CABINET
10 SEPTEMBER 2024

TREASURY MANAGEMENT ANNUAL REPORT AND OUTTURN PRUDENTIAL INDICATORS 2023/24

Responsible Cabinet Member - Councillor Mandy Porter, Resources Portfolio

Responsible Director – Elizabeth Davison, Group Director of Operations

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SUMMARY REPORT

Purpose of the Report

1. This report provides important information regarding the regulation and management of the Council's borrowing, investments and cash-flow. It is a requirement of the Council's reporting procedures and by regulations issued under the Local Government Act 2003 to produce an annual treasury management review that covers treasury activity for 2023/24. The report also seeks approval of the Prudential Indicators results for 2023/24 in accordance with the Prudential Code.

Summary

2. The financial year 2023/24 was yet another unprecedented year with regards to treasury management. With the Ukraine conflict continuing, events in the Middle East, cost of living increases and inflation taking time to recover, the markets have been quite cautious. The bank rate continued to rise steadily throughout the early part of the year starting the year at 4.25% before stabilising and finishing at 5.25%. This has led to borrowing rates increasing and to some significant financial challenges throughout the year. These challenges are expected to continue into 2024/25 with the cost of borrowing expected to remain high until at least September, possibly even later. Although the returns for cash investments have also increased due to higher interest rates they still remain below the cost of borrowing and these are declining at a much faster rate than the cost of borrowing.

3. During 2023/24 the Council complied with its legislative and regulatory requirements. The borrowing need (**Table 1**) was only increased for capital purposes.

4. At 31 March 2024 the Council's external debt was £152.878m which is £14.864m more than the previous year. This increase relates to the progression of various capital schemes and the rise in the costs of these schemes due to inflationary pressures. The average interest rate for borrowing increased from 2.41% in 2022/23 to 2.61% in 2023/24. Investments totalled £36.369m at 31 March 2024 (£40.044m at 31st March 2023) earning interest of 5.09% on short term cash investments and 0.72% on Property Fund units net of costs. As per table 7, the budgeted return on Property Funds was 0.54% so this is better than forecast.

5. Financing costs have been reduced during the year and a reduction of £0.735m has been achieved from the original MTFP and transferred to an IFRS9 reserve to manage any future fluctuations arising from the capital values of property funds. The reduction in budget is a mixture of reduced interest charges on debt as well as increased investment income.

Recommendations

6. It is recommended that:

   (a) The outturn 2023/24 Prudential Indicators within this report and those in **Appendix 1** be noted.

   (b) The Treasury Management Annual Report for 2023/24 be noted.

   (c) This report to be forwarded to Council, in order for the 2023/24 Prudential Indicators to be noted.

Reasons

7. The recommendations are supported by the following reasons:

   (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities.

   (b) To inform members of the Performance of the Treasury Management function.

   (c) To comply with the requirements of the Local Government Act 2003.

Elizabeth Davison
Group Director of Operations

Background Papers

(i) Accounting Records
(ii) Annual Investment Strategy 2023/24
(iii) Prudential Indicators and Treasury Management Strategy Report 2023/24

Judith Murray: Extension 5204

Council Plan	The Council's Treasury Management and Prudential Indicators activities contribute to all priorities outlined within the Council Plan.
Addressing inequalities	This report provides an update on the Council's Treasury Management and Prudential Indicators for 2023/24 therefore there is no impact as a result of this report.
Tackling Climate Change	This report provides an update on the Council's Treasury Management and Prudential Indicators for 2023/24 therefore there is no impact as a result of this report.
Efficient and effective use of resources	The report outlines movements in the national economic outlook that have enabled officers to take advantage of different types of Investments and changing interest rates to benefit the Revenue MTFP.
Health and Wellbeing	This report provides an update on the Council's Treasury Management and Prudential Indicators for 2023/24 therefore there is no impact as a result of this report.
S17 Crime and Disorder	This report has no implications for crime and disorder.
Wards Affected	There is no anticipated impact on any one ward as a result of this report.
Groups Affected	There is no anticipated impact on any group as a result of this report.
Budget and Policy Framework	The report does not change the Council's budget or Policy framework but needs to be considered by Council.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Impact on Looked After Children and Care Leavers	This report does not impact on Looked After Children or Care Leavers.

