Appendix 1 - Treasury Management Outturn Report 2023/24

1. Introduction

1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

1.2. The Council's treasury management strategy for 2023/24 was approved at a full Council meeting on 2 March 2023. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

2. External Context (provided by the Council's treasury management advisor, Arlingclose)

Economic background

2.1. The UK's inflation rates declined during the period. At the start of the reporting period, UK Consumer Price Index (CPI) inflation was 8.7%, falling to 3.2% in March 2024. This downward trend persisted with rates reaching the Bank of England's (BoE) 2% target in May 2024.

2.2. The Bank of England's Monetary Policy Committee (MPC) started the financial year with a Bank Rate of 4.25%. In August 2023, the MPC increased the Bank Rate to 5.25% as the UK economy showed resilience against higher inflation and interest rates. The Bank Rate remains at 5.25%, as the MPC has decided to keep the rate unchanged at all subsequent meetings.

2.3. Although financial markets adjusted their interest rate expectations downwards, anticipating a single cut later in the year, the MPC's focus remains on assessing how long rates need to be restrictive to control inflation over the medium term. The table below provides an extract of the Bank Rate over the past four quarters.

	Jun-23	Sep-23	Dec-23	Mar-24
BoE Bank Rate	5.00%	5.25%	5.25%	5.25%

2.4. Throughout the period, the UK's economic growth remained weak. The country entered a technical recession in the second half of 2023, following two consecutive quarters of negative growth. Furthermore, throughout the 2023 calendar year, GDP growth only expanded by 0.1% compared to 2022. Although the economy may somewhat recover in Q1 2024, the data suggests that previous increases in interest rates and higher price levels are suppressing growth. This trend is expected to continue to affect inflation for the remainder of 2024.

2.5. The labour market data provided a mixed message for policymakers. Although, employment and vacancies have declined, pay growth consistently rose, peaking at an annual growth rate of 8.5% for total pay in July 2023. Wage growth remains above the BoE's forecast.

2.6. The unemployment rate remained steady at around 4% during the period. The table below shows an extract of the annual unemployment rate reported over the past four quarters.

	Jun-23	Sep-23	Dec-23	Mar-24
Unemployment rate	4.3%	4.1%	3.8%	4.4%

2.7. The Bank's Monetary Policy Reports have indicated stronger domestic inflationary pressures, with effects on domestic prices and wages likely taking longer to unwind. The Bank's expectations for the UK economy in the first half of 2024 are positive, with a gradual recovery from a mild recession. Headline CPI is forecast to dip below the 2% target quicker due to declining energy prices, keeping inflation slightly above target for much of the forecast horizon.

2.8. Arlingclose, the Council's treasury advisor, maintains its central view that 5.25% is the peak Bank Rate. The adviser also suggests that interest rates will likely begin to be cut later in 2024. The short-term risks are to the upside, with the BoE expected to hold rates until September or possibly even Q4 2024. The emerging upside risks to inflation could restrict the scope of monetary easing.

2.9. The US Federal Reserve also raised rates over the period, reaching a peak range of 5.25-5.50% in August 2023, where they have remained since. Initially, US policymakers emphasized the risks of inflation and the possibility of raising interest rates further. However, their stance gradually became more accommodative, resulting in a relatively dovish outcome at the December FOMC meeting. Recent economic projections suggest that interest rates will be cut by a total of 0.75% in 2024.

2.10. Over in Europe, the European Central Bank (ECB) raised rates to historically high levels, pushing its main refinancing rate to 4.5% in September 2023. In June 2024, the ECB cut its main refinancing rate by 0.25% to 4.25%. Economic growth in the region remains weak, with a potential recession looming. However, inflation remains high and above the ECB's target, putting pressure on policymakers to balance these factors.

Financial markets

2.11. Financial market sentiment remained uncertain, and bond yields were volatile. In the first half of the year, yields rose as interest rates continued to be increased in response to rising inflation. From October, interest rates started declining and fell sharply in December due to falling inflation and dovish central bank attitudes, leading financial markets to expect some interest rate cuts in 2024. However, in January, when it became clear that inflation was stickier than expected and the BoE and the Federal Reserve were data-dependent and not inclined to cut rates soon, yields rose again, ending the period over 50 basis points higher than when it started.

