FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 December 2024

Report of the Director of Finance

Treasury Management Annual Report 2023-24

1. Purpose

1.1 To provide Members with details of Treasury Management activities during 2023-24 and to indicate the Council's compliance with the prudential indicators set by Council at its meeting of 15 February 2023, in accordance with the Chartered Institute of Public Finance and Accountancy's "*Treasury Management in the Public Services: Code of Practice 2021 Edition"* (the CIPFA Code).

2. Information and Analysis

Introduction

2.1 The Council's Treasury Management Strategy for 2023-24 was approved at the Council Meeting of 15 February 2023 as part of the Capital Programme Approvals, Treasury Management and Capital Strategies for 2023-24 Report. 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.

2.2 Treasury risk management at the Council is conducted within the framework of the CIPFA Code, which requires the Council to approve a treasury management strategy before the start of each financial year and a semi-annual and annual treasury outturn report, with quarterly reporting of the treasury management prudential indicators. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code by producing an annual treasury outturn report.

External Context

Economic background

2.3 The UK inflation rate continued to fall in 2023-24. The headline Consumer Price Inflation rate (CPI) fell from 8.7% in April 2023 to 3.2% in March 2024 but was still above the Bank of England's (BoE) 2% target.

2.4 The UK economy entered a technical recession in the second half of 2023, with quarterly growth rates of -0.1% and -0.3%. Over the 2023 calendar year Gross Domestic Product (GDP) increased by only 0.1%. However, there was a rebound in activity in the quarter to March 2024, with the economy expanding by 0.6%. The data suggests that prior increases in interest rates and higher price levels are depressing growth, and that this will continue to impact on inflation throughout 2024.

2.5 The UK unemployment rate increased to 4.3% in the quarter to March 2024. Pay growth was 6.0% for regular pay and 2.8% in real terms, after adjusting for inflation.

2.6 The BoE's official Bank Rate peaked at 5.25% in August 2023, from 4.25% in April 2023, and remained at this rate for the rest of 2023-24. The UK economy appeared resilient, despite higher inflation and interest rates. The interest rate expectations of financial markets are downwards and the BoE made the first cut, to 5.00%, in August 2024. The Monetary Policy Committee's (MPC) focus remains on assessing how long interest rates will need to be restrictive in order to control inflation over the medium term.

2.7 The US Federal Reserve also increased rates in 2023-24, reaching a peak range of between 5.25-5.50% in August 2023, which remained unchanged to March 2024. The US Federal Reserve had cut rates to a range of 4.75-5.00% by September 2024.

2.8 The European Central Bank (ECB) similarly increased rates to historically high levels over period, pushing its main refinancing rate to 4.5% in September 2023, which remained unchanged to March 2024. The ECB had cut its rate to 3.65% by September 2024.

Financial markets

2.9 Sentiment in financial markets remained uncertain and bond yields continued to be volatile over 2023-24. During the first half of 2023-24, yields rose as interest rates continued to be pushed up in response to rising inflation. From October 2023 they started declining again, before falling sharply in December 2023, as falling inflation and the attitudes of central banks caused financial markets to expect cuts in interest rates in 2024. When it emerged in January 2024 that inflation was less likely to change than expected and that the BoE and the Federal Reserve were waiting for supportive data and were not inclined to cut rates soon, yields rose once again, ending 2023-24 some 50+ bps higher than when it started.

2.10 Over 2023-24, the 10-year UK benchmark gilt yield rose from 3.44% at the start, to peak at 4.75% in August 2023, before then dropping to 3.44% in late December 2023 and rising again to 3.92% in March 2024. The Sterling Overnight Rate (SONIA) averaged 4.96% over the period.

Credit background

2.11 Credit default swap (CDS) prices began the financial year at elevated levels following the fallout from the collapse of Silicon Valley Bank in March 2023 and the collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023. 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. The institutions and durations on the Council's counterparty list, recommended by the Council's Treasury Management Advisor, remain under constant review.

2.12 Local Authorities remained under financial pressure in 2023-24. The Council's Treasury Management Advisor continued to take a positive view of the sector during 2023-24 and considered its credit strength to be high. Although further Section 114 notices were issued during 2023-24, these were due to specific issues. They continued to advise lending to Authorities (except for seven specified Local Authorities).