MAIN REPORT

Information and Analysis

8. This report summarises:

   (a) Capital expenditure and financing for 2023/24
   (b) The Council's overall borrowing need
   (c) Treasury position at 31st March 2024
   (d) Prudential indicators and compliance issues
   (e) The economic background for 2023/24
   (f) A summary of the Treasury Management Strategy agreed for 2023/24
   (g) Treasury Management activity during 2023/24
   (h) Performance and risk benchmarking

9. Throughout this report a number of technical terms are used, a glossary of terms can be found at the end of this report.

The Council's Capital Expenditure and Financing 2023/24

10. The Council undertakes capital expenditure on long term assets, which is financed either:

    (a) Immediately through capital receipts, capital grants, contributions and from revenue; or

    (b) If insufficient financing is available, by borrowing.

11. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flow, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost and then optimise performance.

12. Capital Expenditure forms one of the prudential indicators that are used to regulate treasury activity. Table 1 shows total capital expenditure and how this was financed, compared with what was expected to be spent and how this would have been financed. Actual expenditure was £20.732m less than planned, mostly down to slippage in the HRA, Station redevelopment, Railway Heritage and some Towns Fund initiatives. However, the mix of funding differs from that which was expected as some schemes progressed quicker than others. This impacted on the borrowing needed to fund expenditure which was £9.808m higher than initially anticipated.

Table 1 – Capital Expenditure and Financing

	2022/23	2023/24		
	Outturn £m	**Revised Estimate £m**	**Outturn £m**	**Variance £m**
General Fund Capital Expenditure	40.984	56.727	39.361	(17.366)
HRA Capital Expenditure	14.708	24.535	13.753	(10.782)
Loans to Joint Ventures etc	4.944	0.034	7.450	7.416
Total Capital Expenditure	**60.636**	**81.296**	**60.564**	**(20.732)**
Resourced by:				
Capital Receipts GF	0.623	5.158	2.491	(2.667)
Capital receipts Housing	0.433	0.433	0.00	(0.433)
JV Loans Repaid	5.073	1.000	0.500	(0.500)
Capital Grants	34.466	32.851	29.045	(3.806)
Capital Contributions	0.407	0.000	0.261	0.261
Revenue Contributions - GF	0.187	0.403	1.167	0.764
Investment Fund - Housing	0.000	0.000	0.000	0.000
Revenue Contributions - HRA	13.289	24.077	8.003	(16.074)
Self-Financing - GF	0.000	16.036	7.951	(8.085)
Total Resources	**54.478**	**79.958**	**49.418**	**(30.540)**
Borrowing needed to finance expenditure	**6.158**	**1.338**	**11.146**	**9.808**

The Council's Overall Borrowing Need

13. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The figure is a gauge for the Council's debt position. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents 2023/24 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources.

14. 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 Public Works Loan Board (PWLB), or the money markets) or utilising temporary cash resources within the Council.

15. The Council's (non HRA) 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 non-Housing Revenue Account borrowing need, (there is no statutory requirement to reduce the HRA CFR). 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.

16. The total CFR can be reduced each year through a Voluntary Revenue Provision (VRP) or by the application of additional capital financing resources (such as unapplied capital receipts).

17. The Council's CFR for the year is shown in Table 2 and represents a key prudential indicator. The CFR outturn for 2023/24 is £233.974m which is £0.325m higher than approved due to a decrease in estimated JV loan repayment and a decreased borrowing requirement for HRA resulting in less MRP being charged than originally anticipated.

