

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
AUDIT AND TRANSPARENCY COMMITTEE MEETING – 22 JULY 2024

REPORT BY EXECUTIVE DIRECTOR OF RESOURCES

ANNUAL TREASURY OUTTURN REPORT 2023/24

The Council's treasury Management practices require an annual treasury outturn report for the Lead Member for Finance, Customer Services and Net Zero and the Audit and Transparency Committee. The latter is the body identified as being responsible for the scrutiny of treasury management. The report must also be presented to Full Council for information.

FOR INFORMATION

1. EXECUTIVE SUMMARY

- 1.1. This is the Treasury Management Outturn Report for 2023/24, a concise summary of the Council's treasury management outturn for 2023/24.
- 1.2. It is compiled in accordance with the CIPFA Code of Practice on Treasury Management 2021.
- 1.3. The outturn report is a regulatory requirement and reported to Council by 30 September of each year.
- 1.4. The outturn report covers:
 - the treasury position as at 31 March 2024;
 - the outcome of the borrowing strategy for 2023/24;
 - information on compliance with treasury limits and the Council's Prudential Indicators;
 - the outcome of the investment strategy for 2023/24.
- 1.5. In an economic/investment environment where interest rates are considered to be at their peak, the cash investment portfolio has a weighted average yield of 5.29%, while the debt portfolio has a weighted average interest rate of 3.88%, considered to be optimal performance for the financial year, as well as year-end status.
- 1.6. Treasury officers anticipate reductions in the Base Rate and gilt yields/PWLB rates during 2024/25 as CPI inflation continues to fall.

2. RECOMMENDATIONS

2.1. That Audit Committee review and comment on the report.

3. REASON FOR DECISION

3.1. It is a regulatory requirement for this Treasury outturn report to be presented to Council by 30 September of each year.

4. CURRENT TREASURY POSITION

4.1. The Council's borrowing and investment positions at the beginning and end of the year were as follows.

Treasury Position as at 31 March 2024				
<i>£m</i>	Principal £m	Rate	Principal £m	Rate
	31-Mar-24	31-Mar-24	31-Mar-23	31-Mar-23
Fixed Rate Borrowing				
Public Works Loan Board	342.04	3.88%	229.23	3.32%
Total with Weighted Average Rate	342.04	3.88%	229.23	3.32%
Cash Investments	31-Mar-24 £m	31-Mar-24	31-Mar-23 £m	31-Mar-23
Fixed Term deposits	-	-	10.00	4.00%
Investment Grade Bond Fund	23.27	-	22.54	-
Money Market Funds	15.95	5.29%	12.70	4.09%
Total with Weighted Average Rate	39.22	5.29%	45.24	4.05%
Net Cash Balance	(302.82)		(183.99)	

4.2. The weighted average rate of outstanding debt is 3.88%. This considers all loans outstanding but adds greater weight to loans that comprise a larger allocation of the portfolio.

4.3. The weighted average rate for investments is 5.29%. This considers all investments but adds greater weight to investments that comprise a larger allocation of the portfolio.

4.4. The table below shows the allocation of external interest paid and received during the year compared with the original budget:

General Fund Interest Paid and Received			
Service Area	Revised Budget £000	Final Outturn £000	Variance £000
Interest Payable	4,533	4,339	(194)
Interest Receivable	(6,308)	(4,389)	1,919
Minimum Revenue Provision	6,559	6,131	(428)
Total	4,784	6,081	1,297

4.5. The Interest Payable budget is reporting an underspend of £0.194m. Higher than expected cash flows facilitated the use of internal borrowing to finance capital spend, which allowed the Council to delay borrowing for most of the year whilst interest rates remained relatively high. This resulted in reduced pressure on the interest payable budget. The Housing Revenue Account (HRA) interest payable outturn for external debt was £4.891m, and £2.589m for internal borrowing. The total interest paid by the Council on external borrowing was £9.230. In total the interest payable across the General Fund and HRA was £11.819m including internal borrowing. The internal borrowing recharge was paid from the HRA to the General Fund.

