North Norfolk District Council

Annual Treasury Outturn Report 2023/24

Contents

Purpose....3
Executive Summary....4
Recommendations....4
Introduction and Background....5
1. The Council's Capital Expenditure and Financing....5
2. The Council's Overall Borrowing Need....6
3. Treasury Position as of 31st March 2024....8
4. The Strategy for 2023/24....14
5. Borrowing Outturn....22
6. Investment Outturn....23
7. The Economy and Interest Rates....24
8. Other Issues....26

Annual Treasury Management Review 2023/24

Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

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

- an annual treasury strategy in advance of the year (Council 22/02/2023)
- a mid-year, (minimum), treasury update report (Council 22/11/2023)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, the Council has received quarterly treasury management update reports.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview & Scrutiny Committee before they were reported to the Full Council.

Executive Summary

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

Table 1: Prudential and Treasury Indicators

Prudential and treasury indicators	31.3.23 Actual £000	2023/24 Forecast £000	31.3.24 Actual £000
Capital expenditure.	6.862	40.830	13.766
Capital Financing Requirement:	**15.111**	**13.395**	**17.474**
Short-Term Borrowing Long-Term Borrowing **Gross Borrowing**	9.000 0.000 9.000	0.000 0.000 0.000	6.700 5.000 11.700
Short-Term Investments Long-Term Investments Non-Treasury Investments (Housing Loans) **Total Investments**	2.830 22.582 2.332 27.744	2.000 22.000 2.190 26.190	2.010 20.000 2.144 24.154
Net borrowing	**(12.633)**	**(12.795)**	**(6.680)**

Other prudential and treasury indicators are to be found in the main body of this report. The Director for Resources also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

Recommendations

The Council is recommended to:

- Approve the actual 2023/24 prudential and treasury indicators in this report.
- Note the annual treasury management report for 2023/24.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

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

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

Table 2: Capital Expenditure and Financing

£m General Fund	31.3.23 Actual	2023/24 Forecast	31.3.24 Actual
Capital expenditure	**6.862**	**40.840**	**13.766**
Capital Receipts	2.088	4.994	0.470
Grants	3.247	30.646	7.846
Contributions	0.263	2.962	1.035
Reserves	0.890	3.858	1.455
Revenue Contributions (RCCO)	0.000	0.000	0.100
Financed in year.	**6.916**	**42.460**	**10.906**
Unfinanced capital expenditure (External Borrowing)	**(0.054)**	**(2.647)**	**(2.860)**

2. The Council's Overall Borrowing Need

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 (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. The Council can borrow from multiple sources and use local government brokers (Tradition, King & Shaxson, Imperial, BGC) to organise borrowing from other Government Bodies (Council's, Police Authorities, Fire Authorities), it can borrow through the Public Works Loan Board (PWLB), or it can borrow internally using temporary cash resources within the Council.

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

The total CFR can also be reduced by:

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

The Council's 2023/24 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 on 22/02/2023.

The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Table 3: CFR

Housing authorities to show separate General Fund and HRA CFR tables

CFR (£m): General Fund	31.3.23 Actual	2023/24 Budget	31.3.24 Actual
Opening balance	**15.827**	11.222	15.111
Add unfinanced capital expenditure (as above)	0.054	2.647	2.860
Less MRP/VRP*	(0.662)	(0.474)	(0.474)
Less PFI & finance lease repayments	0.000	0.000	0.000
Closing balance	**15.111**	**13.395**	**17.474**

** Includes voluntary application of capital receipts*

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

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 (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) 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 and CFR

£m	31.3.23 Actual	2023/24 Forecast	31.3.24 Actual
Gross borrowing position	9.000	0.000	11.700
CFR	15.111	13.395	17.474
(Under) / over funding of CFR	(6.111)	(13.395)	(5.774)

The Council does not have a gross borrowing position above its CFR.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2023/24 the Council has maintained gross borrowing within its authorised limit.

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 acceptable subject to the authorised limit not being breached.

Table 5: Operational Boundary

£m	2023/24
Authorised limit	50.000
Maximum gross borrowing position during the year	11.700
Operational boundary	15.000
Average gross borrowing position	9.392

3. Treasury Position as of 31st March 2024

The Council's treasury management debt and investment position is organised by the treasury management service to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2023/24 the Council's treasury position, (excluding borrowing by PFI and finance leases) was as follows:

Table 6: Treasury Position

DEBT PORTFOLIO £m	31.3.23 Principal	Average Rate/ Return	Average Duration (Days)	31.3.24 Principal	Average Rate/ Return	Average Duration (Days)
Fixed rate funding, Short-Term Borrowing:						
- Local Authority Borrowing	7.000	2.31%	128	5.000	4.93%	110
- Police Authority Borrowing	2.000	4.55%	85	0.000	4.55%	85
- Fire Authority Borrowing	0.000	0.95%	184	0.000	0.00%	0
- Pension Fund Borrowing	0.000	0.00%	0	1.700	5.63%	37
- Housing Authority Borrowing	0.000	1.30%	80	0.000	0.00%	0
Fixed rate funding, Long-Term Borrowing:						
- PWLB	0.000			5.000	5.39%	397
Variable rate funding:						
- None	0.000			0.000		
Total debt	**9.000**	**2.30%**	**125**	**11.700**	**5.09%**	**82**
CFR	**15.111**			**17.474**		
Over / (under) borrowing	**(6.111)**			**(5.774)**		
Total investments	**27.744**	**3.53%**		**24.154**	**4.81%**	
Net debt	**(21.633)**			**(18.380)**		