Table 2 - Capital Financing Requirement

	2022/23	**2023/24**		
	Outturn £m	**Approved Indicator £m**	**31 March Actual £m**	**Variance £m**
Opening Balance	224.285	228.660	228.660	0.000
Add Capital Expenditure financed by borrowing	13.232	11.987	11.645	(0.342)
Less repayment of JV loans	(5.073)	(1.000)	(0.500)	0.500
Less MRP/VRP GF	(0.000)	(4.299)	(4.299)	(0.000)
Less MRP/VRP Housing	(2.669)	(0.593)	(0.426)	0.167
Less MRP/VRP PFI	(1.115)	(1.106)	(1.106)	0.000
Closing balance	**228.660**	**233.649**	**233.974**	**0.325**

Treasury Position at 31 March 2024

18. Whilst the measure of the Council's underlying need to borrow is the CFR, the Group Director of Operations can manage the Council's actual borrowing position by:

    (a) Borrowing to the CFR level; or

    (b) Choosing to utilise some temporary cash flows instead of borrowing ("under borrowing"); or

    (c) Borrowing for future increases in CFR (borrowing in advance of need, the "over borrowed" amount can be invested).

19. The Council's treasury management 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 and through officer activity detailed in the Council's Treasury Management Practices.

20. The Council's total debt outstanding at 31 March 2024 was £152.878m. In addition to this, a liability of £7.011m relating to the PFI scheme and Finance Leases brings the total to £159.889m. The Council's revised CFR position was estimated to be £233.649m, however, the actual out turn position was £233.974m. When comparing this to our actual

borrowing of £159.889m this meant that the Council was "under borrowed" by £74.085m. This "under borrowed" amount was financed by internal borrowing which means that the amount that could have been invested externally was reduced to cover this. The reduced under borrowed position still has the dual effect of reducing costs to the MTFP because borrowing costs are generally greater than investment returns and it reduces counterparty risk by reducing our exposure to banks and other financial institutions.

21. The treasury position at 31 March 2024, including investments compared with the previous year, is shown in table 3 below.

Table 3 – Summary of Borrowing and Investments

Treasury Position	31 March 2023		31 March 2024	
	Principal £m	Average Rate %	Principal £m	Net Annualised Average Rate %
General Debt - Fixed Rate Debt, Market and Public Works Loan Board (PWLB)	113.014	2.53%	127.878	2.65%
Property Fund Borrowing	25.000	1.65%	25.000	2.60%
Total Debt	**138.014**	**2.41%**	**152.878**	**2.61%**
Cashflow Investments up to 6 months	10.045	2.88%	6.370	5.09%
Capital Investments over 6 months	0.000	0.00%	0.000	0.00%
Property Fund Investment - net of costs	29.999	1.99%	29.999	0.72%
Total Investments	**40.044**		**36.369**	
Net borrowing position	**97.970**		**116.509**	

Prudential Indicators and Compliance Issues

22. Some prudential indicators provide an overview while others are specific limits on treasury activity, as detailed below.

23. **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 (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4 – Gross Borrowing Compared with CFR

	31 March 2023 Actual £m	31 March 2024 Approved Indicator £m	31 March 2024 Actual £m
Gross Borrowing Position	138.014	141.014	152.878
PFI and Finance Lease Liability	8.117	7.011	7.011
Total	146.131	148.025	159.889
CFR	228.660	233.649	233.974
(Under)/over funding of CFR	(82.529)	(85.624)	(74.085)

24. **The Authorised Limit –** The Authorised Limit is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council does not have power to borrow above this level.

25. **The Operational Boundary –** The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are both acceptable, subject to the Authorised Limit not being breached.

26. **Actual financing costs as a proportion of net revenue expenditure -** 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 expenditure. The actual for this indicator has risen from the previous year due to an increase in the Financing costs outturn.

Table 5 – Key Prudential Indicators

	Actual 2022/23 £m	Original Approved Limits 2023/24 £m	Revised Approved Limits 2023/24 £m	Actual Total Liabilities Borrowing + PFI/ leases 2023/24 Maximum £m
Approved Indicator – Authorised Limit	240.093	247.730	245.331	245.675
Approved Indicator – Operational Boundary	146.131	183.077	148.025	159.889
Financing costs as a percentage of net revenue expenditure	1.69%	3.82%	4.47%	4.47%

27. At 31 March 2023 the total liabilities were £152.878m which is below both the approved Authorised Limit and the approved Operational Boundary. The Operational Boundary is the point at which we expect borrowing to be, but it can be lower or higher. Borrowing cannot exceed the Authorised Limit.