Local Context

2.13 On 31 March 2024, the Council had net borrowing of £214.916 4.m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.24 Actual £m
General Fund CFR	662.087
Less: Other debt liabilities*	-49.938
Borrowing CFR	**612.149**
Less: Usable reserves	-363.944
Less: Working capital	-33.289
Net borrowing requirement	**214.916**
Borrowing CFR is comprised:	
External borrowing	402.674
Internal borrowing	209.475
	612.149

** Finance leases, PFI liabilities and transferred debt that form part of the Council's total debt.*

2.14 The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position at 31 March 2024 and the change during the year are shown in Table 2 below.

Table 2: Treasury Management Summary (Treasury Investments)

	31.3.23 Balance £m	New £m	Repaid £m	Change in Market Value £m	Movement £m	31.3.24 Balance £m	31.3.24 Rate %
Long-term borrowing	265.579	10.000	-11.405	0	1.405	264.174	4.40
Short-term borrowing	224.500	204.000	-290.000	0	-86.000	138.500	4.70
Total borrowing	**490.079**	**214.000**	**-301.405**	**0.000**	**-87.405**	**402.674**	**4.52**
Long-term strategic pooled funds **	63.968	0	0	0.490	0.490	64.458	5.74
Long-term investments*	10.000	0	-10.000	0	-10.000	0	n/a
Short-term investments	238.004	192.553	-381.557	0	-189.004	49.000	3.16
Cash and cash equivalents#	66.086	555.578	-547.364	0	8.214	74.300	5.14
Total investments	**378.058**	**748.131**	**-938.921**	**0.490**	**-190.300**	**187.758**	**4.90**
Net borrowing	**112.021**	**-534.131**	**637.516**	**-0.490**	**102.895**	**214.916**	

**Excludes Non-Treasury Loans. ** Fair Values*
#Includes East Midlands Combined County Authority (EMCCA) balances (£4.782m at 31 March 2023 and £30.223m at 31 March 2024)

Borrowing Activity

2.15 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

2.16 The Council held £64.458m in externally managed pooled funds at 31 March 2024, which are now classed as commercial investments. These were purchased prior to the change in the CIPFA Prudential Code when strategic pooled funds were re-categorised as commercial investments. Before undertaking further additional borrowing the Council will review the options for exiting these investments. Further detail on the Council's pooled funds is given at paragraphs 2.37 to 2.44.

2.17 At 31 March 2024, the Council held £402.674m of loans, a decrease of £87.405m from 31 March 2023, as part of its strategy for funding previous and current years' capital programmes. The year-end external borrowing position and the year-on-year change is shown in Table 3.1.

Table 3.1: External Borrowing Position

	31.3.23 Balance £m	New £m	Repaid £m	Movement £m	31.3.24 Balance £m	31.3.24 Interest Rate %	31.3.24 WAM* Years
Public Works Loan Board	250.579	0	-6.405	-6.405	244.174	4.37	15
Banks (LOBO)	5.000	0	-5.000	-5.000	0	n/a	n/a
Banks (fixed-term)	10.000	0	0	0	10.000	4.69	20
Local authorities (long-term)	0	10.000	0	10.000	10.000	4.85	2
Local authorities (short-term)	224.500	204.000	-290.000	-86.000	138.500	4.75	1
External Borrowing	**490.079**	**214.000**	**-301.405**	**-87.405**	**402.674**	**4.52**	**14**

**WAM – Weighted Average Maturity*

2.18 As outlined in the Council’s Treasury Management Strategy for 2023-24, the Council’s chief objective when borrowing was to strike an appropriately low risk balance between securing lower 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.

2.19 The Council’s borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Council continued to use internal resources or borrowed rolling temporary/short-term loans in 2023-24. The net movement in temporary/short-term loans is shown in Table 3.1.

2.20 The Council has an increasing CFR because of its capital programme. The estimated borrowing requirement is determined by a Liability Benchmark, which also takes into account usable reserves and working capital.

2.21 There have been substantial increases in interest rates over the last two years, although in 2023-24 these began to level out. Gilt yields remained volatile in 2023-24.

2.22 On 31 March 2024 , PWLB certainty rates for maturity loans were 4.94% % for 10-year loans, 5.36% for 20-year loans and 5.21% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.

2.23 The cost of short-term borrowing from other Local Authorities (LA) has generally risen with Base Rate over 2023-24. LA to LA interest rates peaked at around 8% towards the later part of March 2024, as many authorities required cash at the same time. This spike in LA to LA lending interest rates soon normalised in April 2024.