The maturity structure of the debt portfolio was as follows:

Table 7: Debt Maturity Structure

£m	31.3.23 actual	31.3.24 actual
Under 12 months	9.000	6.700
12 months and within 24 months	0.000	5.000
24 months and within 5 years	0.000	0.000
5 years and within 10 years	0.000	0.000
10 years and within 20 years	0.000	0.000
20 years and within 30 years	0.000	0.000
30 years and within 40 years	0.000	0.000
40 years and within 50 years	0.000	0.000
Total Borrowing	**9.000**	**11.700**
Total Borrowing Authorised Limit	50.000	50.000
Borrowing Limit Exceeded	**No**	**No**

During 2023/24 the Council has secured a £5m long-term loan with the PWLB (Central Government Public Works Loans Board) running from the 27th of March 2024 to the 28th of April 2025. This was secured at an interest rate of 5.39%.

The Council has had a need to borrow £5m over the last few financial years (identified that the Council needs £5m minimum borrowing per year for the last three financial years at any point in time). Any extra borrowing above this sum was only required on a short-term basis caused by the timing differences between the Council's expenditure and sources of income (cash flow).

To avoid interest rate risk, a PWLB long-term loan was secured instead of renewing short-term borrowing. Solely relying on short-term borrowing throughout the financial year leaves the Council vulnerable to fluctuations in the economy and subsequent unknown interest rate hikes. Interest rates during 2023/24 and the future year of 2024/25 are still expected to remain high (base rate at 5.25% since August 2023, and still at 5.25% at the time of this report), therefore a loan has only been secured for one year to allow for a potential decrease in interest rates at the end of 2024/25 and avoid locking the Council into a long-term loan with a high fixed rate of interest.

The latest forecast from the Council's Treasury Advisors (Link Treasury Services) is that the base rate will decrease down to 4% or lower in March 2025. Therefore, it is the Treasurys plan to renew this long-term borrowing at a lower rate in the future if there is still a requirement for borrowing.

Overall, the Council's borrowing requirement has increased by £2.7m at the financial year end. However, this extra borrowing was only required temporarily, mainly for a £2.075m repayment to central government for energy rebate grant money not issued. For comparison at the end of April 2024, the Council's short-term borrowing total was 1.7m showing that £5m of borrowing was only required to carry the Council's finance across the end of financial year. March is a high-pressure time on the cashflow at all Council's due to this being the last month to settle any outstanding bills with contractors/central government before the end of the financial year.

Table 8: Investment Portfolio

INVESTMENT PORTFOLIO	31.3.23 Actual £m	31.3.23 Actual % of Portfolio	31.3.24 Actual £m	31.3.24 Actual % of Portfolio
Treasury investments				
Money Market Funds	2.830	11%	2.010	9%
Total managed in house	**2.830**	**11%**	**2.010**	**9%**
Cash Plus Funds	0	0%	0	0%
Short-Dated Bond Funds	1.012	4%	0	0%
Strategic Bond Funds	5.000	20%	5.000	23%
Equity Income Funds	5.570	22%	4.000	18%
Property Funds	5.000	20%	5.000	23%
Multi-Asset Income Funds	6.000	23%	6.000	27%
Total managed externally (Pooled Funds)	**22.582**	**89%**	**20.000**	**91%**
TOTAL TREASURY INVESTMENTS	**25.412**	**100%**	**22.010**	**100%**

Non-Treasury investments				
LN0001 - Broadland Housing Association	2.154	92%	1.885	88%
LN0002 - Homes for Wells	0.178	8%	0.150	7%
LN0003 – Homes for Wells			0.042	2%
LN0004 – Homes for Wells			0.067	3%
TOTAL NON-TREASURY INVESTMENTS	**2.332**	**100%**	**2.144**	**100%**

Treasury investments	**25.412**	**92%**	**22.010**	**91%**
Non-Treasury investments	**2.332**	**8%**	**2.144**	**9%**
TOTAL OF ALL INVESTMENTS	**27.744**	**100%**	**24.154**	**100%**

The maturity structure of the investment portfolio was as follows:

Table 9: Maturity Structure of Investment Portfolio

COUNTERPARTY / INVESTMENT	Redemption Period	Investment Value 31.03.2023 (£m)
Aberdeen Standard / MMF	CALL	0.000
Blackrock / MMF	CALL	0.000
DWS / MMF	CALL	0.000
Federated Investors (UK) LLP / MMF	CALL	2.010
Goldman Sachs / MMF	CALL	0.000
Invesco AIM / MMF	CALL	0.000
CCLA (UK) Public Sector Deposit Fund / MMF	CALL	0.000
CCLA / Local Authorities Mutual Investment Trust	T + 6 months	5.000
M&G Securities / UK Income Distribution Fund	T + 3 days	2.000
Ninety-One / Diversified Income Fund	T + 3 days	3.000
Schroder Unit Trusts / Income Maximiser Fund	T + 4 days	2.000
Threadneedle / Strategic Bond Fund	T + 4 days	3.000
M&G Securities / Strategic Corporate Bond Fund	T + 3 days	2.000
Aegon Asset Management / Diversified Income Fund	T + 3 days	3.000
TOTAL		**22.010**

The Council has seven same day (on call) Money Market Fund (MMF) accounts which can be used to invest/redeem surplus cash around its daily cash requirements. For these MMF's there is no gain/loss on principal invested, they are secure but consequently provide a lower interest rate than alternative types of investment. Typically interest rates match the current Bank of England Monetary Policy Committee set base rate or are slightly below. The cash balances invested in these counterparties fluctuate daily between £0.5m and £20m, the above table shows the balances at the outturn position.

The Council finished the year with seven investments in Pooled funds. These are intended for long-term investing to generate a higher interest return that the Council MMF's. The principal invested in Pooled Funds is more at risk than with MMF's as they are subject to gains/loss on fair value (change in sale price). Pooled Fund investments are a purchase of shares previously by the Council.

The Council started the year with nine investments in Pooled Funds, two of which were sold on the 28th of February 2024 to reduce some of the Council's long-term borrowing cashflow requirement (total principle repaid of £3.191m). Selling these investments resulted with a net gain in value of £610k on the original amount of principle invested.

The Council has only invested in counterparties approved by its treasury advisors with thorough credit rating checks. All the Council's Pooled Fund investments are income funds, not accumulating funds.

The Council currently has four outstanding loans with Housing Associations (loans issued to support the provision of affordable housing in the district). These loans are agreed at the PWLB central government borrowing rate to ensure the Council is not funding private businesses at a cost to the authority.

To support the above investment portfolio, the below table summarises the interest earnt on the average amounts of the Council's investments during the last two financial years. The purpose of this table is to give members an idea of the rate of return on the Council's portfolio for each type of investment.

Table 10: Investment Interest

INVESTMENT INTEREST	31.3.23 Average Amount Invested £m	31.3.23 Interest Earnt £m	31.3.23 Average interest rate %	31.3.24 Average Amount Invested £m	31.3.24 Interest Earnt £m	31.3.24 Average interest rate %
Money Market Funds	7.427	0.136	1.84%	7.242	0.359	4.96%
Total managed in house	**7.427**	**0.136**	**1.84%**	**7.242**	**0.359**	**4.96%**
Cash Plus Funds	2.679	0.048	1.80%	0.00	0.00	0.00%
Short-Dated Bond Funds	2.831	0.045	1.61%	0.923	0.029	3.12%
Strategic Bond Funds	5.000	0.155	3.11%	5.000	0.195	3.70%
Equity Income Funds	7.794	0.371	4.76%	5.426	0.292	5.38%
Property Funds	5.000	0.267	5.34%	5.000	0.307	6.13%
Multi-Asset Income Funds	7.830	0.334	4.26%	6.000	0.301	4.62%
Total managed externally (Pooled Funds)	**31.134**	**1.220**	**3.92%**	**22.349**	**1.124**	**5.03%**
TOTAL TREASURY INVESTMENTS	**38.561**	**1.356**	**3.52%**	**29.591**	**1.483**	**5.01%**

Please note that for 31.3.24 figures, some pooled fund investments were sold in February 2024, so actual principal values differ from the average amounts invested.

Non-Treasury Investments	31.3.23 Actual Amount Invested £m	31.3.23 Interest Earnt £m	31.3.23 Average interest rate %	31.3.24 Actual Amount Invested £m	31.3.24 Interest Earnt £m	31.3.24 Average interest rate %
LN0001 - Broadland Housing Association	2.154	0.084	3.80%	1.885	0.080	3.80%
LN0002 - Homes for Wells	0.178	0.006	3.00%	0.150	0.005	3.00%
LN0003 – Homes for Wells	New			0.042	0.000	5.50%
LN0004 – Homes for Wells	New			0.067	0.000	5.50%
Total Loans	**2.332**	**0.090**	**3.75%**	**2.144**	**0.085**	**3.95%**

As per the table above, two new loans were issued to housing providers during the financial year. Both loans were to Homes for Wells to support their plans to purchase two properties to be used as affordable housing.

The Council currently only issues loans to Housing Providers as part of the Corporate Plan objective to provide affordable housing in North Norfolk, no other forms of loans have been issued. Consequently, the aim of these loans is not to provide a financial return to the Council. The interest rate of these loans is agreed at the central government PWLB rate. This is to ensure that the Council is not potentially borrowing money in the future to fund private businesses, we are not issuing loans that the Council would be paying borrowing interest on to fund.