28. A further four prudential indicators are detailed in Appendix 1.

Economic Background for 2023/24

29. A summary of the general economic conditions that have prevailed through 2023/24 provided by Link Asset Services, the Council's treasury management advisors is attached at **Appendix 2.**

Summary of the Treasury Management Strategy agreed for 2023/24

30. The revised Prudential Indicators anticipated that during 2023/24 the Council would need to borrow £1.338m to finance part of its capital programme, whereas the actual outturn figure was £9.808m. The main reason for the outturn variance is at the time of writing the revised (2023/24 mid-year) Prudential Indicator report, the Council had not received updated cashflows for the Joint Ventures confirming when further development was due to commence.

31. The Annual Investment Strategy stated that the use of specified (usually less than one year) and non-specified (usually more than one year) investments would be carefully balanced to ensure that the Council has appropriate liquidity for its operational needs. In the normal course of the Council's business it is expected that both specified and non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

32. Longer term instruments (greater than one year from inception to repayment) will only be used where the Council's liquidity requirements are safeguarded. An estimate of long term investments (over 1 year) were included in the report on the Prudential Indicators update these were as follows £50m for 2022/23 and £50m for 2023/24. No other investments of over one year duration have been made during 2023/24.

Treasury Management Activity during 2023/24

Borrowing Strategy

33. 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 investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

34. A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

35. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years (see table 6 below). However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Table 6 – net borrowing

	Market Loans (incl. other Local Authorities)			Total
	Amount £m	Length of Loan	Interest Rate %	£m
New Loans Taken				
	5.000	2 months	4.60%	
	5.000	4 months	4.85%	
	5.000	1 year	5.25%	
	5.000	1 year	4.40%	
	2.000	3 months	5.65%	
	3.000	3 months	5.70%	
	5.000	1 month	4.65%	
	2.000	3 months	6.00%	
	2.000	3 months	6.50%	
	3.000	4 months	6.00%	
	5.000	3 months	6.75%	
	5.000	3 months	6.50%	
Total New Loans				47.000
Loans Repaid				
	(5.000)	1 year	1.25%	
	(5.000)	2 months	4.85%	
	(5.000)	5 years	1.82%	
	(5.000)	1 year	2.30%	
	(2.000)	1 year	3.00%	
	(5.000)	4 months	4.85%	
	(2.000)	3 months	5.65%	
	(3.000)	3 months	5.70%	
				(32.000)
Total New Borrowing				15.000

36. **Summary of Debt Transactions –** The consolidated rate of interest increased from 2.41% to 2.61% due to increased interest rates in the market.

Investment Position

37. **Investment Policy –** the Council's investment policy for 2023/24 is governed by the DLUHC Guidance which has been implemented in the annual investment strategy for 2023/24 approved by Special Council on 16 February 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.).

38. The investment activity during the year conformed to the approved Strategy and the Council had no liquidity difficulties.

39. Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and 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 the end of the financial year. It has remained at this level and is unlikely to decrease until later in 2024/25.

40. With bond markets selling off, equity valuations struggling to make progress as did property funds, although there have been some spirited, if temporary, market rallies from time to time, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used and Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes.

41. Throughout 2023/24 the Bank of England has maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress

42. While the Council has taken a cautious approach to investing, 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 financial crisis. 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.

43. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

44. Investments held by the Council consist of temporary surplus balances, capital receipts and other funds. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. These include investments in Money Market Funds, the Government's Debt Management Office, other local authorities and bank short term notice accounts. Short term investments of up to a year earned interest of £602k on an average balance of £11.832m which equated to an annual average interest rate of 5.09%.

45. The Council also has longer term investments which consist of the property funds and the returns are shown below in **Table 7**.

