Report title	Annual Treasury Management Report 2023/24
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Department	Finance
Exempt?	No

Purpose of report:

For information

Synopsis of report:

This is the annual report on Council's treasury management activity and performance for the 2023/24 financial year covering financing and liquidity, cash management and risk management associated with these activities.

1 Background Information

1.1 The Council's treasury management activity is underpinned by CIPFA's (Chartered Institute of Public Finance and Accountancy*)* Code of Practice on Treasury Management ("the Code"), and the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Prudential Code"). These regulations require local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement for the financing and investment activities.

1.2 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). From 2023/24, the Code also recommends that members are informed of treasury management activities quarterly.

1.3 The Council's Treasury Management Strategy for 2023/24 was approved at Full Council on 09 February 2023. This report provides the details for the Council's performance against the criteria set in the 2023/24 strategy.

1.4 Treasury management is defined as: "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.5 No treasury management activity is without risk; The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.6 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 the members.

1.7 In its oversight role, the Overview and Scrutiny Select Committee considered this report on 10 July 2024.

2 Prudential and Treasury Indicators and Compliance

2.1 Officers hereby confirm that during the year, the Council has maintained compliance with the Code and regulatory requirements as well as its Treasury Management Statement and Treasury Management Practices.

2.2 During the year the Council operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy for 2023/24 and a prudent approach was taken in relation to all investment activity with priority being given to security and liquidity over yield.

2.3 A full set of prudential and treasury indicators for 2023/24 are set out in Appendix A

3 Risk management

3.1 The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. The Treasury Management Strategy Statement for 2023/24, which includes the Annual Investment Strategy, sets out the Council's investment priorities as being:

Credit risk
Counterparty credit quality is assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

Liquidity risk
In keeping with the DLUHC Guidance on Investments, the Council maintains a sufficient level of liquidity through the use of Money Market Funds and call accounts.

Yield
The Council seeks to optimise returns commensurate with its objectives of security and liquidity.

4 Economic background

4.1 The economic overview as provided by the Council's Treasury Advisors, The Link Group that reflects the market position in April 2024 is detailed in Appendix E.

5 Borrowing Activity in 2023/24

5.1 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 indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2023/24 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.1 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 that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Government, through the Public Works Loan Board ("PWLB"), or the money markets, or utilising temporary cash resources within the Council.

5.2 During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need, the CFR, 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 although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2024 and 2025 as inflation concerns are dampened.

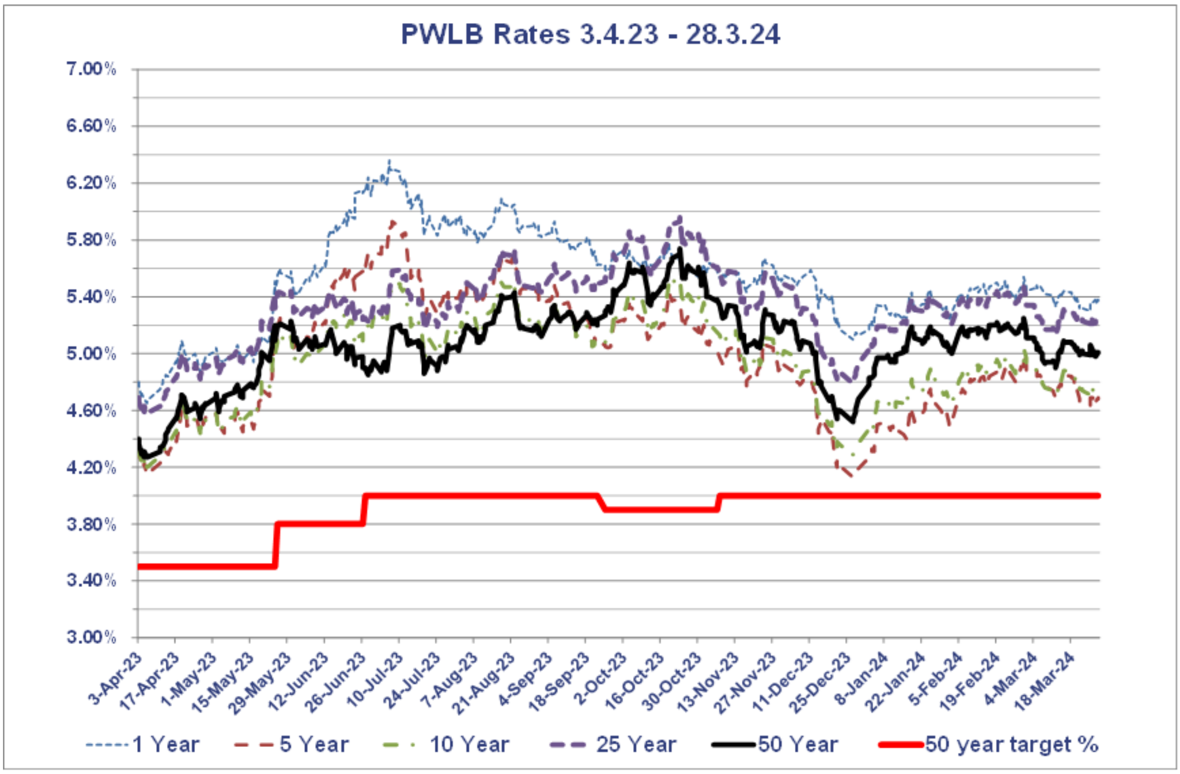
5.3 Table 1 sets out the borrowing activity for the year.