4.6. The Interest Receivable budget is reporting pressures of £1.919m. This is due to cash balances being lower than anticipated at the time of budget setting, for the first three quarters of the year. The Council had lower cash balances as a result of greater than expected capital spend at the end of 2022/23, as well as using cash balances to make payments that had been expected to be covered from borrowing.

4.7. The timing of when to take additional new borrowing to replenish cash balances is a judgement call relative to interest rates at the time, future interest rate forecasts, and expectations on capital programme spend. Considering the longer term, it was the view of officers that it is preferable to delay borrowing while rates are high to allow opportunities for taking borrowing at lower rates.

4.8. It is also important to avoid taking new borrowing before it can be utilised by the capital programme to minimise what is known as the 'cost of carry' or the difference in the rate between what money can be borrowed at and what it can be invested at until it is able to be spent. On balance, the cost reductions in doing so are expected to outweigh the opportunity cost of having lower cash balances and generating less than budgeted income for interest receivable.

5. TREASURY BORROWING

- 5.1. The borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 5.2. It is generally expected that PWLB borrowing will be the most favourable interest rate available to the Council. PWLB standard rates are gilts + 100bps (1.00%). Certainty rate is a concessionary rate available to local authorities who share information on their long-term borrowing needs and associated capital spending. It is a discount to the standard PWLB rate of 20bps (0.20%).
- 5.3. A new PWLB HRA rate of 0.6% below the standard rate was made available with effect from 15 June 2023. This rate is solely intended for use in the HRA and primarily for new housing delivery.
- 5.4. This rate will now be available to June 2025. The discounted rate is to support local authorities borrowing for the HRA and for refinancing existing HRA loans.
- 5.5. A total of £113.228 million of new PWLB debt was taken in year. These new loans resulted in an increase in borrowing from £229.23m to £342.04m and the average interest rate on loans increasing to 3.88% from 3.32%.
- 5.6. The table below shows the list of the new PWLB borrowing that was taken in 2023/24.

Loans taken during 2023/24					
General Fund /HRA	Purchase Date	Maturity Date	Profile	Rate	Principal
General	13/03/2024	13/03/2029	EIP	6.13%	23,228,000.00
General	15/12/2023	17/12/2029	Maturity	4.75%	30,000,000.00
General	09/11/2023	10/05/2029	Maturity	5.05%	11,000,000.00
General	19/10/2023	19/10/2030	Maturity	5.06%	11,000,000.00
HRA	15/12/2023	15/12/2034	EIP	4.35%	20,000,000.00
HRA	09/11/2023	10/05/2034	EIP	4.65%	9,000,000.00
HRA	19/10/2023	19/10/2033	EIP	4.70%	9,000,000.00

- 5.7. All of the Council's loans are at a fixed rate of interest. The table below shows the loan profile as at 31 March 2024:

Loan Profile as at 31 March 2024			
	Average Balance	Weighted Average Rate	Weighted Average Borrowing Years
	(£m)		
Liquid			

< 1 Year	20.89*	5.02%	0.78
1 - 2 years	18.19	5.12%	1.36
2 - 5 years	27.57	5.53%	3.56
5 - 10 years	92.21	4.74%	6.23
10 - 20 years	57.27	2.95%	15.49
20 - 30 years	90.05	2.80%	23.93
30 - 40 years	35.86	3.27%	31.30
Total	342.04	3.88%	14.26

* Annuity and EIP (Equal Instalments of Principal) loans that total £8,191m

5.8. The following table shows PWLB rates at the beginning and end of the financial year at various maturity periods. These rates have been adjusted for the PWLB 0.20% certainty rate discount. A new PWLB Housing Revenue Account (HRA) rate, 0.4% below the certainty rate, was made available from 15 June 2023.

PWLB New Loan Certainty Maturity Rate (%)					
Date	10 Years	20 Years	25 Years	30 Years	50 Years
28/03/2024	4.74	5.18	5.22	5.21	5.01
03/04/2023	4.30	4.66	4.66	4.62	4.36

Dates used are the first and last working day of the financial year

6. CAPITAL EXPENDITURE AND BORROWING LIMITS

6.1. The capital expenditure budget to 31 March 2024 totalled £226.4m, consisting of £116.0m for the General Fund and £110.4m for the HRA.

