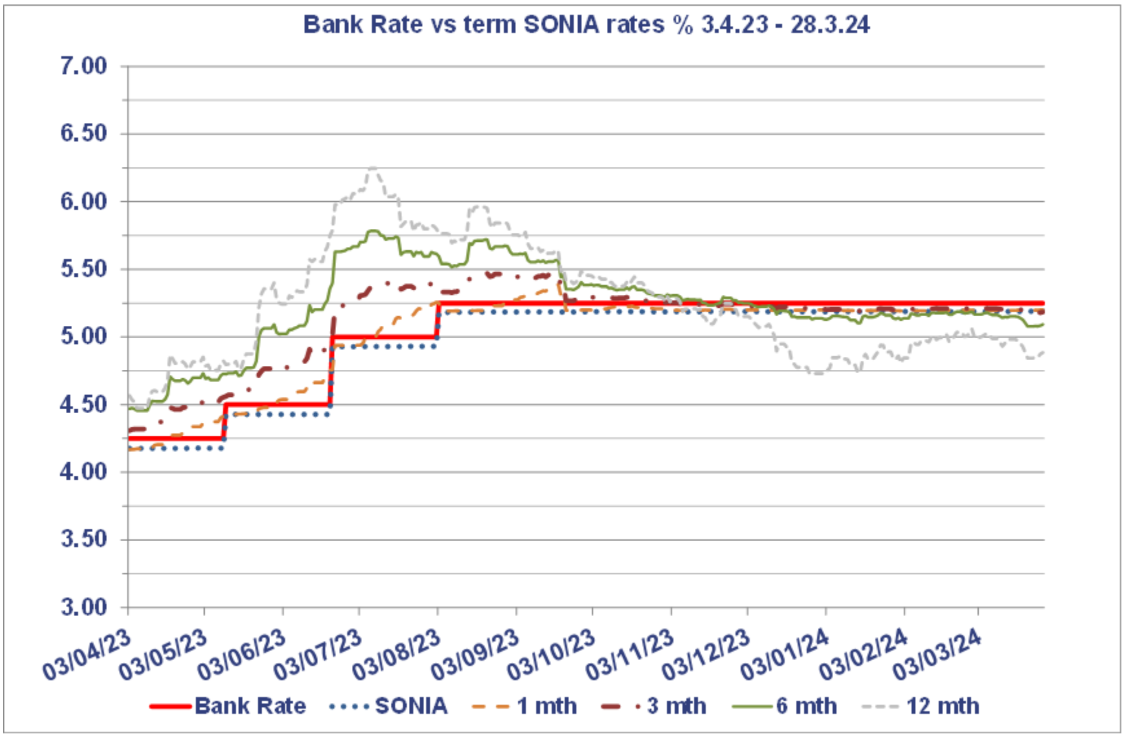


Table 2

## 1.5 Investment Outturn for 2023/24

1.5.1 The Council's investment policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies. This is supplemented by additional market information including credit rating outlooks and credit default swap data (CDS). The 2023/24 Annual Investment Strategy was approved by Council in February 2023 and was subjected to a mid-year review in September 2023. In undertaking the review, no changes were made to the Council's minimum counter-party credit requirement (typically Fitch A-, F1 unless UK state owned) or counter-party exposure limits (maximum of 20% of funds per financial institution). Subject to constraints, discretion to extend investment duration for UK regulated financial institutions by up to six months over the Council's external treasury advisor's suggested duration was also retained.

1.5.2 **Cash flow investment**. In 2023/24 cash flow surpluses averaged £28.4m and earned an average rate of return of 5.51%. The benchmark used to compare performance was 5.19%. Cash flow surpluses arise from the timing difference between the receipt of monies (from council tax, business rates, grants, etc.) and its subsequent payment (to Government, precepting authorities, housing benefit recipients, suppliers, staff, etc.). Cash flow surpluses are required to meet regular payment obligations and are invested in bank deposit accounts and money market funds which allow next day access. The opportunity to invest for longer durations and generate additional yield is taken when cash flow surpluses permit.

1.5.3 **Core cash investment**. In 2023/24 core cash averaged £30.40m and earned an average rate of return of 5.39%. The benchmark used to compare performance was 5.20%. Core cash comprises the authority's revenue and capital reserves. Unlike cash flow, core cash is not required to meet regular payment obligations and is available to invest for longer durations including durations exceeding one year. This added flexibility allows core cash to generate a better return relative to cash flow surpluses.

1.5.4 **Medium-term investment**. In recent years multi asset (diversified income) funds have grown in popularity. Like property funds, multi asset funds aim to generate returns over and above inflation and thus preserve spending power.

1.5.5 A total of £3m was initially invested equally across three funds in July and August, with a further £1.25m invested in November 2021 across two of the funds with the proceeds from the sale of River Walk offices. Additional multi asset fund investments may be made in the future as resources become available from asset disposals and other windfalls.

1.5.6 In 2023/24 the investment in multi asset funds generated dividends of £209,765 which represents an annualised return of 4.94%.

1.5.7 As at 31 March 2024, the capital investment has depreciated in value by £488,046, an improved position from the prior year of £62,058. The value of multi asset diversified income funds at 31 March stood at £3.76m. Members are reminded that our muti asset diversified income funds are medium term investments (5+ years) and the funds applied to them are not required to meet day to day spending commitments.

1.5.8 **Long-term investment**. Of the different types of long-term investment (equities, bonds, and commercial property), investment in property funds was considered best suited to meet the Council's more immediate funding need: a sustainable, stable income stream.

1.5.9 This does not however, preclude consideration of an alternative investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return commensurate with the Council's risk appetite. Each such opportunity to be considered on a case-by-case basis as appropriate.