2.12. The table below shows the movement of the major benchmark gilt yields throughout the period.

Benchmark Gilt Yield	Jun-23	Sep-23	Dec-23	Mar-24
5 year	4.67%	4.29%	3.48%	3.83%
10 year	4.39%	4.45%	3.54%	3.92%
20 year	4.51%	4.84%	4.13%	4.40%

2.13. The Sterling Overnight Rate (SONIA) averaged 4.96% over the period.

Credit review

2.14. In January 2024, Arlingclose updated its temporary stance in response to a more favourable credit market outlook. It increased its advised maximum unsecured duration limit for all banks on its counterparty list from the temporary 35-day limit to 100 days.

2.15. The credit rating agencies, S&P and Moody's, revised the UK sovereign outlook to stable, with Barclays Bank and several German and Australian banks also receiving upgrades. Fitch revised the outlook on the UK sovereign rating to stable from negative, citing decreased risks to public finances.

2.16. Credit default swap prices generally fell over the financial year, despite initial elevation due to fallout from Silicon Valley Bank and other lenders.

2.17. Heightened market volatility is expected to remain a feature, at least in the near term and credit default swap levels will be monitored for signs of ongoing credit stress. As always, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

3. Local Context

3.1. On 31 March 2024, the Council had net borrowing of £819.4m arising from its revenue and capital income and expenditure. The Capital Financing Requirement (CFR) measures the underlying need to borrow for capital purposes. A breakdown of the CFR is summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.24 Actual £m	31.03.23 Actual £m
General Fund CFR	677.1	720.4
HRA CFR	542.9	471.1
Total CFR[1]	**1,220.0**	**1,191.5**
Less: Other debt liabilities[2]	(31.0)	(22.0)
Borrowing CFR - comprised of:	**1,189.0**	**1,169.5**
External borrowing	819.4	783.3
Internal borrowing	369.6	386.2

[1]subject to audit
[2]finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

3.2. The Council continued to pursue its long-standing strategy of keeping borrowing and investments below their underlying levels, also known as internal borrowing. This approach aims to manage both interest rate risk and refinancing risk. The goal is to minimise interest costs and provide flexibility when deciding whether the Council should take on new borrowing from external sources.

3.3. The treasury management position on 31 March 2024 and the change over the year is shown in Table 2 below.

Table 2: Treasury Management Summary

Type of Borrowing/Investment	31.03.23 Balance £m	Movement £m	31.03.24 Balance £m	31.03.24 Weighted Av. Rate %
Long-term borrowing	718.3	61.1	779.4	3.22%
Short-term borrowing	65.0	(25.0)	40.0	5.87%
Total borrowing	**783.3**	**36.1**	**819.4**	**3.35%**
Short-term investment	15.0	(15.0)	0.0	0.00%
Cash and cash equivalents	78.9	(45.0)	33.9	5.19%
Total investments	**93.9**	**(60.0)**	**33.9**	**5.19%**
Net borrowing	**689.4**	**96.1**	**785.5**	

4. Borrowing Activity

4.1. CIPFA's 2021 Prudential Code emphasises that local authorities should not borrow to invest primarily for financial returns. Local authorities should not make any investment or spending decision that increases the capital financing requirement, resulting in new borrowing, unless such decisions are directly and primarily related to the functions of the local authority. Local authorities are no longer permitted to secure PWLB loans for purchasing investment assets primarily for yield unless the loans are for refinancing purposes.

4.2. The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in the future.

Borrowing strategy during the period

4.3. As outlined in the treasury strategy, the Council's primary objective when borrowing is to strike an appropriately low-risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising longer-term stability of the debt portfolio.

4.4. There has been a significant increase in the cost of both short-term and long-term borrowing over the past 2 years, although these increases are now stabilising. Gilt yields fell in late 2023, hitting April 2023 lows in December 2023 before rebounding slightly in the first quarter of 2024. Gilt yields have remained volatile, with upward pressure from persistent inflation and downward pressure from decreasing inflation and a weak economy.

4.5. The table below shows the movement in rates offered across the various PWLB maturities on 31 March 2024. The rates shown are included the 0.20% certainty discount rate offered by the PWLB to qualifying authorities.

PWLB Maturity	Jun-23	Sep-23	Dec-23	Mar-24
10 year	5.25%	5.26%	4.19%	4.74%
20 year	5.36%	5.64%	4.90%	5.18%
50 year	4.95%	5.43%	4.67%	4.41%

4.6. The cost of short-term borrowing from other local authorities has generally risen with the Bank Rate over the year. Interest rates peaked at around 7% in late March 2024 as many authorities required cash simultaneously. These rates have returned to normal levels in the first quarter of the 2024/25 financial year.