Table 11: Average Interest Rates of all Investments

AVERAGE OF ALL INVESTMENTS	31.3.23 Average Amount Invested £m	31.3.23 Interest Earnt £m	31.3.23 Average interest rate %	31.3.24 Actual Amount Invested £m	31.3.24 Interest Earnt £m	31.3.24 Average interest rate %
Treasury Investments	38.561	1.356	3.52%	29.591	1.483	5.01%
Non-Treasury Investments	2.397	0.09	3.75%	2.144	0.085	3.95%
AVERAGE OF ALL INVESTMENTS	**40.959**	**1.446**	**3.53%**	**31.735**	**1.567**	**4.94%**

As shown above, interest rates in the 2023/24 financial year continued to increase from 2022/23. The MPC (Monetary Policy Committee) have increased interest rates consistently over the last two financial year to help control the rising inflation caused by the economic events that occurred in 2022/23 (mainly the Russia-Ukraine war).

By increasing interest rates this helped to prevent a hard recession in the country, by making interest rates more expensive, consumers and businesses are less likely to borrow funds they may not be able to repay. This causes spending to decrease and subsequently slows down inflation.

4. The Strategy for 2023/24

The Treasury strategy for managing the Council's interest rate risk in 2023/24 was to only take out required short-term borrowing and borrowing ahead of time where a favourable borrowing interest rate could be obtained. This is achieved by closely monitoring interest rates and maintaining a cash flow record to track precited cash shortfalls in daily operations.

When borrowing is forecasted to be undertaken, treasury advisor forecasted interest rates and MPC (Monetary Policy Committee) meeting dates were taken into consideration to identify if it was more beneficial to borrow at an earlier date to meet a future shortfall in cash (obtain borrowing at a reduced interest rate).

It was forecasted earlier in the financial year that the interest rate on the Council's treasury investments would exceed the rate of the agreed short-term borrowing (with previous forecasts if borrowed around the increased in the base rate (it was previously estimated that the base rate to reach 6% by December 2023 and continue into April 2024).

This did not occur, interest rates peaked in August 2023 at 5.25% and have remained at this level as at the time of writing this report (May 2024). The amended interest rate forecasts from the Council's Treasury Advisors now predict no further increases (a forecast which is reinforced by the now reduced rate of inflation which the government uses as a significant factor when considering base rate increases). The rate of 5.25% is forecasted to continue through the Summer of 2024, when it may then start to slowly decrease until an expected rate of 3.75% by March 2024 and then 3% by March 2025).

Because of this, extra interest on the Council's investments was not earned (although the Council did meet its interest income budget, total interest of £1.55m was earnt against a 1.53m budget). This means that there was no extra income available to offset the borrowing costs incurred during the 2023/24 financial year of which there was no budget for. Total borrowing costs for the fiscal year were £0.440m with the high interest rates.

The effective borrowing of the Council has been more difficult than in previous years. During the COVID period of 2021/22 and prior years interest rates and borrowing rates averaged 0.5% and never exceeded 1% even on long-term borrowing (1 year +). After this period, with the changes in the UK's political leadership and the Ukrainian-Russia war, inflation and interest rates increased monthly to the point where even treasury advisors were uncertain of future interest rate forecasts. This meant that although the Council had a regular borrowing portfolio of between £5m - £10m, interest rates incurred during each financial year were minimal.

As mentioned in section 3 above. In February 2024, the decision was made to reduce the Council's total long-term investment portfolio by redeeming two Pooled Fund investments. The original principle invested was £2.581m and a value of £3.191m was received, a total capital gain on the investments of £0.610m to the Council. It was ensured that a balanced portfolio remained afterwards to minimize the risk of realising capital losses on future investments.

By redeeming these long-term investments, the Council lowered its borrowing requirement at the end of the 2023/24 financial year and for the future. By re-diversifying the treasury portfolio, more cash is available for the daily operation of the business. Any future surpluses of cash will be invested in short-term investments to generate income. The income on the short-term investments will be less than the previous long-term investments (by approximately 1%) however the Council is in a position where it requires more liquidity in its portfolio, as opposed to its previous position of having a small amount of readily available cash and a significant proportion of long-term investments. This increased liquidity is to support the delivery of the Council's large capital programme where significant amounts of cash may be required outside of normal business operation.

The high amount of borrowing costs incurred during 2023/24 were caused by the unexpected fluctuation in interest rates, with such large jumps not seen for 27 years. To combat the fluctuation interest rates, the Council secured a £5m long-term loan with the PWLB (Central Government Public Works Loans Boards) in March 2024. This was a fixed rate loan secured at a rate of 5.39%, much lower than the current short-term borrowing rates in March 2024 which averaged 6.5%.

Therefore, by replacing £5m of short-term borrowing with £5m long-term borrowing the Council can reduce its risk from exposure to variable borrow interest rates.