1.5.10 At the start of the year £5m was invested in property investment funds and no further sums were invested during the year. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. Additional property fund investments may be made in the future as resources become available from asset disposals and other windfalls.

1.5.11 In 2023/24 investment in property funds generated dividends of £179,357 which represents an annualised return of 3.59%.

1.5.12 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying and selling property (legal and other fees, stamp duty, etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase or redemption of units avoided. The table below compares the sale value of each investment if sold to the fund manager with the initial purchase price.

| **Property fund**<br>(Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends) | Purchase price<br>(a)<br>£ | Sale value at date of purchase<br>(b)<br>£ | Sale value March 2024<br>(c)<br>£ | March sale value above (below) purchase price<br>(c-a)<br>£ |
|---|---|---|---|---|
| LAPF (Primary, July 2017) | 1,000,000 | 922,200 | 879,151 | (120,849) |
| Lothbury (Primary, July 2017) | 1,000,000 | 927,700 | 720,668 | (279,332) |
| Hermes (Secondary, Oct 2017) | 1,000,000 | 939,000 | 891,563 | (108,437) |
| LAPF (Primary, June 2018) | 1,000,000 | 922,200 | 842,929 | (157,071) |
| Lothbury (Secondary, July 2018) | 1,000,000 | 973,000 | 706,775 | (293,225) |
| Total | 5,000,000 | 4,684,100 | 4,041,086 | (958,914) |

Table 3

1.5.13 As at 31 March 2024, the capital investment has depreciated in value by £958,914. Members are reminded that our property fund investments are long-term (10 years) and the funds applied to them are not required to meet day to day spending commitments.

1.5.14 **Summary**. Investment performance for the year 2023/24 is summarised in the table below:

| | 2023/24 Average balance £ m | Return % | 2023/24 Interest/ dividends earned £ | 2023/24 Revised Estimate £ | Variance Better (worse) £ |
|---|---|---|---|---|---|
| Cash flow surplus | 13.9 | 5.51 | 1,565,433 | 1,277,000 | 288,433 |
| Core cash | 32.0 | 5.39 | 1,641,582 | 1,103,000 | 538,582 |
| Medium term investment | 4.3 | 4.94 | 209,765 | 175,000 | 34,765 |
| Long term investment | 5.0 | 3.59 | 179,357 | 175,000 | 4,357 |
| Total | 55.2 | 5.28 | 3,596,137 | 2,730,000 | 866,137 |

Table 4

1.5.15 The overall performance of the Authority's investments bettered the revised estimates by £866,137 (£1,272,000 when compared to the 2023/24 original estimates).

## 1.6 Compliance with the Annual Investment Strategy

1.6.1 The Annual Investment Strategy aims to limit the Council's exposure to investment risks by prescribing: minimum counterparty credit criteria; maximum exposure limits in respect of sovereigns, counterparties, and groups of related counterparties; the type of investment instrument that can be used; and investment duration limits. Throughout the period April 2023 to March 2024 the requirements set out in the Annual Investment Strategy for 2023/24, as approved by Council in February 2023, were complied with. No liquidity issues were experienced resulting in nil borrowing throughout 2023/24.

## 1.7 Treasury and Prudential Codes of Practice

1.7.1 Updates to both the Prudential Code and Treasury Management Code were published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2021 and uphold a key principle that borrowing primarily for return on investment is not permissible.

1.7.2 Also re-emphasised that the risks associated with investment in '**non-financial assets** which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time. The Council has no material non-financial investments.

1.7.3 The requirements of both the Treasury Management and Prudential Codes of Practice published by CIPFA have been considered and reflected as appropriate in this annual review.

Financial Services
June 2024

## Prudential and Treasury Indicators

| **1 Prudential Indicators** | 2022/23 Actual £'000 | 2023/24 Original £'000 | 2023/24 Actual £'000 |
|---|---|---|---|
| Capital expenditure | 2,496 | 6,851 | 1,070 |
| Ratio of financing costs to net revenue stream | -23.95% | -63.25% | -9.83% |
| Net borrowing requirement: | | | |
| Brought forward 1 April | nil | nil | nil |
| Carried forward 31 March | nil | nil | nil |
| In year borrowing requirement | nil | nil | nil |
| Capital financing requirement as at 31 March | nil | nil | nil |
| Annual change in capital financing requirement | nil | nil | nil |
| Incremental impact of capital investment decisions: Increase in Council Tax (Band D) per Annum | £0.06 | £0.06 | £0.06 |

| **2 Treasury Management Indicators** | 2022/23 Actual £'000 | 2023/24 Original £'000 | 2023/24 Actual £'000 |
|---|---|---|---|
| Authorised limit for external debt: | | | |
| Borrowing | nil | 7,000 | nil |
| Other long-term liabilities | nil | nil | nil |
| Total | nil | 7,000 | nil |
| Operational boundary for external debt: | | | |
| Borrowing | nil | 4,000 | nil |
| Other long-term liabilities | nil | nil | nil |
| Total | nil | 4,000 | nil |
| Actual external debt: | nil | nil | nil |
| Upper limit for fixed rate exposure over one year at year end | nil | 0 – 60% | nil |
| Upper limit for variable rate exposure under one year at the year end | 19,620 (35.5%) | 40 – 100% | 10,916 (19.50%) |
| Upper limit for total principal sums invested for over 365 days | 9,250 (16.7%) | 60% | 9,250 (16.7%) |

| **3 Maturity structure of new fixed rate borrowing during 2023/24** | Upper limit % | Lower limit % |
|---|---|---|
| Under 12 months | 100 | nil |
| Over 12 months | nil | nil |