4.7. On 15 June 2023, a new HRA PWLB rate was made available to qualifying authorities. This rate offers a further 0.40% discount to the currently available certainty rate. This rate will be available until June 2025. The discounted rate is meant to support local authorities borrowing for the Housing Revenue Account (HRA) and refinancing existing HRA loans. It provides an opportunity for the Council to undertake additional HRA-related borrowing and replace any maturing HRA loans during this period.

4.8. As part of its strategy for funding previous and current years' capital programmes, the Council held £819.4 million in loans on 31 March 2024, an increase of £36.1 million compared to 31 March 2023.

4.9. The outstanding loans on 31 March are summarised in Table 3 on the following page.

Table 3: Borrowing Position

	31.03.23		31.03.24	31.03.24	31.03.24

Type of Borrowing	Balance £m	Net Movement £m	Balance £m	Weighted Ave. Rate %	Weighted Ave. Maturity years
Public Works Loan Board	593.3	86.1	679.4	3.00%	23.8
Banks (LOBO)	125.0	(25.0)	100.0	4.73%	34.6
Local authorities	65.0	(25.0)	40.0	5.87%	0.3
Total borrowing	**783.3**	**36.1**	**819.4**	**3.35%**	**24.0**

4.10. The Council's short-term borrowing costs (from other local authorities) have continued to increase with the rise in the Bank Rate. The average rate of the Council's short-term loans at 31 March 2024 was 5.87% compared to 3.16% at 31 March 2023. As a result, the Council has taken fewer new short-term loans compared to previous years.

4.11. The Council has a significant capital program that extends into the foreseeable future. A large proportion of this program will need to be financed by borrowing. This borrowing will be undertaken by the Council during the current and upcoming years. The Council's borrowing decisions are not based on any single outcome for interest rates, and it maintains a balanced portfolio of short and long-term borrowing.

LOBO Loans

4.12. On 1st April 2023, the Council held £125m of LOBO loans, where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost.

4.13. With market interest rates having risen, the probability of call options on the LOBOs being called has been higher than in the recent past. £125m of LOBO loans had call option dates during the year to 31 March 2024.

4.14. Lenders exercised options on the following of the Council's loans.

	Amount £m	Rate	Final Maturity	Proposed Rate	Action taken by Council
Loan 1	25	4.70%	28/09/2066	6.10%	Repaid at no cost and refinanced by PWLB equal instalments of principal loan @ 4.61%, for 15 years.

4.15. The Council currently holds £50m of LOBO loans, with call dates within the next 12 months. The Council continues to engage with treasury management advisors, Arlingclose, to assess the likelihood of the options being exercised. If the option is exercised, the Council plans to repay the loan at no additional cost. In doing so, the Council will use any available cash or borrow from other local authorities or the PWLB to repay the LOBO loans.

5. Treasury Investment Activity

5.1. The CIPFA Treasury Management Code now defines treasury management investments as investments that result from the Council's cash flows or treasury risk management activity. These investments represent balances that need to be invested until the cash is needed for use in the course of business.

5.2. The Council holds significant invested funds, which represent income received in advance of expenditure, as well as balances and reserves held. Throughout the period, the Council's investment balances ranged between £164.9m and £24.2m due to timing differences between income and expenditure. The investment position on 31 March 2024 is shown in Table 4 below.

Table 4: Treasury Investment Position

Type of Investment	31.03.23 Balance £m	Net Movement £m	31.03.24 Balance £m	31.03.24 Weighted Ave. Rate %	31.03.24 Weighted Ave. Maturity
Debt Management Office	93.9	(60.0)	33.9	5.19%	2 days
Total Investments	**93.9**	**(60.0)**	**33.9**	**5.23%**	**1 day**

5.3. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, taking into account the security and liquidity of its treasury investments before seeking the optimum rate of return or yield. The Council aims to strike an appropriate balance between risk and return when making treasury investments, while minimising the risk of incurring losses from defaults and receiving unsuitably low investment income.

5.4. The Bank of England's Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period.

5.5. At the end of March 2024, the Debt Management Account Deposit Facility's (DMADF) deposit rates ranged between 5.08% and 5.19%. The Money Market rates also ranged between 5.24% and 5.34%.