2.24 The Council’s Treasury Management Advisors expect that interest rates will fall in the medium-term, therefore it is the Council’s strategy to finance the Council’s borrowing, be it at higher rates, in the short-term, before ‘locking in’ to longer-term borrowing once rates are more favourable.

2.25 The Council’s short-term borrowing cost has continued to increase with the rise in BoE official Bank Rate and short-dated market rates. The average rate on the Council’s short-term loans at 31 March 2024 of £138.500m was 4.75%, compared with £224.005m at 2.23% 12 months ago.

2.26 The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained. Table 3.2 below show the Council's external long-dated loans borrowed from other local authorities.

Table 3.2: External Long-dated Loans Borrowed From Other Local Authorities

	Amount £m	**Rate %**	**Period (Years)**
Oxfordshire	5.000	4.90	2
Oxfordshire	5.000	4.80	3
Total borrowing	**10.000**	**4.85**	**3**

2.27 Forward starting loans: To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Council arranged £45.000m of forward starting loans with details of which are shown in Table 3.3 below.

Table 3.3: External Forward Starting Loans

	Amount £m	**Rate %**	**Loan Period (Years)**	**Forward Period (Months)**
Warwickshire	10.000	5.60	1	8
West Midlands Combined	10.000	5.70	1	8
West Midlands Combined	10.000	5.85	1	8
Crawley	5.000	5.57	1	10
West of England Combined	10.000	5.15	1	4
Total borrowing	**45.000**	**5.57**	**1**	**8**

2.28 The Council repaid a £5.000m LOBO (Lender's Option Borrower's Option) loan during 2023-24. The lender proposed an increased interest rate under their option which triggered the Council's option to repay the loan at no additional cost.

Other Debt Activity

2.29 After £5.240m repayment of prior years' Private Finance Initiative / finance leases/transferred debt liabilities, total debt other than borrowing stood at £49.938m on 31 March 2024, taking total debt to £452.612m.

Treasury Investment Activity

2.30 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

2.31 The Council's holding of invested funds, representing income received in advance of expenditure plus balances and reserves, was significantly reduced during 2023-24. The Council's investment balances ranged between £186.225m and £481.187m because of timing differences between income and expenditure. The year-end investment position is shown in Table 4.

Table 4: Investment Position (Treasury Investments)

	31.3.23 Balance £m	New £m	Repaid £m	Change in Market Value £m	Movement £m	31.3.24 Balance £m	31.3.24 Income Return %	31.3.24 WAM* days
Money Market Funds	0	385.000	-355.000	0	30.000	30.000	5.28	1
Banks and building societies (unsecured)	85.590	11.714	-53.004	0	-41.290	44.300	5.03	1
Government (including local authorities)	218.500	341.417	-510.917	0	-169.500	49.000	2.57	20
Registered Social Providers	10.000	0	-10.000	0	-10.000	0	n/a	n/a
Pooled Funds –Strategic Bond Funds	4.436	0	0	0.237	0.237	4.673	4.76	n/a
Pooled Funds –Equity Income Funds	14.520	0	0	0.470	0.470	14.990	8.55	n/a
Pooled Funds –Property Funds	22.657	0	0	-0.884	-0.884	21.773	5.16	n/a
Pooled Funds – Multi Asset Income Funds	22.355	0	0	0.667	0.667	23.022	4.72	n/a
Total Investments	**378.058**	**738.131**	**-928.921**	**0.490**	**-190.300**	**187.758**	**4.90**	**8**

**WAM - Weighted average maturity applies to the first three categories above.*

2.32 Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

2.33 As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds was maintained in 2023-24 to diversify risk into different asset classes and boost investment income.

2.34 The BoE official Bank Rate increased by 1% in 2023-24, from 4.25% at the beginning of April 2023 to 5.25% by the end of March 2024.

2.35 Given the risk of short-term unsecured bank investments, the Council maintained its diversification into more secure and/or higher yielding asset classes as shown in Table 4. The Council previously identified £70.000m of funds available for longer-term investment and invested in pooled property/bond/equity/multi-asset funds. In 2023-24, the Council has maintained this sum invested although is considering some divestment at the right time.

2.36 The progression of credit risk and return metrics for the Council's investments managed in-house are shown in benchmarking extracts from the Council's Treasury Management Advisor, in Table 5.