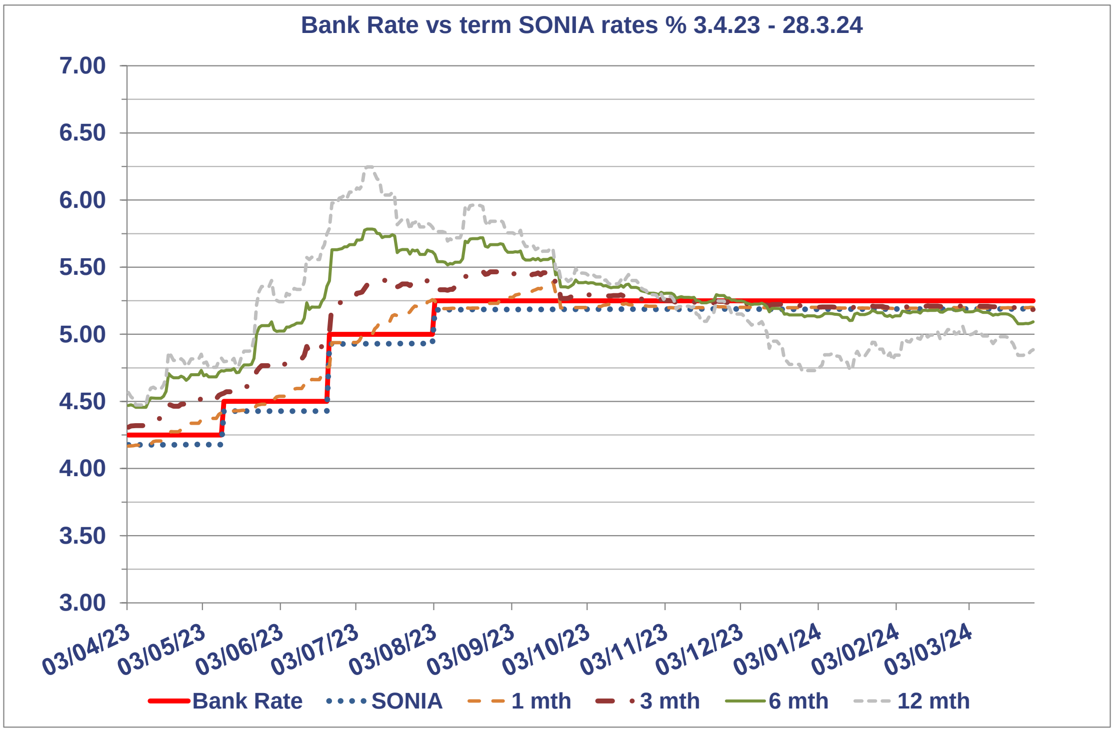
The loan will run from the 27th of March 2024 to the 28th of April 2025, a period of 397 days. From prior year Treasury cash flow and borrowing monitoring it was identified that there was a constant need for £5m extra cash throughout each year. Therefore, securing this fixed interest loan will give the Council a known borrowing interest cost for 2024/25 as opposed to an unknown fluctuating balance. The total amount of borrowing cost to the Council for this PWLB loan will be £293,062.84, with £3,690.97 incurred in 2023/24, £270,178.84 to be incurred in 2024/25 and the final amount of £22,884 to be incurred in 2025/26.

There will still be some degree of fluctuation where any extra borrowing is required on top of the £5m sum, however this need is temporary. It is forecasted that any future short-term borrowing will only need to be secured for several days/weeks instead of months (as previously agreed). Extra borrowing costs outside of the PWLB loan will be incurred on a minimal basis without reducing the Council's ability to operate.

This loan has only been secured for one year to allow take advantage of the forecast reduction in interest rates at the end of 2024/25 and avoid locking the Council into a very long-term high interest rate loan where a cheaper opportunity may be available. The Council's cash flow position will be reviewed again in April 2025 and a new PWLB loan will be considered if required.

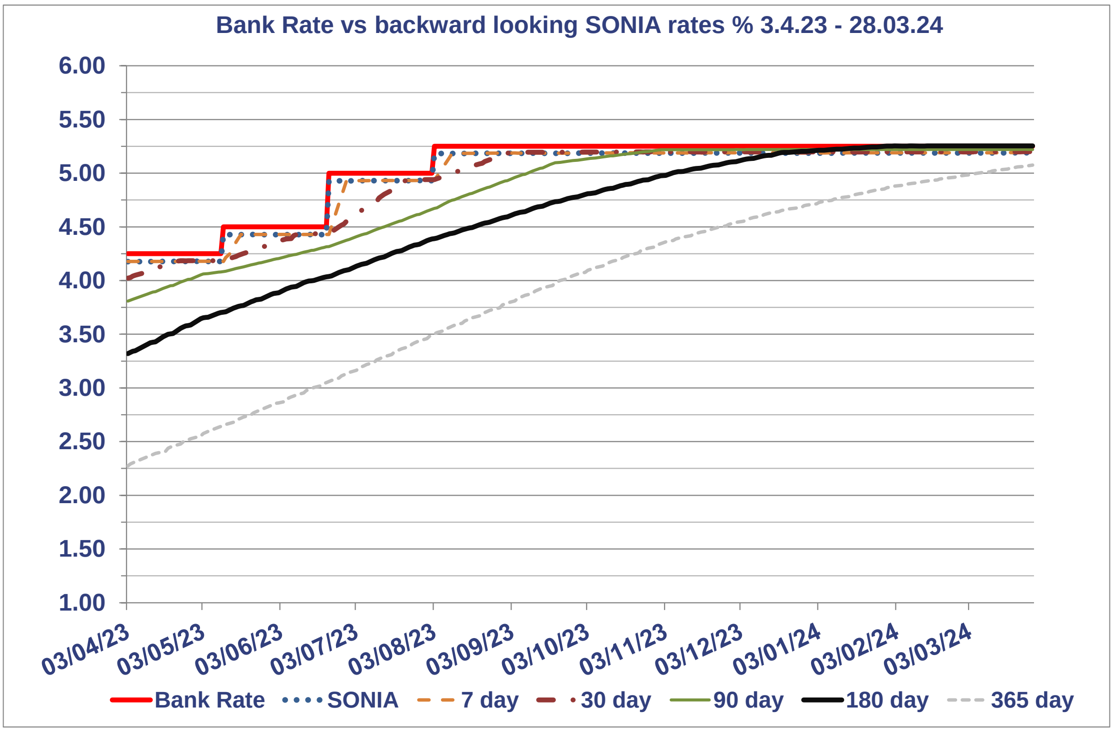
4.1 Investment strategy and control of interest rate risk

Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2023/24



FINANCIAL YEAR TO QUARTER ENDED 28/03/2024						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	28/03/2024	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	5.03	4.96	5.02	5.13	5.23	5.25
Spread	1.00	1.01	1.22	1.17	1.33	1.77

Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2023/24



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

4.2 Borrowing strategy and control of interest rate risk

During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as 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. The Council has sought to minimise the taking on of very long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- It had been felt that there was a significant risk of a much sharper rise in long and short-term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, the portfolio position would have been re-appraised and outlined in section 4. Fixed rate funding was agreed to reduce the Council's exposure to variable interest costs during a period of rapidly increasing rates.

Interest rate forecasts initially suggested further gradual rises in short, medium, and longer-term fixed borrowing rates during 2023/24, potentially reaching 6%. However, the Bank Rate is now expected to have peaked at 5.25% with no further increases in future years.

By January 24 it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to central forecasts, mainly in the form of a very tight labour market putting upward pressure on wages and the continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.

Forecasts at the time of approval of the treasury management strategy report for 2023/24 were as follows: -

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

To see how the interest rate forecasts changed during 2023/24, these are the forecast tables after the 2023/24 treasury management strategy was agreed:

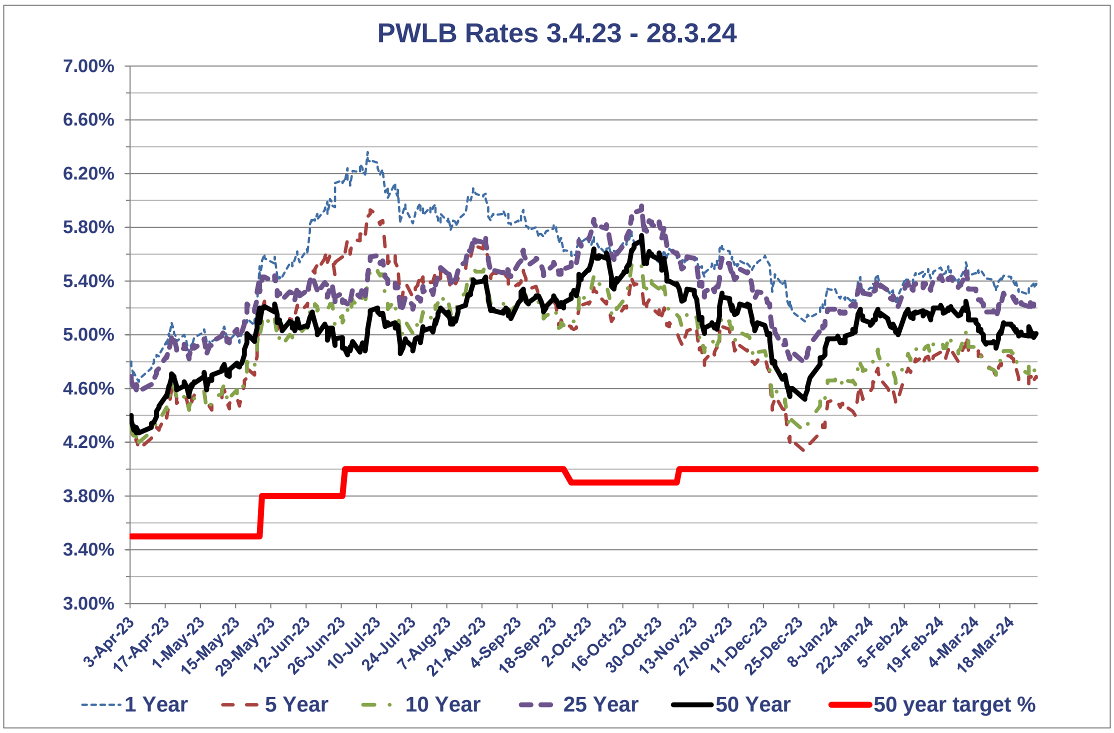
Link Group Interest Rate View	24.05.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