46. Further to the 2024/25 Treasury Management Strategy report, where it was noted that the Lothbury Property Fund was exploring a potential merger with the UBS Triton Property Fund, unfortunately this proposal did not receive sufficient support from the membership and therefore the Lothbury Property Fund was terminated in the first quarter of 2024/25. The Council will receive its share of the distributions of funds from Lothbury as and when assets are sold. An initial distribution was received in June 2024 which the Council has

invested in the UBS Triton Property fund. The investment of future distributions will be decided as and when they are received, in consideration of the best investment opportunities and the Council's financial position at the date of receipt.

Table 7 – Longer Term 6 months to 5 years - Property Funds

	Original Budget 2023/24	Actual 2023/24
Daily average level of Investments	£29.999m	£29.999m
Interest earned (gross)	1.038m	1.093m
Average Rate of Return on Investment Interest earned (gross)	3.46%	3.64%
Average Rate of Return on Investment (net of costs)	0.54%	0.72%

Performance and Risk Benchmarking

47. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance.

48. The following reports the current position against the benchmarks originally approved.

49. Security – The Council's maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables was set as follows:

    0.077% historic risk of default when compared to the whole portfolio

50. **Table 8** shows that there has been a fluctuation in the historic levels of default over the year although still well below the benchmark. This is mainly due to some longer term investments actually being made for shorter terms, i.e. up to six months rather than one year as these investments were better value than longer term investments and were also a better fit with how the Council was expecting to utilise investments. It also shows more emphasis being placed on counterparties with a higher credit rating.

51. The investment portfolio was maintained within this overall benchmark during this year as shown in **Table 8**.

Table 8

Maximum	Benchmark 2023/24	Actual June 2023	Actual October 2023	Actual December 2023	Actual March 2024
Year 1	0.077%	0.001%	0.000%	0.000%	0.000%

52. The counterparties that we use are all high rated therefore our actual risk of default based on the ratings attached to counterparties is virtually nil.

53. Liquidity – In respect of this area the Council set liquidity facilities/benchmark to maintain:

    (a) Bank Overdraft £0.100M.

    (b) Liquid short term deposits of at least £3.000M available within a week's notice.

    (c) Weighted Average Life benchmark is expected to be 146 days with a maximum of one year.

54. Liquidity arrangements have been adequate for the year to date as shown in **Table 9**.

Table 9

	Benchmark	Actual June 2023	Actual October 2023	Actual December 2023	Actual March 2024
Weighted Average life	**146 days to 1 year**	**113 days**	**118 days**	**0 days**	**0 days**

55. The figures are for the whole portfolio of cash flow investments deposited with Money Market funds on a call basis, (i.e. can be drawn on without notice) as well as call accounts that include a certain amount of notice required to recall the funds.

56. Money Market Funds do not have a Weighted Average Life as they are on a call basis. During the latter part of the year the Council held its surplus cash in Money Market Funds as the rates for these were on par (sometimes even better) than short term investments, hence there is no Weighted Average Life in December 2023 and March 2024.

57. Yield - In respect of this area performance indicators relating to interest rates for borrowing and investments were set with reference to comparative interest rates. For borrowing, the indicator is the average rate paid during the year compared with the previous year. Investment rates are compared with a representative set of comparative rates.

Risk

58. The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:-

    (a) The Local Government Act 2003(the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity.

    (b) The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2023/24).

    (c) Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act.

(d) The SI requires the Council to undertake any borrowing activity with regard to the CIFPA Prudential Code for Capital Finance in Local Authorities.

(e) The SI also requires the Council to operate the overall treasury function with regard to the CIPFA code of Practice for Treasury Management in Public Services.

(f) Under the Act the Department of Levelling Up, Housing & Communities has issued Investment Guidance to structure and regulate the Council's investment activities.

(g) Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

59. The Council's Treasury Management function has complied with all of the relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low risk approach.

60. Officers of the Council are aware of the risks of passive management of the treasury portfolio and, with the support of Link Group, the Council's advisers, have proactively managed the debt and investments over the year.