<u>Table 5: Investment Benchmarking – Treasury Investments Managed In-House</u>

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Total Return %**
Derbyshire - 31.03.2024	5.18	A+	60%	9	4.90
Similar Local Authorities	4.67	A+	53%	2,708	4.70
All Local Authorities	4.82	A+	61%	9	5.03

Externally Managed Pooled Funds

2.37 At 31 March 2024, the value of the Council's investments in externally managed pooled strategic bond, equity, property and multi-asset funds amounted to £64.458m (£70.000m nominal value). The value of these investments at 31 March 2023 was £63.968m. The Council holds these funds with the aim of receiving regular revenue income and because over the long-term their prices are relatively stable, although short-term prices are less stable. Holding these pooled funds allows the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments.

2.38 The change in the Council's funds' capital values and % income return during 2023-24 is shown in Table 4. These funds generated a total return of £3.844m in 2023-24, comprising a £3.354m income return (shown as a % Income Return for each pooled fund in Table 4), which was used to support services in 2023-24, and a £0.490m unrealised capital gain, which is the movement in the market value of these investments from the start to the end of the year. Income returns were 5.20% against a budget of 4.42%. Paragraphs 2.39 to 2.42 consider the market movements which impacted on the value of these externally managed pooled strategic bond, equity, property and multi-asset funds and resulted in an unrealised capital gain for 2023-24. Paragraphs 2.43 to 2.45 consider the Council's holding in these pooled funds and highlights that in years where there have been fund capital losses (not 2023-24, when there was a capital gain), these did not impact on the Council's General Reserve position because of current statutory accounting arrangements which are in place. These arrangements are due to come to an end from 1 April 2025. Any unrealised capital losses compared to the £70.000m total nominal value of these funds will first impact on the Council's General Reserve position on 31 March 2026. To plan for this, the Council previously transferred revenue savings to an investment losses contingency earmarked reserve. This reserve balance was £2.500m at 31 March 2024. Corresponding total unrealised capital losses at that date were £5.542m (value of £64.458m against a nominal value of £70.000m).

2.39 Bond markets experienced significant volatility in 2023-24. Adjusting to central banks' intention of keeping policy rates unchanged amid persistently higher core inflation, tight labour markets and resilient growth, global bond yields rose, meaning bond prices fell. The August to October 2023 period was a particularly weak one for bond markets, with falling prices negatively impacting on credit market sentiment and bond fund performance, as well as decreasing multi-asset (pooled) fund returns. November and December 2023 saw a turnaround, with a significant fall in US and global bond yields, meaning bond prices increased. The catalyst for this was a signal from the US Federal Reserve that it was prepared to cut rates in 2024. The 10-year UK gilt yield, which had increased nearly 1.25% since the beginning of 2023-24, fell back to 3.44% by the end of December 2023, close to its 1 April 2023 level. Thereafter, the quarter to March 2024 proved more difficult for Government bonds, as stubborn inflation led fixed income markets to question if the expectation of the number of rate cuts over 2024 and the accompanying fall in yields had been greater than was required.

2.40 Equities, by contrast, were buoyed by healthy corporate earnings, resilient economic data, moderating inflation and the view that central banks had reached the peak of their rate tightening cycles. Several stock market indices posted record highs, driven by AI expectations. and tech-related growth stocks (these securities do not heavily feature in equity income pooled funds). After an initial period of caution due to the likelihood of recession, the UK economy fared better than anticipated. A shallow recession, falling inflation and improved consumer confidence provided support for UK equities, with stocks trading at attractive valuations relative to their global peers. The UK FTSE All-Share was one of the top performing stock markets in September and December 2023. The total return on the FTSE All-Share index for the year ended March 2024 was 8.2%.

2.41 Property markets for commercial property improved marginally in 2023 and were more stable, in contrast to the very challenging backdrop of 2022. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from hybrid working practices.

2.42 The combination of the above factors set out in paragraphs 2.39 to 2.41 had a marginal effect (+0.77%) on the combined value of the Council's strategic funds from the start of the period in April 2023 to March 2024.

2.43 Although these funds have no defined maturity date, cash is available for withdrawal after a short notice period (except for the Property Fund which is a minimum of 6 months' notice). The performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns should exceed cash interest rates. Table 6 below summarises the current value of each investment, alongside the cumulative income since the date of the investment.

