ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**GOVERNANCE AND AUDIT COMMITTEE**
DATE:	**19 SEPTEMBER 2024**
SUBJECT:	**ANNUAL TREASURY MANAGEMENT REVIEW FOR 2023/24**
PORTFOLIO HOLDER(S):	**COUNCILLOR R WILLIAMS – DEPUTY LEADER & FINANCE PORTFOLIO HOLDER**
LEAD OFFICER(S):	**MARC JONES – DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER**
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Nature and reason for reporting

To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2023/24 (Appendix 10 of the Treasury Management Strategy Statement 2023/24). In accordance with the Scheme of Delegation, this report is due to be presented to the Executive and then the full Council once it has been scrutinised by this Committee.

1. Introduction

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).

During 2023/24, the minimum reporting requirements were that the full Council should receive the following reports:-

- an annual treasury strategy in advance of the year (received on 9 March 2023);
- a mid-year treasury update report (received on 7 March 2024);
- an annual review following the year describing the activity compared to the strategy (this report).

In addition, the Council has received quarterly treasury management update reports (quarter one and quarter three) which were received and approved by the Portfolio Holder.

The regulatory environment places responsibility 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.

This Council 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 Governance & Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 15 September 2023 in order to support members' scrutiny role.

The Section 151 Officer confirms that borrowing was only taken out for capital purposes and the statutory borrowing limit (the authorised limit) was not breached.

Furthermore, the report sets out the following outcomes in the financial year 2023/24:-

- External factors – including a review on the economy, the interest rate performance during the year;
- Internal factors – including the performance of capital expenditure, the impact on the reserves and cash balances, risk appetite to investments, the borrowing taken by the Council and the impact on the Capital Financing Requirement (CFR);
- The Treasury Management Strategy in 2023/24 – including the debt management of the Council, and the Council's borrowing and investments during the year;
- Controlling Treasury Management – what are the Prudential Indicators and how are they measured;
- Comparison in Prudential Indicators – a comparison on the actual Prudential Indicators compared to the forecast at the beginning of the year;
- Looking forward to 2024/25 and beyond; and
- Conclusion.

2. A Review of the Year – External Factors

2.1 Interest Rates – By March 2023, Bank Rate had finished at 5.25%. Bank Rate increased steadily throughout 2023/24, starting at 4.25% and finishing at 5.25%.

2.2 The Economy – United Kingdom - Against a backdrop of stubborn 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.

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 10-year yields have all stayed stubbornly high throughout 2023/24. Inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no Monetary Policy Committee (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".

Of course, 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. Indeed, Q4 2023 saw negative Gross Domestic Produce (GDP) growth of -0.3% while y/y growth was also negative at -0.2%.

But it was a strange recession. 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 Consumer Price Index (CPI) measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, 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.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget, will boost real household disposable income by 0.5 - 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.

As for 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, whilst communications and basic materials have fared poorly.

3. A Review of the Year – Internal Factors

3.1 Capital Expenditure and financing 2023/24 - The Council undertakes capital expenditure on long-term assets. These activities may either be:-

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- Financed from borrowing: if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed-

	2023/24 Estimate (£'m)	**2023/24 Actual (£'m)**
General Fund capital expenditure	48	31
Housing Revenue Account (HRA) capital expenditure	20	20
Total Capital Expenditure	**68**	**51**
General Fund financed in year by Grants & Contributions	35	23
HRA financed in year by Grants & Contributions	8	7
General Fund financed in year by Council Resources	5	4
HRA financed in year by Council Resources	12	13
General Fund capital expenditure financed by borrowing	**8**	**4**
HRA capital expenditure financed by borrowing	**0**	**0**

The main reason for the underspend was the large underspend against the projects listed below:-