Table 1 – Borrowing activity in 2023/24				
	Opening Balance £'000	New borrowing £'000	Borrowings repaid £'000	Closing balance £'000
HRA – PWLB	100,000	0	0	100,000
General Fund - PWLB	499,000	0	10,000	489,000
General Fund – Other	44,181	0	5,566	38,615
	643,181	**0**	**15,566**	**627,615**

5.4 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers.

5.5 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Fed, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

5.6 The actual PWLB rates during the year were as follows:



5.7 Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.

5.8 The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.

5.9 There are strict criteria set out that forbid councils from borrowing more than, or in advance of, their needs purely in order to profit from the investment of the extra sums borrowed. The Council has undertaken no such borrowing.

6 Interest rates in 2023/24

6.1 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.

6.2 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.

6.3 The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities 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.

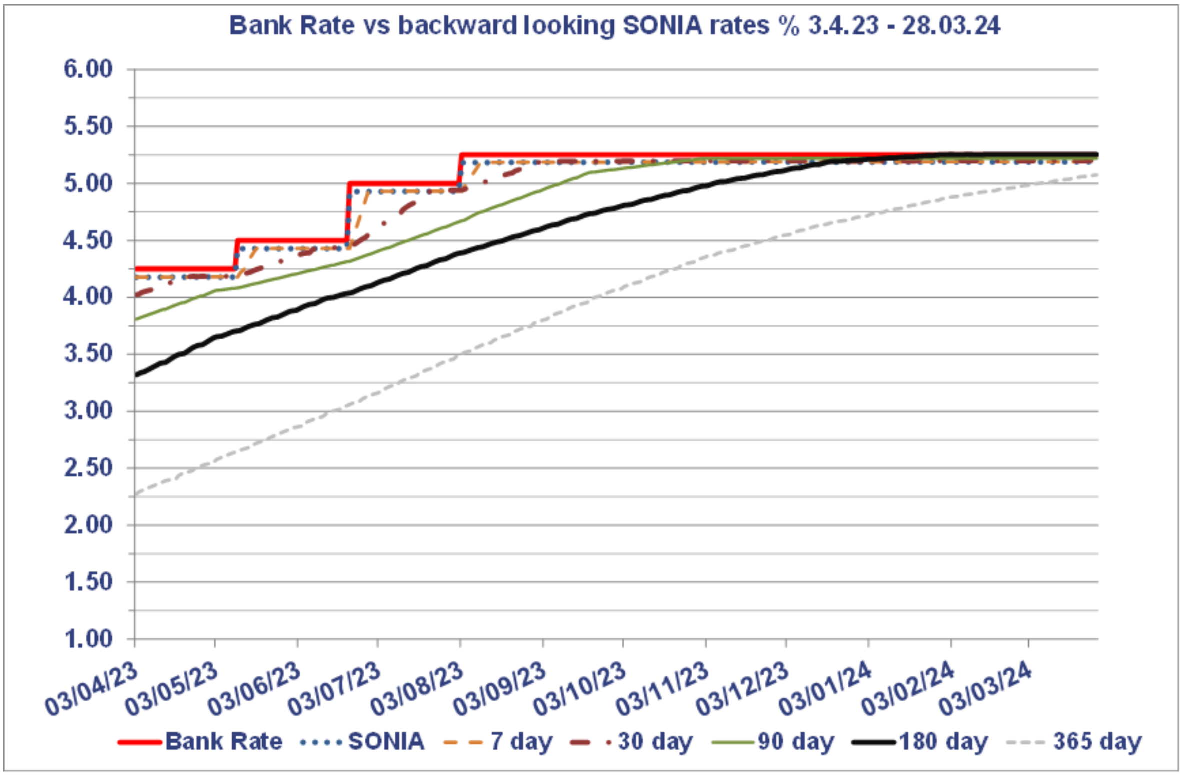
6.4 With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as 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.