6.2. The table below shows the capital expenditure and financing in 2023/24:

Capital Expenditure and Financing 2023/24			
	General Fund	HRA	Total
	£m	£m	£m
Total Capital Expenditure	82.47	75.51	157.98
Financed by:			
Capital Grants Reserve	0.96	0.64	1.60
Capital Receipts	0.15	8.50	8.65
Grants and Contributions	13.25	9.08	22.33
S106/CIL	11.43	0.07	11.50
Earmarked Reserves	7.20	-	7.20
Revenue Contributions	10.10	4.39	14.49
Car Park Reserve	3.49	-	3.49
Use of Major Repairs Reserve	-	9.39	9.39

Prudential Borrowing	35.89	43.44	79.33
Total Financing	82.47	75.51	157.98

- 6.3. The General Fund and HRA underspend of £68.4m led to a lower than expected Prudential Borrowing requirement and underspend on the interest payable budget. Cash levels decreased slightly by £6.02m during the period.
- 6.4. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while balance sheet resources are the underlying resources available for investment.
- 6.5. The impact on the Council's CFR is shown in the table below.

Movement in Capital Financing Requirement in Year			
	General Fund	HRA	Total
	£m	£m	£m
Opening CFR 31/03/2023	340.25	216.21	556.46
Net Capital Expenditure in 2023/24	87.67	43.45	131.12
Minimum Revenue Provision (MRP)	(6.13)		(6.13)
Closing CFR 31/03/2024	421.79	259.66	681.45

- 6.6. The increase in the total CFR predominantly arises from £124.99m of new unfinanced capital spend (£131.12m capital expenditure less MRP £6.13m).
- 6.7. External borrowing remains well within the Capital Financing Requirement, Authorised Borrowing Limit and the Operational Boundary.

7. COMPLIANCE WITH TREASURY LIMITS

- 7.1. During the financial year, the Council operated within the approved treasury limits. The detailed outturn for Treasury Management Prudential Indicators is shown in **Appendix A**.
- 7.2. Other non-treasury related Prudential Indicators are set and monitored as part of the Council's budgetary process.

8. INVESTMENT STRATEGY

- 8.1. The Treasury Management Strategy for 2023/24 was approved by Full Council on 1 March 2023.
- 8.2. Investment Strategy for 2023/24:

- investments in UK and overseas financial institutions with long term credit ratings of A or above;
 - no more than £160m can be placed with other local authorities, with no more than £20m to be held in any one authority meeting the Council's local authority lending criteria;
 - the purchase of government securities on a buy-to-hold basis with maturity dates of up to five years;
 - no more than £50m per institution to be invested in corporate bonds or commercial paper with up to three-year maturity in institutions with a UK Government guarantee;
 - no more than £50m to be invested in European Investment Bank (EIB) bonds with maturity dates of up to three-years;
 - no more than £150m to be invested with money market funds, and no more than £30m to be held in any one fund;
 - no more than £50m in any one collective investment scheme investment grade bond fund;
 - Government Debt Management Office (DMO) with no limit applied.
- 8.3. UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.2% in March 2024, but was still above the Bank of England's 2.0% target at the end of the period.
- 8.4. The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% were recorded for Q3 and Q4 respectively. Over the 2023 calendar year, GDP growth expanded by only 0.1% compared with 2022. Of the recent quarterly data, the Office for National Statistics reported a rebound in activity with the economy expanding 0.6% in the three months to 31 March 2024.
- 8.5. Labour market data provided a mixed message for policy makers. Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e. including bonuses) and 7.8% for regular pay growth (i.e. excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast.
- 8.6. Having begun the financial year 2023/24 at 4.25%, the Bank of England's Monetary Policy Committee (MPC) had increased Bank Rate to 5.25% by August 2023 with a three-way split in the MPC's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to 31 March 2024.
- 8.7. The following table shows how the cash investment portfolio was invested as at 31 March 2024:

Investment Portfolio as at 31 March 2024: Short-Term Investments			
Counterparty Type	Investment Type	Amount £m	Yield at 31 March 2024
Money Market Funds	MMF	15.95	5.29%
Total		15.95	5.29%

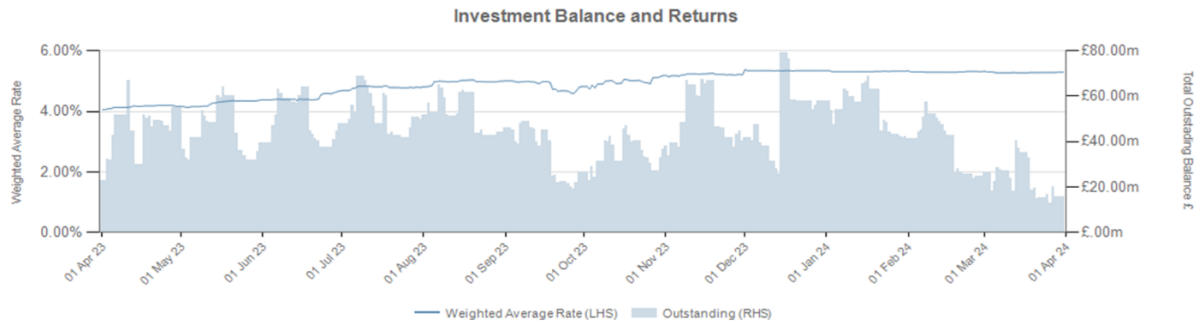
Variable Net Asset Value (VNAV) Fund as at 31 March 2024					
Counterparty Type	Investment Type	Amount £m	Capital Return at 31 March 2024 (%)	Income £m	Annual Dividend Return (%)
Investment Grade Bonds	Pooled Fund	23.27	-2.93%	0.97	4.24
Total		23.27	-2.93%	0.97	4.24

8.8. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and years. Throughout 2023/24 the asset value of the VNAV fund increased by 3.24%. Appendix B shows the full breakdown of investments the Council held at year end.