Table 6: Externally Managed Pooled Funds by Investment at 31 March 2024

Fund	**Investment £m**	**Investment Date**	**Current Value £m**	**Income Received £m**
Aegon – Diversified Income Fund	10.000	20/09/2018	9.335	2.806
CCLA - LA Property Fund	25.000	30/06/2015	21.773	6.947
CCLA – Better World Cautious Fund	5.000	12/09/2017	4.904	1.005
M&G – Optimal Income Fund	5.000	25/05/2018	4.673	0.970
M&G – Global Dividend Fund	5.000	25/05/2018	6.842	1.106
Ninety One - Diversified Income Fund	10.000	27/11/2017	8.783	2.394
Schroder – Income Maximiser Fund	10.000	12/06/2018	8.148	3.300
TOTAL	**70.000**		**64.458**	**18.528**

Capital Loss	**-£5.542m**
Total Return	**£12.986m**

2.44 In light of their performance over the medium-term, investment in these funds has been maintained. The Council is using the alternative fair value through profit and loss (FVPL) accounting method to account for them, which means that if there are any long term unrealised losses in the funds' fair values there will not be an immediate impact on the Council's General Reserve balance. The first impact would be in 2025-26. The Council is consulting its Treasury Management Advisor on the implications for its investment strategy and what action may need to be taken.

2.45 The Council has transferred revenue savings to an investment losses contingency earmarked reserve to manage future volatility. This reserve was £2.500m at 31 March 2024. Corresponding unrealised capital losses at that date were £5.542m (value of £64.458m against a nominal value of £70.000m).

2023-24 Net Investment Income

2.46 Overall, during 2023-24, the Council generated £5.559m of net investment income from its investments (£14.892m investment income less £9.333m short-term borrowing costs) against a budget of £4.663m. This includes £2.303m of interest costs relating to the increased need to borrow because of the Derby and Derbyshire Waste Treatment Centre legal settlement in July 2023.

Other Non-Treasury Holdings and Activity

2.47 The definition of investments in CIPFA's Treasury Management Code covers all the financial assets of the Council, as well as other non-financial assets which the Council 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 (made explicitly to further service objectives), or for commercial purposes (made primarily for financial return). Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return. At 31 March 2024, the Council held £14.442m of such investments.

2.48 Of the total balance of £14.442m of the Council's other non-treasury holdings at 31 March 2024, £13.996m is in respect of a regeneration loan to a local business/landlord, Buxton Crescent Hotel Ltd.

2.49 The other loan of £0.446m is to Chesterfield Football Club Community Trust. The loan was agreed to continue their sports and community programmes with schools and community groups in the greater Chesterfield area. Capital repayments commenced in July 2023.

Treasury Performance

2.50 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in Table 7.

Table 7: Performance

	Actual 2023-24 £m	Budget (CFR) £m	Over/ (Under) £m	Interest Actual %	Interest Other LA (Counties) Benchmark %	Interest Over/ (Under) %
Interest paid on long-term and short-term borrowing	22.805	16.258	6.547	4.52	No data held	N/A
Interest received on treasury investments	15.589	4.663	10.926	4.90	4.70	0.20

Consultations

2.51 In December 2023, DLUHC published two consultations: a 'final' consultation on proposed changes to regulations and statutory guidance on MRP, closing on 16 February 2024 and a 'call for views' on capital measures to improve sector stability and efficiency, closing on 31 January 2024. Draft regulations and draft statutory guidance were included in the MRP consultation. The proposals remained broadly the same as those in June 2022 – to limit the scope for authorities to make no MRP on parts of the Capital Financing Requirement (CFR) and to use capital receipts instead of a revenue charge for MRP. In its call for views on capital measures, Government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage 'invest-to-save' activity and to manage budget pressures without seeking exceptional financial support. Whilst Government has identified some options, including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward.

Compliance Report

2.52 The Director of Finance reports that all treasury management activities undertaken during 2023-24 complied fully with the principles of the Treasury Management Code and the Council's approved Treasury Management Strategy.

2.53 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 8 and compliance with specific investment limits is demonstrated in Table 9.

Table 8: Debt Limits

	2023-24 Maximum £m	31 March 2024 Actual £m	2023-24 Operational Boundary £m	2023-24 Authorised Limit £m	Complied
Total debt	538.674	402.674	776.000	813.000	✓

Table 9: Investment Limits

	2023-24 Maximum * £m	2023-24 Limit £m	March 2024 Actual £m	Complied
Any single organisation, except UK Government and Main Bank	30.000	30.000	22.115	✓
Main Bank (Lloyds)	59.134	60.000	43.300	✓
Any group of organisations under the same ownership	30.000	30.000	10.000	✓
Any group of pooled funds under the same management	30.000 nominal	30.000 nominal	22.115 nominal	✓
Registered providers and registered social landlords	10.000 individual 10.000 total	10.000 individual 50.000 total	0 individual 0 total	✓
Negotiable instruments held in a broker's nominee account	43.379	100.000 per broker	0	✓
Limit per country (ex UK)	23.004	30.000 each	0	✓

Maximum held at any one time.