6.5 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.

6.6 The Council’s Treasury Management Strategy sets out that the Council will measure its investment performance against the following SONIA (Sterling Overnight Index Average rate) rates:

- Average Bank Base rate,
- 7 day backward looking SONIA* uncompounded average
- 90 day backward looking SONIA* uncompounded average
- 365 day backward looking SONIA* uncompounded average

6.7 The SONIA (backward-looking) interest rates during the period were as follows:



FINANCIAL YEAR TO QUARTER ENDED 28/03/2024							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.19	5.19	5.20	5.22	5.25	5.08
High Date	03/08/2023	28/03/2024	28/03/2024	26/03/2024	25/03/2024	22/03/2024	28/03/2024
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	5.03	4.96	4.96	4.93	4.84	4.64	3.93
Spread	1.00	1.01	1.01	1.18	1.41	1.94	2.80

6.8 The Council's actual interest rate performance during the year was 4.99%. The Council's overall performance compares favourably with the average SONIA rates as can be seen in the above table.

6.9 The Council's Treasury Management Strategy sets out a lower rate of interest for the Housing Revenue Account based on the risk-free nature of the account. This lower rate is achieved by deducting the credit risk margin from the actual rate achieved by the Council. The resulting interest rate applicable to the HRA during 2023/24 was 4.84%.

6.10 The Council invests in two Pooled Funds (operated by CCLA (Churches, Charities and Local Authorities) Investment Management Limited). These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long term horizons they provide investors with relatively strong levels of interest (in the form of dividends). However, the capital values of these assets can be subject to large fluctuations (both up and down) over relatively short time frames.

6.11 As advised in last years quarterly Treasury Management reports, The CCLA merged CCLA Diversified Income Fund with a new fund set up for the purpose of the merger, the CCLA Better World Cautious Fund, on 16 February 2024. The new fund will continue to invest globally under the same management, albeit with enhanced ESG investment policy and using formal KPI for the expected minimum return of CPI+2% per annum over any 5-year period.

6.12 The movement of the Council's two CCLA pooled funds is as follows:

Table 2 – Pooled Funds in 2023/24				
	Original Investment £	Value 31 March 2023 £	Value 31 March 2024 £	Annual Return %
CCLA Property Fund	2,000,000	2,263,467	2,175,136	6.1
CCLA Better World Cautious Fund	2,000,000	1,894,514	1,987,676	3.3

The differences between the Original Sums invested and the Values at 31 March 2024 were £162,812 and are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account – a temporary unusable reserve introduced to offset the requirements of International Financial Reporting Standard 9: Financial Instruments (IFRS 9).

6.13 Following the consultation undertaken by the DLUHC on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve (the Pooled Investments Adjustment Account) throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