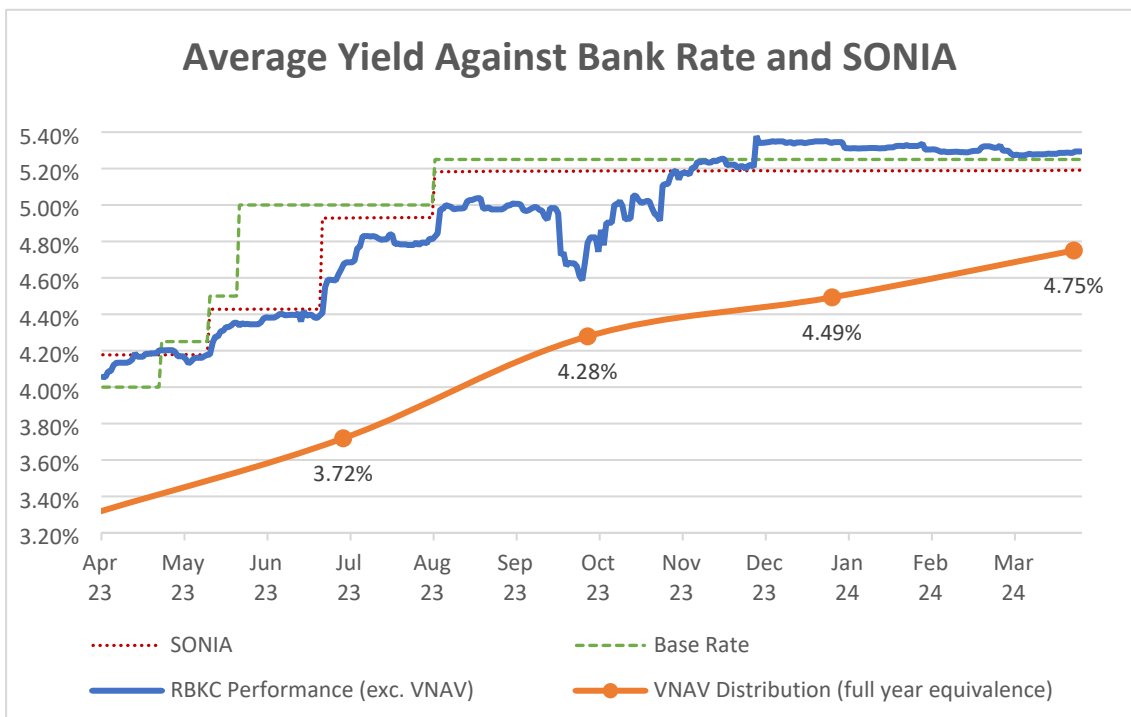
9. INVESTMENT OUTTURN FOR 2023/24

9.1. The investments outstanding as at 31 March 2024 amounted to £39.222m, compared with £45.240m as at 1 April 2023. The weighted average return on short-term deposits as at 31 March 2024 was 5.29%, an increase of 1.24% from last year.

9.2. The short-term investments outstanding during the year, together with the average return are shown in the following chart:



- 9.3. The average return achieved on short-term investments for the financial year 2023/24 was 4.91%, compared with 2.09% in the previous year. The Council follows a low-risk strategy, giving priority to security of investments, liquidity, and then yield.
- 9.4. The VNAV fund appreciated in value by 3.24% over the duration of the year, compared to a depreciation in the prior year of -6.42%, while generating an average distribution yield of 4.24%, an increase of 3.16%.
- 9.5. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. The following graph show the daily average return on short-term investments and the VNAV distribution yield compared with the base rate and SONIA (Sterling Overnight Rate).



- 9.6. The following table shows the average balances of short-term deposits that were placed during the year, and the range of interest rates achieved on the deposits.

Average Balance and Yield by Quarter on Short-term Deposits		
Period	Average Balance £m	Weighted Average Rate
Quarter 1	68.95	4.30
Quarter 2	69.28	4.89
Quarter 3	67.82	5.21
Quarter 4	61.82	5.31
Average	66.88	4.91

10. LEGAL IMPLICATIONS

- 10.1. The Local Government Act 2003 provides that a local authority has the power both to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Act requires the Council to determine and to keep under review how much money it can afford to borrow.
- 10.2. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, provide that, in complying with this duty, the Council must have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA.

Mike Curtis
Executive Director of Resources

Background papers: CIPFA Code of Practice on Treasury Management for the Public Sector CLG Guidance on Local Government Investments

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Mandatory clearance requirements for all Key and Executive Decision reports

Cleared by Finance (officer's initial) [PT]

Cleared by Corporate Finance (officer's initial) [LT]

Cleared by Legal Services (officer's initial) [JG]

APPENDIX A

RBKC – TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2023/24

Indicator	Approved Limit £m	Actual Debt £m	No. of days Limit Exceeded
Authorised Limit ¹	720.0	342.0	None
Operational Boundary ²	620.0	342.0	None
Capital Financing Requirement (CFR)	617.6	663.5	None
Interest Rate Exposure	Lower Limit	Upper Limit	Actual at 31 March 2024
Fixed Rate Debt	0%	100% of total debt	100% total debt
Variable Rate Debt	0%	50% of total debt	0%
Maturity Structure of Borrowing	Lower Limit	Upper Limit	Actual at 31 March 2024
Under 1 year	0%	30%	6.11%
1 year to 2 years	0%	30%	5.32%
2 years to 5 years	0%	30%	8.06%
5 years to 10 years	0%	60%	26.96%
Over 10 years	0%	100%	53.56%

¹ The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

² The Operational Boundary is the expected normal upper requirement for borrowing in the year.