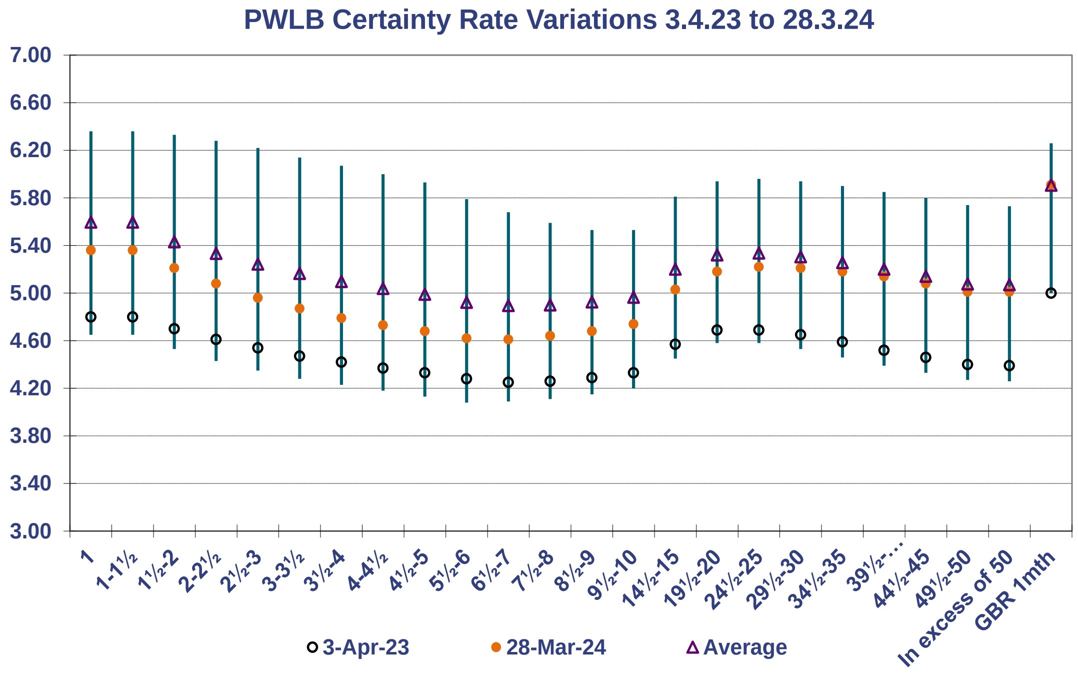
Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

Link Group Interest Rate View	06.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

PWLB RATES 2023/24





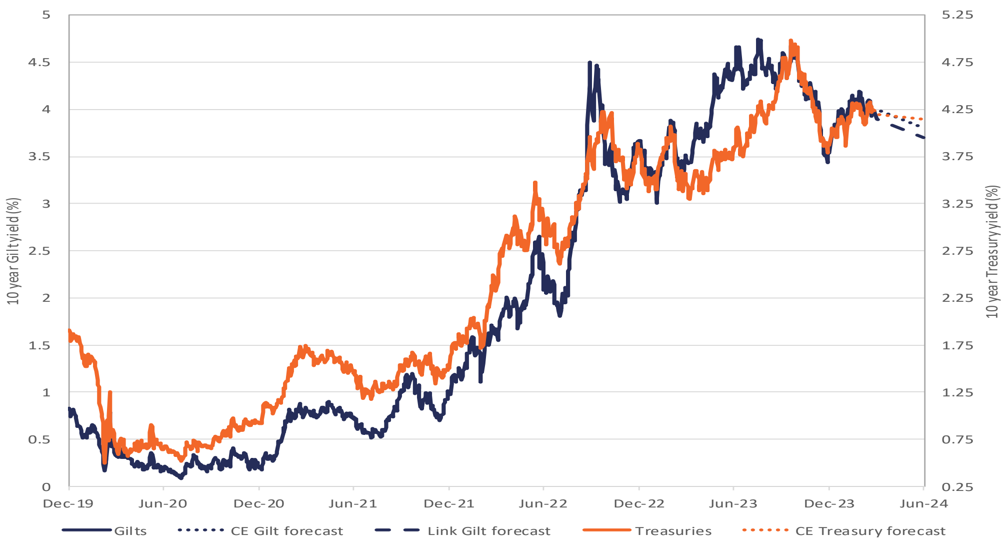
HIGH/LOW/AVERAGE PWLB RATES FOR 2023/24

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.54%	4.99%	4.97%	5.34%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

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: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bonds yield up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

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. Rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Graph of 10-year UK gilt yields v. US treasury yields (inclusive of Link's and Capital Economics' forecasts)



Gilt yields have generally 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%.

At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target.

5. Borrowing Outturn

Treasury Borrowing - The following is record of all short-term borrowing undertook by the Council in 2023/24 that was a revenue expense to the Council.