7 Investment Outturn for 2023/24

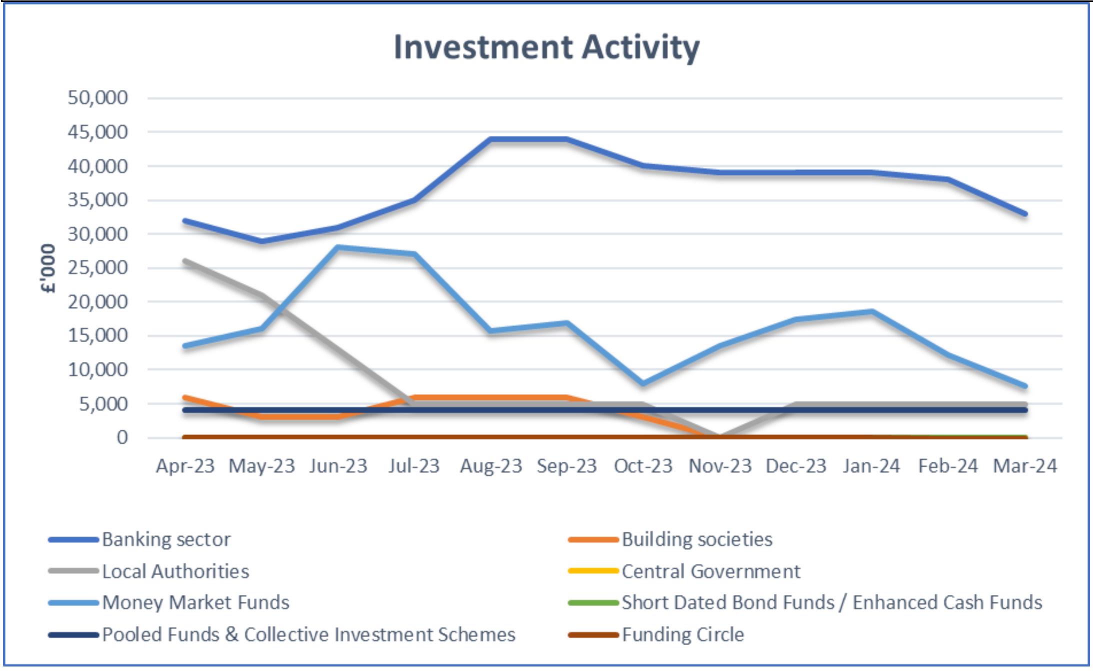
7.1 The Council's investment policy is governed by DLUHC investment guidance and is reflected in the Annual Investment Strategy approved by the Council each year. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit 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.

7.2 Investments of £49.6 million were held by the Council at 31 March 2024 with investment turnover principally driven by the availability of counterparties that meet the criteria set out in the Annual Investment Strategy. Table 3 summarises investment activity during the year, split between the sectors of the counterparties that the funds were invested with.

Table 3 - Investment activity in 2023/24				
	Opening Balance £000	New Investments £000	Investments Recalled £000	Closing Balance £000
Specified Investments				
Banking sector	25,000	99,000	91,000	33,000
Building societies	6,000	9,000	15,000	0
Local Authorities	26,000	13,000	34,000	5,000
Central Government	0	0	0	0
Money Market Funds	12,000	153,300	157,700	7,600
Unspecified Investments				
Short Dated Bond Funds & Cash Funds	0	0	0	0
Pooled Funds & Investment Schemes	4,000	0	0	4,000
Funding Circle	42	0	28	14
	73,042	274,300	297,728	49,614

7.3 The monthly movement in balances between these categories is set out in Table 4 below and reflects the available counterparties and investment rates at that time.

Table 4 - Movement between investments during 2023/24



7.4 A full list of investments held at 31 March 2024 is set out in Appendix C.

7.5 In addition to the normal money markets, the Council also invests in its own companies by way of loans provided to them for the purchase of assets from the Council (that the Council cannot hold itself) and via working capital loans. All such Loan Agreements have been approved by Full Council at rates set in accordance with competition rules. The table below sets out these loans and the income to the Council in 2023/24.

Loan Type	**Original Investment £**	**Annual Interest £**	**Interest Rate %**
Development Loans - AddlestoneOne	25,326,054	1,276,433	5.04
Development Loans – Magna Square	11,837,595	499,546	4.22
Development Loans - Other	1,000,000	48,600	4.86
Working Capital Loans	445,000	33,553	7.54
Working Capital Loans	300,000	22,080	7.36
Working Capital Loans	3,000,000	186,820	7.40
Totals	**41,908,649**	**2,067,032**	

7.6 The Council's cash balances comprise revenue and capital resources and cash flow monies (creditors etc). Interest earned on these balances is derived from in-house managed investments. The table below shows gross investment income achieved in 2023/24 alongside the interest paid on borrowings:

Table 7 – Net investment income / Debt interest 2023/24		
	Original Estimate £'000	Outturn Actual £'000
Investment income earned	4,756	3,461
Dividend income earned	120	195
Interest on loans to RBC companies	2,036	2,067
Interest paid on deposits and other balances	(11)	(17)
Gross investment income	**6,901**	**5,706**

Management expenses	(26)	(18)
Debt interest	(16,730)	(16,147)
Net Investment Income / (Debt interest)	**(9,855)**	**(10,459)**

This is broken down between services as follows:

General Fund	(7,715)	(8,908)
Housing Revenue Account	(2,140)	(1,551)
Net Investment Income / (Debt interest)	**(9,855)**	**(10,459)**

7.7 The revised estimate for investment income assumed a higher level of interest rates over the last 6 months of the year than actually materialised. Due to higher than anticipated borrowing rates, officers decided not to take out replacement borrowing for the various maturities, instead choosing to run down investment balances to generate a net betterment for the Council (see paragraphs 5.3 and 7,2). It should be noted that this is only a temporary measure until such time that the current high borrowing rates return to levels in line with medium term market predictions.

7.8 Aside from the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income are the level of interest rates, cash flow and the level of reserves and balances. The impact of capital cash flows – receipts from sales and timing of capital projects – also has a significant impact on cash flows.

8 Non-treasury Investments

8.1 The Prudential Code, TM Code and DLUHC regulations include guidance on what is termed “non-treasury” investments. These are predominantly investments for commercial return such as:

- commercial loans to companies and other organisations (reported in paragraph 7.5), and
- holding property for a financial return (investment property).

The Council owns a significant investment property portfolio which is now managed through its developing Asset Management Strategy and provided loans to its wholly owned companies and local community groups.

8.2 To better describe the role the investment property portfolio plays in the Council’s capital and revenue strategies a set of performance reporting measures were approved as part of both the Annual Asset Management Strategy and the Capital & Investment Strategy which up until now have been incorporated in the Treasury Management reports.

8.3 At the time of writing this report the Council was still awaiting final property valuations and the additional benchmarking analysis relative to the broader market, based on data via a subscription to MSCI Analytics. A decision was therefore made to submit these as a separate report to the next meeting of this committee. It is anticipated that future Investment property reports will be presented to the same committees as the Treasury Management reports,

9 Legal Implications

9.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code, the Government Investments Guidance and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their treasury management functions.

10 Environmental/Sustainability/Biodiversity implications

10.1 Ethical or Sustainable investing is becoming a more commonplace discussion within the wider investment community. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products however the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities.

10.2 The Council does not invest directly in any companies – other than our own - and our investments are limited to investments with the banking sector (term deposits etc) and investments in property (our investment properties). The Council has £4million split between two pooled funds both managed by the CCLA and their approach to ESG can be found on their website: https://www.ccla.co.uk/sustainability/corporate-governance/approach-esg

11 Council Policy

11.1 This is set out in the Treasury Management Policy Statement, the Annual Investment Strategy, and associated Practices and Schedules.

11.2 The Council's treasury management policy statement states:

"The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks."

11.3 It is the security of investments that has always been the main emphasis of our treasury strategy. In balancing risk against return, Officers continue to place emphasis on the control of risk over yield.

12 Conclusions

12.1 The financial year continued the challenging investment environment of previous years. The management of counterparty risk remains our primary treasury management priority. The criteria in the Annual Investment Strategy are continuously reviewed to minimise risk as far as reasonably possible whilst retaining the ability to invest with secure institutions.

13 Appendices

- Appendix A - Treasury Indicators 2023/24
- Appendix B - Borrowings as of 31 March 2024
- Appendix C - Investments as of 31 March 2024
- Appendix D - Abbreviations used in the report
- Appendix E - Economic Update (as provided by the LINK Group)