Scheme	Underspend £'m	Comment
Capital works due to Reinforced Autoclaved Aerated Concrete (RAAC)	1.014	The RAAC issues required the Council to commit to expenditure, without any certainty on additional funding, in order to ensure the safety of everybody at the schools affected. Discussions then took place with the WG in respect of additional funding, and, in the latter part of 2023/24, the Authority was awarded £1.695m of additional grant funding for capital works relating to RAAC. The grant funding was used to fund capital expenditure on RAAC works to date, and the remaining on education buildings in 2023/24, replacing funding from the Authority's own resources. The funding saved by the Authority from this grant will now be used to fund remaining RAAC works in 2024/25.
Additional Learning Needs (ALN) Grant	0.372	In 2022/23, the Authority was awarded £0.476m of grant funding to support learners with ALN. There was minimal expenditure in 2022/23, and expenditure incurred in 2023/24 resulted in an £0.111m underspend. Similarly, the allocation for 2023/24 resulted in a £0.261m underspend, with WG allowing a carry forward of £0.108m to compete committed works.
Disabled Access Education Buildings	0.134	This is due to disabled adaptations being completed in all secondary schools except one. The remaining secondary school is on hold pending the outcome of feasibility studies. Works to primary schools are completed as and when required. Though substantial investment has been undertaken, further work may be required in the future to address the needs of individuals not yet known to us and, therefore, the underspend is required to be slipped to 2024/25.
Various Flood Schemes	1.009	Some schemes are ongoing and span across different financial years. Others have seen delays and time extensions for completion agreed by WG to carry forward the funding, and other schemes have completed.
Levelling Up Fund	6.151	The tendering process resulted in bids received being much higher than budget, which then resulted in having to retender the works with reduced scope to a manageable level. Ultimately, this resulted in delays to the schemes and, out of the underspend, £4.905m is requested to carry forward to complete the committed schemes.
Holyhead Regeneration Townscape Heritage Initiative (THI) Phase II	0.625	There has been a general slowdown this financial year and an underspend was predicted, as per previous monitoring reports. As a result, the majority of the spend will be in 2024/25.
Waste Management Recycling Equipment	0.256	The service has reviewed and prioritised its capital spend in line with their strategy and 5-year financial plan and is now procuring four items of plant and machinery. However, the potential lead time after successful tenders mean that the plant and machinery are unlikely to be delivered this financial year, however, the funding is fully committed.

Scheme	Underspend £'m	Comment
Maritime Infrastructure	0.178	The scheme is currently in the re-design stage and, due to timing, the budget is requested to roll forward into 2024/25 in order to complete the scheme. This is in line with previous monitoring reports.
Visitor Infrastructure	0.194	Underspend was expected, as per prior monitoring reports, due to match funding being required for Shared Prosperity Fund grant and it being beneficial to the region to maximise grant expenditure this year and provide our match funding next financial year. It is, therefore, requested to carry this over to financial year 2024/25.
Low Carbon Heat Grants (LCHG)	3.805	Due to the late award of the LCHG and, as discussed in paragraph 3.1, £5.744m was secured in 2023/24, with £1.939m expenditure incurred.
Capital works to existing assets	0.503	The remaining budget has been committed to works that span 2023/24 and 2024/25.
Upgrade Public Conveniences	0.280	The service is in the process of developing a public conveniences improvement plan, which will give a better idea of the capital requirements in the next financial year. It is also envisaged that further grant funding for capital works to public conveniences may be forthcoming, and part of this budget could again be used as match funding if the opportunity arises.
Vehicles & Gritters	0.771	The budget for gritters was not spent due to the availability to procure suitable vehicles. Other vehicles were ordered before year end, however, due to the lead time in delivery, they will be received post year end and, so, the budget will be required to slip to financial year 2024/25.