5.6. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Ave. Maturity (Days)	Rate of Return
31.03.2023	3.67	AA-	0%	10	3.96%
31.03.2024	3.67	AA-	0%	1	5.19%
Similar Local Authorities	4.80	A+	70%	24	5.10%
All Local Authorities	4.82	A+	61%	9	5.10%

Scoring:
AAA = highest credit quality = 1; D = lowest credit quality = 26
Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

6. Treasury Performance

6.1. The Council measures the financial performance of its treasury management activities in terms of its impact on revenue budget as shown in Table 6 below.

Table 6: Treasury Performance

Borrowing costs	Actual £m	Budget £m	Over/under £m
General Fund borrowing	9.8	16.9	(7.1)
HRA borrowing	17.2	18.6	(1.4)
Total borrowing costs	**27.0**	**35.5**	**(8.5)**
Treasury investment income	**3.2**	**0.5**	**(2.7)**

6.2. The budget for investment income in 2023/24 was £500k based on an average investment portfolio of £20 million at an interest rate of 2.50% However, over the course of the year, treasury investments generated an average rate of return of 4.93% with an average investment portfolio balance of £81.1m. This was largely due to the Bank of England increasing the base rate during the year, as well as the Council holding larger cash balances as a result of new long-term borrowing and receiving larger than expected government grants.

7. Non-Treasury Investments

7.1. The definition of investments in CIPFA's revised 2021 Treasury Management Code includes all the financial assets of the local authority, as well as other non-financial assets that the local authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes or (made explicitly to further service objectives) or for commercial purposes (made primarily for financial return).

7.2. The Investment Guidance, issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government, broadens the definition of investments to include all assets held partially or wholly for financial return.

8. Compliance

8.1. The Chief Finance Officer reports that all treasury management activities carried out during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

8.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	31.03.24 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied?
Borrowing	819.4	1,402.3	1,452.3	Yes
PFI and Finance Leases	31.0	21.1	23.2	No
Total debt	**850.4**	**1,423.4**	**1,475.5**	**Yes**

8.3. Although not classed as borrowing, the Council's PFI balances and finance leases increased during the financial year. This increase was primarily due to several rental lease renewals during the financial year.

8.4. The operational boundary is a management tool for in-year monitoring. Therefore, it is not significant if the operational boundary is breached on occasion due to variations in cash flow, and this is not considered a compliance failure. However, the council's overall debt remained well below this limit throughout the entire financial year.

9. Treasury Management Indicators

9.1. As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

Security

9.2. The Council has adopted a voluntary measure to assess its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. To calculate this score, a value is assigned to each investment based on its credit rating (AAA=1, AA+=2, etc.), and the arithmetic average is taken, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.03.24 Actual	2023/24 Target	Complied?

Portfolio average credit score	3.67 (AA-)	7.0 (A-)	Yes

Liquidity

9.3. The Council has adopted a voluntary measure to monitor its exposure to liquidity risk. This is done by tracking the amount of cash available to meet unexpected payments over a rolling three-month period, without borrowing additional funds.

	31.03.24 Actual/£m	2023/24 Target/£m	Complied?
Total cash available within 3 months	33.3	20.0	Yes

Interest Rate Exposures

9.4. This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

	31.03.24 Actual	2023/24 Target	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.08m	£2m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.6m	£2m	Yes

9.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing

9.6. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.03.24 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	12.6%	50%	0%	Yes
12 months and within 24 months	3.8%	40%	0%	Yes
24 months and within 5 years	7.7%	40%	0%	Yes
5 years and within 10 years	13.1%	40%	0%	Yes
10 years and within 20 years	13.2%	40%	0%	Yes
20 years and within 30 years	10.0%	40%	0%	Yes
30 years and within 40 years	12.8%	50%	0%	Yes
40 years and within 50 years	26.8%	50%	0%	Yes
50 years and above	0.0%	40%	0%	Yes

9.7. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

9.8. In the past, the Council has extensively used short-term borrowing (less than 1 year in duration) from other local authorities as an alternative to longer-term borrowing from the PWLB. This was due to lower interest rates at the time, resulting in revenue savings.

9.9. However, short-term borrowing exposes the Council to refinancing risk. This is the risk that rates will rise quickly over a short period of time, and will be at significantly higher rates when loans mature and new borrowing is required. With this in mind, the Council has set a limit on the total amount of short-term local authority borrowing as a proportion of all borrowing.

	31.03.24 Actual	2023/24 Target	Complied?
Upper limit on short-term borrowing from other local authorities as a percentage of total borrowing	4.88%	30%	Yes

Principal Sums Invested for Periods Longer than a year

9.10. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	nil	nil	nil
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied?	**Yes**	**Yes**	**Yes**