Treasury Management Budget

61. There are three main elements within the Treasury Management Budget:-

(a) Long Term capital investments including Property Funds which earns interest and dividends, this comprises of the Council's revenue and capital balances, unused capital receipts, reserves and provisions.

(b) Cash flow interest earned – The authority has consistently had positive cash flow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipts of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.

(c) Debt servicing costs – This is the principal and interest costs on the Council's long term debt to finance the capital programme.

Table 10 - Changes to the Treasury Management Budget 2023/24

	£m	£m
Original Treasury Management Budget		**3.477**
Debt		
Reduced interest payable on debt	**(0.428)**	
Investments		
Increase in investment income including property funds etc	**(0.320)**	
Other Costs		
Increased brokerage charges	**0.013**	
Transfer to IFRS 9 Reserve	**0.735**	
Outturn Treasury Management Budget 2023/24		**3.477**

62. There has been a reduction in the interest payable on debt due to reduced debt levels as well as an increase in the interest received on investments due to the cashflow levels. An MRP charge was also necessary to correct previous years under-provision.

63. These reductions in interest payable and additional interest income have been transferred into the IFRS9 reserve to manage any future fluctuations within the capital values of the property funds.

Conclusion

64. The Council's treasury management activity during 2023/24 has been carried out in accordance with Council Policy and within legal limits. Financing costs have been reduced during the year and the reduction achieved from the original MTFP has been added to the existing IFRS9 reserve to manage any future fluctuation in the capital values of property funds.

Outcome of Consultation

65. No formal consultation has been undertaken regarding this report.

Appendix 1

Additional Prudential Indicators not reported in the body of the report.

		2022/23 Actual	2023/24 Approved Indicator	2023/24 Outturn
1	**limits on fixed interest rates**	**88%**	**100%**	**79%**
2	**limits on variable interest rates**	**12%**	**40%**	**21%**
3	**Maturity structure of fixed interest rate borrowing (upper Limit)**			
	Under 12 months	**12%**	**40%**	**21%**
	12 months to 2 years	**12%**	**50%**	**21%**
	2 years to 5 years	**20%**	**60%**	**26%**
	5 years to 10 years	**27%**	**80%**	**31%**
	10 years and above	**100%**	**100%**	**100%**
4	**Maximum Principal funds invested greater than 364 days**	**£50m**	**£50m**	**£50m**

Appendix 2

The Economy and Interest Rates

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.

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.

USA. 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?

EU. 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.

Glossary of Terms

Capital Financing Requirement (CFR)	This is the Councils underlying need to borrow which can be traced back to the Councils Balance Sheet and the value of the Councils assets which have yet to be paid for.
Minimum Revenue Provision (MRP)	Monies set aside from the revenue budget to repay accumulated debt.
Call	Investments that can be returned without a period of notice
Counterparty	Institutions, Banks etc. that with make investments or take out loans with.
Specified Investments	Investments in Banks and Building Societies with a high credit rating for periods of less than 1 year
Non-Specified Investments	Investments in un-rated Building Societies and any investments in Banks and Building Societies for more than 1 year.
Operational Liquidity	Working Cash flow
Authorised Limit	Maximum amount of borrowing that could be taken in total.
Operational Boundary	The expected amount of borrowing assumed in total.
PWLB	Public Works Loan Board. The Governments lending body to Local Authorities

Discount	Amount payable by the PWLB when loans are repaid if the current loan rate is less than the rate borne by the original debt
Yield Curve	Is a graph that shows the relationship between the interest rate paid and length of time to repayment of a loan.
Gilts	Government Borrowing Bonds
SONIA	The Sterling Overnight Index Average – generally a replacement set of indices (for LIBID) for those benchmarking their investments.
Spreads	The difference between the highest rate of interest and the lowest rate of interest earned/charged on any one particular maturity period i.e. 1 year, 2 year 5 year etc.
LIBID	London Interbank Bid Rate. The average rate at which a bank is willing to borrow from another bank.
LIBOR	London Interbank Offer Rate. The average rate at which a bank is willing to lend to another bank. LIBOR is always higher than the corresponding bid rate and the difference between the two rates is known as the spread.