3.2 **Reserves and Cash balances** - The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:-

Usable Reserves and Provisions	**Draft 31-Mar-2024 £'m**	**Final 31-Mar-2023 £'m**
Council fund general reserve	15.604	14.039
Earmarked reserves	16.779	19.637
Housing Revenue Account (HRA) reserve	8.189	12.107
HRA capital reserve	0.509	0.00
School reserves	5.577	6.716
Capital receipts Reserves	2.390	1.908
Capital Grant Unapplied	0.464	0.407
North Wales Economic Ambition Board Reserve	0.587	0.000
Total Usable Reserves	**50.099**	**54.814**
Provisions	**4.703**	**5.037**
Total Usable Reserves and Provisions	**54.802**	**59.851**

3.3 **Externalisation of borrowing –** The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and the resources utilised to pay for the capital spend. It represents the 2023/24 capital expenditure financed by borrowing, and prior years' capital expenditure funded by borrowing which has not yet been paid for by revenue or other resources. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Treasury Service organises the Council's cash position to ensure 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 Public Works Loan Board (PWLB), or the money markets) or utilising temporary cash resources within the Council. There was no externalisation of borrowing in the 2023/24 financial year.

3.3.1 Gross borrowing and the CFR - In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

The internal borrowing strategy has now been implemented over the last few years. The gross borrowing of £122.4m at 31 March 2024 is less than the forecast CFR for the following two years:-

	Actual 2023/24 £'m	**Estimated 2024/25 £'m**	**Estimated 2025/26 £'m**
Capital Financing Requirement	146.7	154.5	170.8

3.3.2 Internal borrowing - is when over the medium term, the investment rates are expected to continue to be below long-term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt. This would maximise short term savings. The Internal borrowing figure is the difference between the CFR and the Gross Borrowing Position. As can be seen in the table below, at the beginning of the year the internal borrowing position was £20.3m. There were no new PWLB loans in the year and £1.0m principal repayments. This has resulted in the Internal borrowing position at 31 March 2024 now being £24.3m:

	31 March 2023 Actual £'m	**31 March 2024 Actual £'m**
Gross borrowing position	123.8	122.4
CFR	144.1	146.7
(Under) / overfunding of CFR	(20.3)	(24.3)

3.4 **Other Borrowing-** During the year, the Council did not enter into any other short-term borrowings.

3.5 **Debt Repayments** – There were three PWLB loans that matured during the year. £1m matured 16 January 2024 and was repaid on this date. The loan was originally taken in May 1995 at an interest rate of 8.5%. £0.569m matured 31 March 2024, was repaid on 2 April 2024 and is, therefore, accounted for as being outstanding as at 31 March 2024. The loan was originally taken in October 1993 at an interest rate of 7.875%. £0.285m matured 31 March 2024, was repaid on 2 April 2024 and is, therefore, accounted for as being outstanding as at 31 March 2024. The loan was originally taken in May 1995 at an interest rate of 8.5%.

3.6 **Investments –** The expected investment strategy was to keep to shorter term deposits (up to 364 days) although the ability to invest out to longer periods was retained. Cash balances were expected to be up to £62.3m, ranging between £31.6m and £62.3m. The interest budget of £1.423m that was set for 2023/24 was based on estimated cash balances and likely investment return based on Base rate. However, with interest rates rising to above what was anticipated at the time of producing the 2023/24 budget and, hence, providing more opportunities for investment of surplus cash, average balances of £48.7m returned £1.831m, at an average interest rate of 4.32%.

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. 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.

Part of the Council's deposits were held in no notice deposit accounts, which pay interest at rates near the prevailing base rate, £16.602m at 4.11% on 31 March 2024 (31 March 2023 £11.521m at 1.25%). There were three other short-term investments as at 31 March 2024 - £15.0m at an interest rate of 5.18% (£30.0m at 3.96% as at 31 March 2023). All investments were for under 1 year.