Treasury Management Prudential Indicators

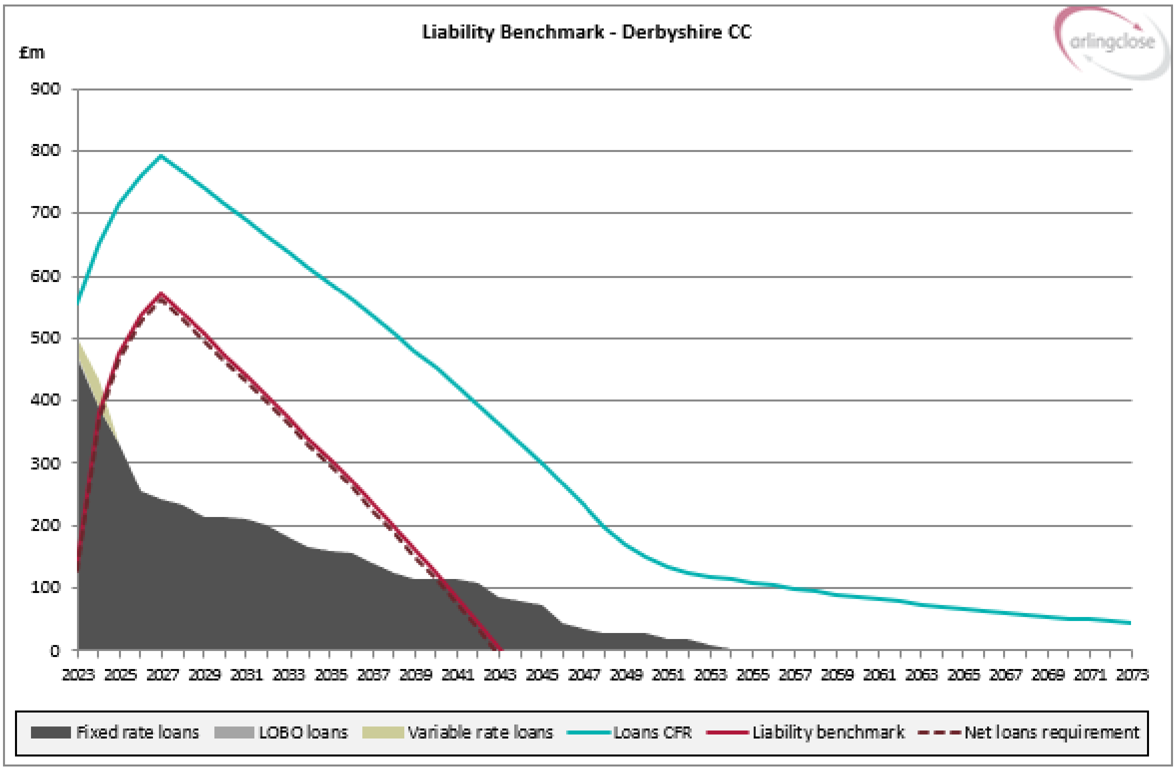
2.54 As required by the 2021 CIPFA Treasury Management Code, the Council monitors, measures and manages its exposure to treasury management risks using the following treasury management prudential indicators.

2.55 **Liability Benchmark:** This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

Table 10 – Liability Benchmark

	31.3.23 Actual	**31.3.24 Actual**	**31.3.25 Forecast**	**31.3.26 Forecast**	**31.3.27 Forecast**
Loans CFR	539.097	612.149	685.710	676.570	734.530
Less: Balance sheet resources	-427.739	-397.233	-278.492	-262.807	-260.158
Net loans requirement	**111.358**	**214.916**	**407.218**	**413.763**	**474.372**
Plus: Liquidity allowance	10.000	10.000	10.000	10.000	10.000
Liability benchmark	**121.358**	**224.916**	**417.218**	**423.763**	**484.372**
Existing/ forecast borrowing	**490.079**	**402.674**	**401.429**	**261.429**	**242.736**

2.56 Following on from the medium-term forecast above, the long-term liability benchmark demonstrates the additional borrowing requirement to fund the forecast Loans CFR. This is shown in the chart below together with the maturity profile of the Council's existing borrowing (Table 11).