Treasury Indicators 2023/24

Capital Expenditure – This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	**2022/23 Actual £000s**	**2023/24 Estimate £000s**	**2023/24 Revised £000s**	**2023/24 Actual £000s**
HRA	6,459	26,102	11,249	9,176
General Fund	18,048	18,356	15,326	7,430
Non-Financial Investments				
- Investment Properties	0	0	0	0
- Capital Loans	11,838	0	0	0
Total	**36,345**	**44,458**	**26,575**	**16,615**
Financed by:				
Capital Receipts	13,949	10,185	12,564	6,068
Earmarked Reserves	355	11,957	9,387	6,309
Capital Grants & Contributions	3,838	7,889	2,428	3,298
Revenue	5,908	6,824	2,196	940
Total	**24,089**	**36,855**	**26,575**	**16,615**
Net financing need for the year	**12,256**	**7,603**	**0**	**0**

The net financing need for non-financial investments included in the above table against expenditure is shown below:

	2022/23 Actual £000s	**2023/24 Estimate £000s**	**2023/24 Revised £000s**	**2023/24 Actual £000s**
Capital expenditure	11,838	0	0	0
Financing costs met	11,838	0	0	0
Net financing need for the year	**0**	**0**	**0**	**0**
Percentage of total net financing need	0%	0%	0%	0%

The Council's borrowing need (the Capital Financing Requirement) - The Council's Capital Financing Requirement (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, which has not immediately been paid for, will increase the CFR.

	2022/23 Actual £000s	**2023/24 Estimate £000s**	**2023/24 Revised £000s**	**2023/24 Actual £000s**
CFR: - HRA	100,000	100,000	100,000	100,000
- General Fund	145,470	166,351	162,037	162,037
- Non-Financial Investments	454,016	433,724	445,415	445,415
CFR at 1 April	**699,486**	**700,075**	**707,452**	**707,452**
Net financing need for the year	12,256	7,603	0	0
Less MRP/VRP and other financing movements	(4,291)	(4,612)	(4,907)	**(4,097)**
CFR at 31 March	**707,452**	**703,066**	**702,545**	**702,545**

The CFR does not increase indefinitely, as the Minimum Revenue Provision (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.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

Current Portfolio Position - The Council's treasury portfolio position is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2022/23 Actual £000s	2023/24 Estimate £000s	2023/24 Revised £000s	2023/24 Actual £000s
External Debt at 1 April	-	648,075	643,572	
Expected change in Debt	-	2,538	(15,128)	-
Actual gross debt at 31 March	**643,572**	**650,613**	**628,444**	**628,039**
Capital Financing Requirement	707,452	703,066	702,545	702,545
Under / (over) borrowing	**63,880**	**52,453**	**74,101**	**74,506**

The under borrowed position is due to internal borrowing. This is temporary funding of capital expenditure using positive cash flows and internal balances. A small part of this difference (approximately £414k) represents the value of balances held on behalf of local trusts (e.g. Cabrera Recreation Ground Trust, Runnymede Pleasure Ground Trust etc). This gives the Trusts certainty of income and quick access if needed.

Of the Actual gross debt, the proportion of the total in relation to which the counterparty is not central government or a local authority is as follows:

	2022/23 Actual £000s	2023/24 Estimate £000s	2023/24 Revised £000s	2023/24 Actual £000s
Debt at 31 March	643,572	650,613	628,444	628,039
Percentage not central government or a local authority	7%	7%	7%	7%

Within the Actual gross debt at 31 March figures shown above, the level of debt relating to non-financial investments is:

	2022/23 Actual £000s	2023/24 Estimate £000s	2023/24 Revised £000s	2023/24 Actual £000s
Debt at 31 March	445,481	430,044	441,718	441,428
Percentage of total external debt	69%	66%	70%	70%

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.

The authorised limit for external borrowing. – 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.

	2023/24 £000s
Operational Boundary	675,613
Authorised Limit	700,613
Actual Borrowings (gross)	**628,039**

This limit includes a “cushion” to allow for the non-repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing). This was not required during the year.

Interest Rate exposure - The upper limits on variable interest rate exposure indicator is set to control the Council’s net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget.

	2022/23 Actual £000s	2023/24 Estimate £000s	2023/24 Revised £000s	2023/24 Actual £000s
Upper limits on **fixed** interest rates based on net debt	658,191	656,857	666,436	628,039
Upper limits on **variable** interest rates based on net debt	0	0	0	(49,614)

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit/Actual borrowing) less Fixed Term investments.

The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. As most of the Council’s investments mature within the financial year, £49.6mln are classed as variable rate investments. The Council has no variable rate borrowings to offset these against, hence the negative figure in the table above.