The investments that were outstanding as at 31 March 2023, matured in financial year 2023/24 and were reinvested on the same date. Details of all new investments in the year, with their respective interest rates, are detailed in the table below:-

Counter Party	Start Date	End Date	Interest Rate %	Amount £	Investment Principal at 31 March 2024 £
National Westminster Bank Fixed Term	11/1/2023	11/7/2023	4.10%	10,000,000	-
National Westminster Bank Fixed Term	11/7/2023	11/1/2024	5.88%	10,000,000	-
National Westminster Bank Fixed Term	11/1/2024	11/3/2024	5.25%	10,000,000	-
National Westminster Bank Fixed Term	11/3/2024	11/6/2024	5.23%	5,000,000	5,000,000
Santander	10/2/2023	10/5/2023	4.00%	7,500,000	-
Santander	10/5/2023	10/11/2023	4.76%	7,500,000	-
Santander	10/11/2023	9/2/2024	5.34%	5,000,000	-
Santander	9/2/2024	9/5/2024	5.19%	5,000,000	5,000,000
Nationwide Building Society	6/4/2023	6/7/2023	4.17%	5,000,000	-
Nationwide Building Society	6/7/2023	8/1/2024	5.47%	5,000,000	-
Nationwide Building Society	8/1/2024	8/4/2024	5.11%	5,000,000	5,000,000
Goldman Sachs	22/12/2022	22/6/2023	3.83%	7,500,000	-
Goldman Sachs	22/6/2023	22/12/2023	5.52%	7,500,000	-
Wakefield Council	22/8/2023	22/9/2023	5.23%	5,000,000	-
Wrexham County Borough Council	25/10/2022	25/4/2023	3.80%	5,000,000	-
Wrexham County Borough Council	25/04/2023	25/10/2023	4.30%	5,000,000	-

3.7 Treasury Position at 31 March 2024 – The Council's debt and investment position is organised by the Treasury Management Service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity in accordance with the Treasury Management Strategy 2023/24. The upper limits for fixed rate and variable rate exposures were not breached during the year. The borrowing and investment figures for the Council as at the end of the 2022/23 and 2023/24 financial years are as follows: -

	31 MARCH 2023			**31 MARCH 2024**		
	£'m	**Average Rate (%)**	**Average Maturity (years)**	**£'m**	**Average Rate (%)**	**Average Maturity (years)**
Debt PWLB Debt Non-PWLB **Total**	119.6 4.2 **123.8**	4.54 0	29.15 3.73	118.5 3.9 **122.4**	4.47 0	30.9 4.49
CFR	144.1			146.7		
Over / (under) borrowed	(20.3)			(24.3)		
Fixed term investments (all < 1 year, managed in house and fixed rate) No notice investments (all managed in house)	30.000 11.521	3.96 1.25		15.000 16.602	5.18 4.11	
Total Investments	**41.521**	**3.21**		**31.602**	**4.62**	

Borrowing is further broken down by maturity as:-

	31 MARCH 2023		**31 MARCH 2024**	
	£'m	**% of total**	**£'m**	**% of total**
Total borrowing	123.8	100	122.4	100
Under 12 months	2.3	1.9	1.2	1.0
1 – 3 years	3.3	2.7	5.0	4.1
4 – 6 years	5.6	4.5	3.5	2.8
7 – 10 years	3.8	3.1	4.3	3.5
10 years and above	108.8	87.8	108.4	88.6

There have been no new borrowings taken out in the year (long or short term). Debt repayments have been as described in point 3.5 above. Therefore, the movement in the categories above are simply as per the loan maturity dates.

4. The Council's Treasury Management Strategy in 2023/24

4.1 Debt rescheduling - No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

4.2 Borrowing in advance of need – During the year, the Council did not borrow more than, or in advance of, its needs, purely to profit from the investment of the extra sums borrowed.

4.3 **Investment Policy** – The Council's investment policy is governed by the Ministry of Housing, Communities and Local Government investment guidance, which has been implemented in the annual Treasury Management Strategy Statement approved by the Council on 9 March 2023. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties. When the Council invests its surplus cash, the most important aspect of the investment is security, followed by liquidity and then the yield. This essentially means that the main priority is the safety of the cash, followed by how readily available the cash is should the Council require it, followed by the percentage interest rate return that the Council will receive for the investment. The strategy on investing surplus cash would be to borrow short term with other Local Authorities to maximize returns in a secure way.