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

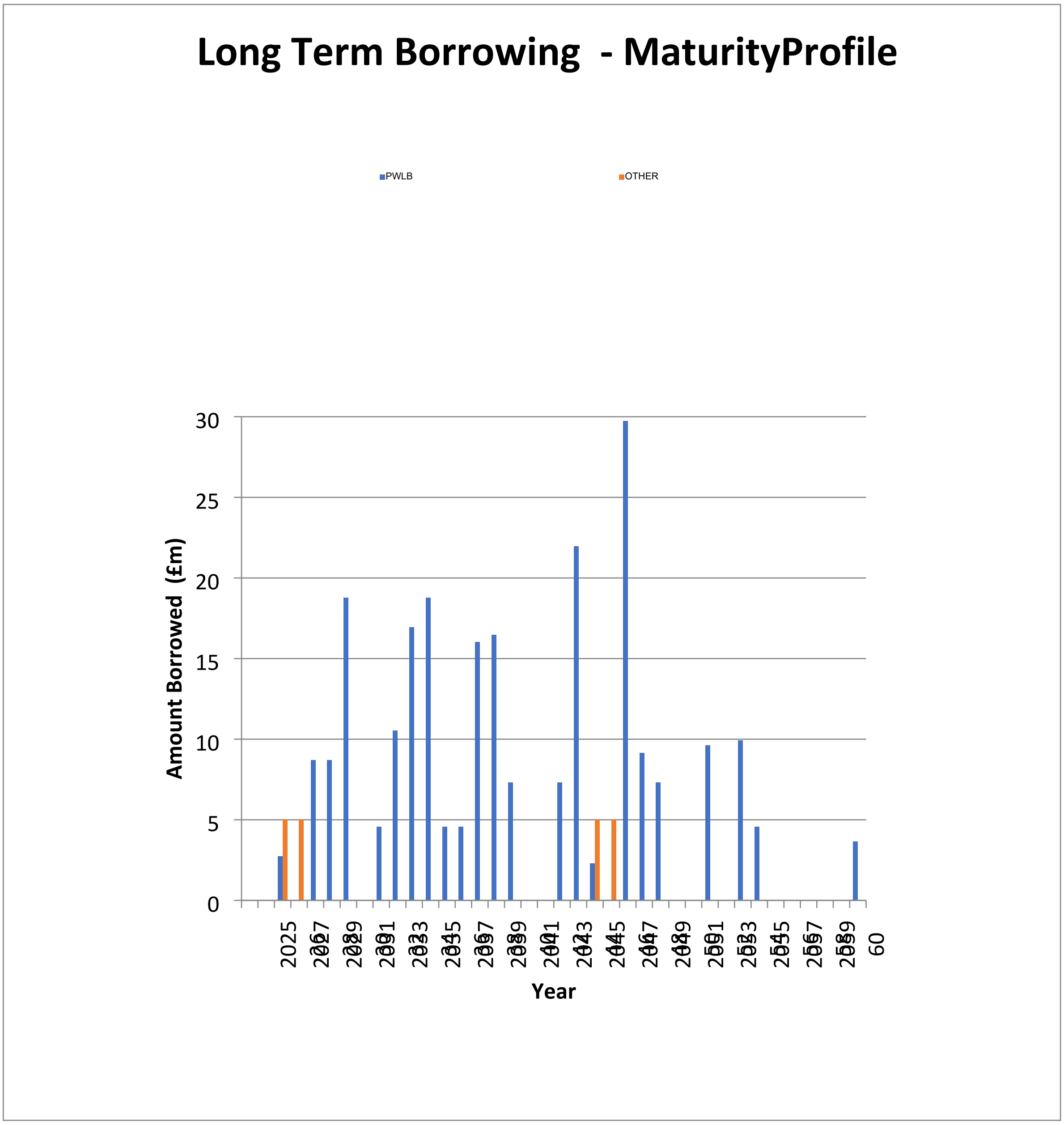
Table 11: Maturity Structure of Borrowing

	31 March 2024 Actual %	**Upper Limit %**	**Lower Limit %**	**Complied**
Under 12 months	36	60	0	✓
12 - 24 months	1	20	0	✓
24 months - 5 years	6	20	0	✓
5 - 10 years	17	20	0	✓
10 - 20 years	21	40	10	✓
20 - 30 years	18	40	10	✓
Over 30 years	1	40	0	✓
Total	**100**			

2.58 **Maturity Profile**

The Council's long term maturity repayment profile at 31 March 2024 is shown below. A good spread of maturities is desirable. The average long term (loans over 1 year in duration) redemption is £7.547m per year over the next 35 years. The maximum redemption is £29.738m in 2045-46. The average duration of all the Council's long-term loans is approximately 14 years. Any new borrowing would be targeted for maturity in years with nil/low repayments.