Investment Treasury Indicator and Limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	2022/23 Actual £000s	2023/24 Estimate £000s	2023/24 Revised £000s	2023/24 Actual £000s
Upper limits on Principal sums invested for over 365 days	0	3,000	3,000	0

There were no investments made for a period of greater than 365 days at the 31 March 2024.

Maturity structure of fixed interest rate borrowing (Upper Limit)

	2022/23 Actual %	2023/24 Estimate %	2023/24 Revised %	2023/24 Actual %
Under 12 months	2.42	25	25	1.69
12 months to 2 years	1.65	25	25	1.69
2 years to 5 years	4.95	25	25	5.14
5 years to 10 years	12.20	50	50	10.75
10 years and above	78.78	100	100	80.74

As the Council does not borrow at variable rates of interest, the upper limit on this type of debt will always be nil, therefore no table has been produced for variable interest rate borrowing.

Borrowings as of 31 Mar 2024

	Principal Sum £'000	Original Term (Years)	Annual Interest £	MATURITY	%
Housing Revenue Account					
PWLB - 500495	10,000	15	301,000	28 Mar 2027	3.01%
PWLB - 500498	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500500	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500501	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500493	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500496	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500503	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500494	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500497	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500499	10,000	30	350,000	28 Mar 2042	3.50%
	100,000		**3,379,000**	**Average Rate:**	**3.38%**
General Fund					
PWLB - 507920	10,000	6	205,000	17 Oct 2024	2.05%
PWLB - 504312	10,000	10	256,000	17 Aug 2025	2.56%
PWLB - 506855	10,000	10	219,000	23 Jan 2028	2.19%
PWLB - 505012	4,000	12	86,400	08 Jun 2028	2.16%
PWLB - 144641	6,000	9	150,000	22 Dec 2028	2.50%
PWLB - 504520	15,000	15	414,000	04 Dec 2030	2.76%
PWLB - 176998	10,000	11	226,000	30 Mar 2031	2.26%
PWLB - 410351	10,000	11	167,000	28 Sep 2032	1.67%
PWLB - 505233	10,000	30	244,000	12 Jul 2046	2.44%
Phoenix Life Limited	38,615	40	1,125,858	02 May 2061	2.88%
PWLB - 505335	20,000	45	376,000	01 Sep 2061	1.88%
PWLB - 508328	10,000	43	247,000	31 Dec 2061	2.47%
PWLB - 508377	10,000	43	249,000	18 Jan 2062	2.49%
PWLB - 505968	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505969	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505972	20,000	46	470,000	05 Apr 2063	2.35%
PWLB - 505433	10,000	47	207,000	29 Sep 2063	2.07%
PWLB - 508192	10,000	45	243,000	12 Dec 2063	2.43%
PWLB - 508226	10,000	45	239,000	13 Dec 2063	2.39%
PWLB - 505434	14,000	48	289,800	29 Sep 2064	2.07%
PWLB - 505668	20,000	48	514,000	20 Jan 2065	2.57%
PWLB - 507420	40,000	47	980,000	29 May 2065	2.45%
PWLB - 507145	10,000	48	228,000	27 Mar 2066	2.28%
PWLB - 507416	40,000	48	984,000	25 May 2066	2.46%
PWLB - 505611	20,000	50	524,000	16 Dec 2066	2.62%
PWLB - 506991	10,000	50	240,000	05 Mar 2067	2.40%
PWLB - 507425	20,000	49	480,000	30 May 2067	2.40%
PWLB - 506125	10,000	50	230,000	12 Jun 2067	2.30%
PWLB - 506887	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 506888	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 507407	20,000	50	490,000	23 May 2068	2.45%
PWLB - 177081	40,000	50	932,000	30 Mar 2070	2.33%
PWLB - 434500	10,000	50	167,000	09 Nov 2071	1.67%
	527,615		**12,620,058**	**Average Rate:**	**2.39%**
Total Borrowings	**627,615**		**15,999,058**	**Annual Interes**	**2.55%**