4.4 **Borrowing strategy and control of interest rate risk** - During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

4.5 **Minimum Revenue Provision (MRP) Policy** – In 2022/23, the Council implemented its new MRP policy after seeking advice from its Treasury advisor. The policy is a more prudent measure with the MRP charge reflecting more closely the change in asset values. The new policy can be seen in Appendix 6 of the Treasury Management Strategy Statement 2023/24, that was approved by full Council on 9 March 2023.

5. Controlling Treasury Management

The following Prudential indicators are contained in Appendix 11 of the Treasury Management Strategy Statement. See below a brief explanation of what the indicators are and how they are calculated. Section 6 of this report analyses the differences between the Actual and the forecast Prudential Indicators for 2023/24.

- **Capital expenditure – Estimates of Capital Expenditure -** This is the forecast Capital Expenditure from 2023/24 to 2026/27 and is based on the Capital Programme for 2023/24 and the Capital Strategy for 2024/25.

- **The Council's borrowing need (the Capital Financing Requirement - CFR) -** Another prudential indicator is the Council's (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is, essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. The CFR does not increase indefinitely, as the (MRP) is a statutory annual revenue charge which, broadly, reduces the borrowing need in line with each asset's life and, so, charges the economic consumption of capital assets as they are used.

- **Prudence - Gross Debt and the CFR -** The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

- **External Debt - The authorised limit for external debt -** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under Section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in the budget report. The Authorised Limit is set annually in the Treasury Management Strategy Statement and is approved by full Council.

- **The operational boundary** - This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The Operational Limit is set annually in the Treasury Management Strategy Statement and is approved by full Council.

- **Affordability - Ratio of financing costs to net revenue stream -** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

6. Prudential Indicators Actual vs Expected

6.1 During 2023/24, the Council complied with its legislative and regulatory requirements. The key data for actual prudential and treasury indicators, detailing the impact of capital expenditure activities during the year, with comparators, are as follows:-

Data for actual prudential and treasury indicators	**2022/23 Actual £'m**	**2023/24 Original £'m**	**2023/24 Actual £'m**
Capital Expenditure			
• Non-HRA	29.510	15.110	30.768
• HRA	11.180	31.847	19.806
• **Total**	**40.690**	**46.957**	**50.574**
Total Capital Financing Requirement:			
• Non-HRA	105.825	116.576	108.545
• HRA	38.287	60.101	38.151
• **Total**	**144.112**	**176.677**	**146.696**
Gross Borrowing	123.800	159.610	122.400
External Debt	123.800	159.610	122.400
Investments			
• Longer than 1 year	0	0	0
• Under 1 year	41.522	15.000	31.603
• **Total**	**41.522**	**15.000**	**31.603**
Financing costs as a proportion of net revenue stream – Council Fund	3.11%	2.23%	3.16%
Financing costs as a proportion of net revenue stream – HRA	7.26%	21.14%	5.09%

6.2 The first Prudential Indicator in the above table is the Capital Expenditure. The forecast Capital Expenditure at the time of producing the Prudential indicators for 2023/24 was £46.957m. However, the actual expenditure was £50.574m. The prudential indicator was based on the estimates of capital spend from various sources for 2023/24, at the time of writing the report. In reality, the final capital budget approved for 2023/24 was £37.962m, made up of general fund £24.205m and HRA £13.557m. However, this budget does not include any slippage amounts from the previous year and also the fact that, throughout the year, additional schemes are added to the capital programme, hence why the non-HRA capital expenditure is higher than what was originally budgeted for. Please refer to paragraph 3.1 in this report for the final non-HRA capital budget compared with the actual expenditure and the reasons for the actual underspend against budget.