Table 12: Short-term borrowing

Lender	Principal £m	Interest Rate Type	Interest Rate %	Maturity days	Interest payable in 2023/24 (£)
Fermanagh and Omagh District Council	2.000	Fixed	3.55	182	2,723.29
Cambridgeshire & Peterborough Combined Authority	5.000	Fixed	4.50	92	42,534.25
Police & Crime Commissioner for Avon and Somerset	2.000	Fixed	4.55	85	15,457.53
Dumfries and Galloway Council	5.000	Fixed	4.5	184	113,424.66
Cambridgeshire & Peterborough Combined Authority	5.000	Fixed	4.55	183	114,604.64
Rotherham Metropolitan Borough Council	2.000	Fixed	5.38	25	7,369.86
Cambridgeshire & Peterborough Combined Authority	5.000	Fixed	5.55	139	87,431.51
Middlesbrough Borough Council Pension Fund	2.000	Fixed	5.40	37	10,947.95
Middlesbrough Borough Council Pension Fund	4.000	Fixed	5.25	32	18,410.96
Middlesbrough Borough Council Pension Fund	2.000	Fixed	6.05	29	9,613.70
Middlesbrough Borough Council Pension Fund	1.000	Fixed	5.25	37	5,321.92
Middlesbrough Borough Council Pension Fund	1.700	Fixed	6.5	50	3,935.62
Causeway Coast and Glens Borough Council	2.000	Fixed	6.5	8	2,849.32
Total					434,082.21

Borrowing for capital projects - The following is record of all short-term borrowing undertook by the Council in 2023/24 that was a capital expense to the Council (borrowed to support a temporary funding shortfall in a capital scheme funded outside of Council resources, e.g. funded by grant or external contributions).

Lender	Principal £m	Interest Rate Type	Interest Rate %	Maturity days	Interest payable in 2023/24 (£)
Halton, Knowsley, Liverpool, St Helens, Sefton, and Wirral City Region Combined Authority	3.000	Fixed	5.55	63	28,738.36

Key:
Light Gray = borrowing started in prior financial year (2022/23).
White = Borrowing start and finished in current financial year (2023/24).
Dark Gray = Borrowing started but not finished until following financial year (2024/25).

There was a nil forecast requirement for borrowing or associated interest costs for 2023/24.

Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

The Council did borrow in advance of need for a period of up to a week, when borrowing rates were forecasted to increase at subsequent MPC (Monetary Policy Committee) meeting dates, where a meeting was set to occur days before the Council's borrowing need. This was only done at points where it was considered optimal to do so to finance expenditure which would be incurred within the timeframe of the forward approved Capital Financing Requirement estimates. In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

6. Investment Outturn

Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved at Full Council. 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 that were not managed by treasury operations.

Investments held by the Council.

- The Council maintained an average balance of £31.735 of internally managed funds over the 2023/24 financial year.
- The internally managed funds earned an average rate of return of 4.94%.
- The comparable performance indicator is the average overnight (O/N) SONIA rate, which was 4.96% please see table below). Therefore, the Council was near on target.
- This compares with a budget assumption of £34.191 investment balances earning an average rate of 4.48%.
- Total investment income was £1.567m compared to a budget of £1.533m, a favourable variance of £34k.

Returns:	%
O/N SONIA	4.9601
O/N SONIA Compounded	5.0991
1m fwd SONIA	5.0143
1m fwd SONIA Compounded	5.0899
3m fwd SONIA	5.1246
3m fwd SONIA Compounded	5.1113
6m fwd SONIA	5.2288
6m fwd SONIA Compounded	4.9885
7d back SONIA	4.9617
7d backward SONIA Compounded	5.0077
30d backward SONIA	4.9318
30d backward SONIA Compounded	5.0032
90d backward SONIA	4.8408
90d backward SONIA Compounded	4.7358
180d backward SONIA	4.6352
180d backward SONIA Compounded	4.0944
365d backward SONIA	3.9317
365d backward SONIA Compounded	2.2740

7. 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.

	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.

USA 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.

8. Other Issues

1. IFRS 9 fair value of investments

English authorities: Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [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 throughout the duration of the override for the Government to keep the override under review and to maintain a form of transparency.

As at the end of 2023/24, the Council has an unrealised capital loss of £320,063 on the fair value on its long-term (Pooled Fund) investments. This will need to be considered in the future as a reserve balance will need to be allocated for any future net capital loss from the 2025/26 financial year unless a further statutory override is actioned by central government.

2. Changes in risk appetite

The Treasury has not changed its risk appetite during the 2023/24 year. The focus of the treasury is to safeguard taxpayers' money by investing in low-risk counterparties and maintaining a diverse portfolio, and then secondly to generate a return on investments. Borrowing was at the lowest rates available.

3. Counterparty limits

The counterparty limits changed at the end of the 2023/24, effective the 1st of April 2024. This is to reflect a lower total investment portfolio held by the Council, and to ensure diversification across the investment portfolio to minimize risk. These limits are in the Treasury Strategy 2024/25.