Investments as of 31 Mar 2024

	£'000		ORIGINAL TERM	MATURITY	%
Banks					
Term Deposits					
First Abu Dhabi Bank	1,000		6 mth	04 Apr 2024	5.610
Sumitomo Mitsui Banking Corp (SMBC)	4,000		3 mth	04 Apr 2024	5.330
Qatar National Bank	1,000		6 mth	05 Apr 2024	5.790
Al Rayan Bank	4,000		3 mth	24 May 2024	5.200
Lloyds Bank	3,000		5 mth	07 Jun 2024	5.350
National Bank of Kuwait	5,000		3 mth	28 Jun 2024	5.310
DBS Bank	1,000		6 mth	09 Jul 2024	5.320
Handelsbanken	5,000		6 mth	17 Jul 2024	5.340
DBS Bank	1,000		4 mth	22 Jul 2024	5.310
National Bank of Canada	1,000		6 mth	08 Aug 2024	5.180
Certificates of Deposit					
Toronto Dominion Bank	2,000		1 yr	12 Apr 2024	5.100
Standard Chartered Bank	3,000		1 yr	12 Apr 2024	5.040
Skandinaviska Enskilda Banken (SEB)	2,000		1 yr	12 Apr 2024	5.040
Total Banks	**33,000**	**67%**			
Building Societies					
	-				
Total Building Society	**-**	**0%**	(50% Limit)		
Local Authorities					
PCC Hertfordshire	5,000		4 mth	17 Apr 2024	5.650
Total Local Authorities	**5,000**	**10%**			
Money Market Funds					
Aberdeen Liquidity Sterling Fund	1,300		********** On Call **********		Variable
Aviva Investors Sterling Liquidity Fund - Class 3	6,300		********** On Call **********		Variable
Total Money Market Funds	**7,600**	**15%**			
Pooled Funds & Collective Investment Schemes					
CCLA Property Fund	2,000		**** 3 mth settlement ****		Variable
CCLA Better World Cautious Fund	2,000		**** 3 mth settlement ****		Variable
Total Pooled Funds	**4,000**	**8%**			
Funding Circle					
Lending to small and medium sized companies	14		**** up to 5 years ****		Variable
Total Other Investments	**14**	**0%**	(with the ability to sell loans)		
Total Investments	**49,614**				

Abbreviations Used In This Report

CE: Capital Economics - is the economics consultancy that provides Link Group, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: Capital Financing Requirement - the Council's annual underlying borrowing need to finance capital expenditure and a measure of the Council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: Consumer Price Index – the official measure of inflation adopted as a common standard by the UK and countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: The Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing/tightening policy. It is composed of 12 members - the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: Gross Domestic Product – a measure of the growth and total size of the economy.

G7: The group of seven countries that form an informal bloc of industrialised democracies - the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom - that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: Gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: Housing Revenue Account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

Laddering of Fixed Term Deposits: As its name suggests, fixed deposit laddering is a strategy where an investor creates a ladder of fixed term deposits. How do you do that? By spreading your deposit investments across multiple fixed term deposits and tenures rather than a single investment in a long-term fixed term deposit. This helps to optimise your returns whilst maintaining better liquidity and increasing the safety of cash. This strategy is particularly useful in times of higher inflation and rising or high interest rates.

MPC: The Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing/tightening.

MRP: Minimum Revenue Provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: Quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to ‘cool’ the economy.

RPI: The Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: The Sterling Overnight Index Average. Generally, a set of indices for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: The Annual Treasury Management Strategy statement reports that all local authorities are required to submit for approval by the Full Council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

Economic Update (as provided by The LINK Group – our treasury advisors)

UK Economy

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. The table below provides a snapshot of the conundrum facing central banks: 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.

	UK	Eurozone	US
Bank Rate	5.25%	4%	5.25%-5.5%
GDP	-0.3%q/q Q4 (-0.2%y/y)	+0.0%q/q Q4 (0.1%y/y)	2.0% Q1 Annualised
Inflation	3.4%y/y (Feb)	2.4%y/y (Mar)	3.2%y/y (Feb)
Unemployment Rate	3.9% (Jan)	6.4% (Feb)	3.9% (Feb)

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 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 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 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.

Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

US Economy

Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its swollen $16 trillion balance sheet at some point. Just because the $ is the world's foremost reserve currency (China owns over $1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025…but how many and when?

EZ Economy

Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June rate cut from the current 4% looks probable.