APPENDIX B

RBKC – AUTHORISED INVESTMENTS & LOANS – CLOSING BALANCES 2023/24

Class	Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Deposit	MMF	1621			Federated Prime Rate Sterling Liquidity Fund	Maturity	5.2939%	-15,950,000.00
MMF Total							5.2939%	-15,950,000.00
Deposit	VNAV Fund	1930	25/11/21		Royal London Cash Plus Fund	Maturity	0.0000%	-23,271,716.26
VNAV Fund Total							0.0000%	-23,271,716.26
Grand Total								-39,221,716.26

Class	Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Loan	Fixed	485256	01/03/01	28/02/25	PWLB	Maturity	4.7500%	2,980,000.00
Loan	Fixed	485257	01/03/01	28/02/25	PWLB	Maturity	4.7500%	9,720,000.00
Loan	Fixed	484438	28/06/00	07/06/25	PWLB	Maturity	4.8750%	10,000,000.00
Loan	Fixed	480087	13/10/97	27/09/27	PWLB	EIP	6.3750%	14,350.00
Loan	Fixed	480086	13/10/97	27/09/27	PWLB	Maturity	6.3750%	3,000,000.00
Loan	Fixed	67859	01/12/50	01/11/28	PWLB	Annuity	3.0000%	491.38
Loan	Fixed	67860	01/11/13	01/11/28	PWLB	Annuity	3.0000%	173.44
Loan	Fixed	711018	13/03/24	13/03/29	PWLB	EIP	6.1300%	23,228,000.00
Loan	Fixed	673626	09/11/23	10/05/29	PWLB	Maturity	5.0500%	11,000,000.00
Loan	Fixed	684102	15/12/23	17/12/29	PWLB	Maturity	4.7500%	30,000,000.00
Loan	Fixed	483158	19/10/99	27/03/30	PWLB	Maturity	4.8750%	7,500,000.00
Loan	Fixed	489489	21/12/04	09/06/30	PWLB	Maturity	4.5000%	10,000,000.00
Loan	Fixed	668183	19/10/23	19/10/30	PWLB	Maturity	5.0600%	11,000,000.00
Loan	Fixed	67883	01/11/13	01/11/30	PWLB	Annuity	3.0000%	1,856.32
Loan	Fixed	67861 newest	01/11/13	01/11/30	PWLB	Annuity	3.0000%	800.14
Loan	Fixed	489985	20/05/05	11/08/31	PWLB	Maturity	4.4500%	5,000,000.00
Loan	Fixed	668185	19/10/23	19/10/33	PWLB	EIP	4.7000%	9,000,000.00
Loan	Fixed	673624	09/11/23	10/05/34	PWLB	EIP	4.6500%	8,590,909.09
Loan	Fixed	684087	15/12/23	15/12/34	PWLB	EIP	4.3500%	20,000,000.00
Loan	Fixed	490704	21/11/05	21/11/35	PWLB	Maturity	4.2500%	5,000,000.00
Loan	Fixed	506535	03/11/17	03/11/37	PWLB	Maturity	2.7300%	25,000,000.00
Loan	Fixed	506536	03/11/17	03/11/42	PWLB	Maturity	2.7800%	25,000,000.00
Loan	Fixed	509141	05/04/19	05/04/44	PWLB	Maturity	2.4500%	25,000,000.00
Loan	Fixed	490984	11/01/06	25/09/46	PWLB	Maturity	3.9500%	5,000,000.00
Loan	Fixed	491055	23/01/06	25/09/47	PWLB	Maturity	3.7000%	10,000,000.00
Loan	Fixed	506537	03/11/17	03/11/47	PWLB	Maturity	2.7300%	25,000,000.00
Loan	Fixed	506538	03/11/17	03/11/52	PWLB	Maturity	2.6400%	25,000,000.00
Loan	Fixed	509142	05/04/19	05/04/54	PWLB	Maturity	2.3500%	25,000,000.00
Loan	Fixed	481039	18/06/98	07/06/58	PWLB	Maturity	5.3750%	10,840,000.00
Loan	Fixed	481040	07/12/13	07/06/58	PWLB	EIP	5.5000%	160,999.77
Loan Total							3.8785%	342,037,580.14
Grand Total								342,037,580.14