6.3 The second Prudential Indicator in the above table is the Capital Financing Requirement (CFR). The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge called, the Minimum Revenue Provision (MRP), to reduce the CFR. This is, effectively, a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:-

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The forecast CFR at the time of producing the Prudential Indicators for 2023/24 was £176.677m. However, the actual CFR was significantly lower at £146.696m. The anticipated CFR for HRA included £20m of borrowing in 2023/24. There was no new borrowing for HRA in 2023/24 and, therefore, the reduction in the HRA CFR is due to no borrowing in 2023/24 for HRA. One of the reasons for the reduced Non-HRA CFR was the reduced amount of Unsupported Borrowing needed in relation to the Sustainable Communities for Learning programme in 2023/24. The expenditure was mainly funded by grant, hence reducing the need for borrowing. Another reason was that additional grants were awarded during the year to subsidise other funding sources, such as Supported Borrowing. This meant less Supported Borrowing was needed and therefore reducing the CFR figure. However, in future years, this subsidised funding source will be used to fund the Capital Expenditure in 2024/25 and will increase the CFR.

6.4 The Authorised Borrowing Limit (£210m) and the Operational Boundary (£205m) were not breached during the year, with the amount of External debt peaking at £123.8m only.

6.5 The Financing costs, as a proportion of net revenue stream for the General Fund (3.16%) was slightly higher than anticipated (2.23%) which is due to the financing costs being higher than anticipated at the time of producing the indicator. The Financing costs, as a proportion of net revenue stream for the HRA (5.09%), was lower than the anticipated total (21.14%) which is due to the financing costs being significantly lower than expected at the time of producing the proposed indicator for 2023/24 (attributed to both the change in MRP calculation, resulting in a lower MRP charge and reduced borrowing requirements).

7. Looking forward to 2024/25 and beyond

7.1 On 7 March 2024, the full Council approved the Treasury Management Strategy Statement for 2024/25. The Strategy Statement was based on the Capital Strategy, and it is now forecast that the Council will need to borrow an additional £9.049m in 2024/25 for the General Fund and converting £15m of internal borrowing to external borrowing, a total of £17.7m in 2025/26 and a further total of £12.0m in 2026/27 to fund its Capital Programme, noting that the majority of the borrowing is forecast to fund the HRA capital programme. This additional borrowing will affect the Minimum Revenue Provision (MRP) being charged to fund the capital financing costs. In 2024/25 the forecast MRP is £1.2m, in 2025/26 £1.5m and £1.7m in 2026/27.

7.2 On 8 April 2024, the Isle of Anglesey County Council invested £5m with Goldman Sachs International Bank for 6 months, with an interest rate of 5.29%.

7.3 On 9 May 2024 a £5m investment with Santander matured and was rolled over for a further 6 months, with an interest rate of 5.07%.

7.4 On 9 May 2024, the Isle of Anglesey County Council invested 5m with National Westminster Bank Plc for 3 months, with an interest rate of 5.23%.

7.5 On 11 June 2024, a £5m investment with National Westminster Bank Plc matured and was rolled over for a further 6 months, with an interest rate of 5.23%.

7.6 There are no principal repayments of PWLB borrowing due by the Isle of Anglesey County Council in the 2024/25 financial year.

7.7 The interest receivable budget of £0.885m that was set for 2024/25 was the estimated balances of liquid cash and investment balances and an estimate of an average interest rate. Interest received to quarter 1 of 2024/25 was £465k and is anticipated that the interest receivable budget can be met in 2024/25.

7.8 The latest interest rate forecast from Link Group (as at July 2024) can be seen in the table below:-

Bank Rate	Now	Jun 2024	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026	Jun 2026	Sept 2026	Dec 2026	Mar 2027
Link Group	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%	3.25%	3.25%	3.25%	3.00%	3.00%	3.00%

8. Conclusion

The Council's Treasury Management performance during the year was in line with the strategy of low risk, low return investments and a planned approach to borrowing designed to minimise interest charges.

The performance against the Prudential Indicators set by the Council show that the Council's Treasury Management activities are being undertaken in a controlled way which ensure the financial security of the Council and do not place the Council at any significant financial risk in terms of unaffordable or excessive borrowing.

The Council's Treasury Management Strategy and its performance against the strategy take into account the external economic factors and it is constantly reviewed to ensure that it is the most appropriate strategy moving forward.

R MARC JONES
DIRECTOR OF FUNCTION (RESOURCES) & SECTION 151 OFFICER