<u>Chart: Maturity Profile of Long-Term Borrowing</u>



2.59 **Long Term Treasury Management Investments:**
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. Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term. The prudential limits on the long-term treasury management limits are:

Table 12: Long Term Treasury Management Investments

Loans Maturing =>	**Beyond 31 March 2025 £m**	**Beyond 31 March 2026 £m**	**Beyond 31 March 2027 £m**
Actual principal invested beyond the year end (including strategic pooled funds)	64.289	64.289	64.289
Limit on principal invested beyond the year end	100.000	100.000	100.000
Complied?	✓	✓	✓

Additional Indicators

2.60 **Security:**
The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

Table 13: Security

	31 March 2024 Actual	**2023-24 Target**	**Complied**
Portfolio average credit rating	A+	A	✓

2.61 **Liquidity:**
The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of either cash available to meet unexpected payments within a rolling three-month period, without additional borrowing, or the amount it can borrow each period without giving prior notice.

Table 14: Liquidity

	31 March 2024 Actual £m	2023-24 Target £m	Complied
Total cash available within 1 month **OR**	113.300	10.000	✓
Total sum borrowed in past 3 months without prior notice	0	30.000	

2.62 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The BoE official Bank Rate increased by 1.00% from 4.25% on 1 April 2023 to 5.25% by 31 March 2024.

Table 15: Interest Rate Exposures

	31 March 2024 Actual £m	2023-24 Limit £m	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates.	0.177	1.477	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	N/A	-1.508	✓

2.63 The impact of a change in interest rates is calculated on the assumption that maturing investments and short-term borrowing will be replaced at new market levels.

For context, the changes in interest rates during the year were:

	31/3/23	31/3/24
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.36%
5-year PWLB certainty rate, maturity loans	4.31%	4.68%
10-year PWLB certainty rate, maturity loans	4.33%	4.74%
20-year PWLB certainty rate, maturity loans	4.70%	5.18%
50-year PWLB certainty rate, maturity loans	4.41%	5.01%

3 Consultation

3.1 No consultation is required.

4 Alternative Options Considered

4.1 N/A - the Council is required to have a Treasury Management Strategy each year, to monitor against it and to produce a Treasury Management Annual Report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. If the Council chose not to prepare this Annual Report it would be in contravention of the Council's Financial Regulations and other legislation and statutory guidance.

5 Implications

5.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

6 Background Papers

6.1 Not applicable.

7 Appendices

7.1 Appendix 1 - Implications.

8 Recommendation

8.1 That Audit Committee notes the report on Treasury Management activities during 2023-24 and the Council's compliance with the prudential indicators set by Council at its meeting of 15 February 2023, in accordance with the the CIPFA Code.

9 Reasons for Recommendation

9.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

9.2 Treasury Risk Management at the Council is conducted within the framework of CIPFA's "*Treasury Management in the Public Services: Code of Practice 2021 Edition*" (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year and a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code by producing an annual treasury outturn report for 2023-24 and also assists with the requirements in the Council's Financial Regulations, which require that the borrowing and investments of the Council should be arranged in such a manner so as to comply with the CIPFA Code of Practice on Treasury Management.

9.3 The report on treasury management activities 2023-24 highlights the borrowing strategy and investments position of the Council during the previous financial year. It also highlights the Council's performance and compliance with targets agreed as part of the Treasury Management Strategy 2023-24.

10. Is it necessary to waive the call-in period?

10.1 No

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Appendix 1

Implications

Financial

1.1 The Treasury Management Annual Report 2023-24 sets out in paragraphs 2.3 to 2.12 external factors impacting on Treasury Management in 2023-24. This covers economic background, financial markets and credit background. The report then details in paragraphs 2.13 to 2.46 the Council's Treasury Management activity and position during 2023-24. This highlights the borrowing and investments positions of the Council during 2023-24. Other non-Treasury holdings and activity are referred to in paragraphs 2.47 to 2.49, Treasury performance in paragraph 2.50 and Consultations in 2.51. Finally, the report considers in paragraphs 2.52 to 2.63 the Council's compliance with targets agreed as part of the Treasury Management Strategy 2023-24.

1.2 On 31 March 2024, the Council had net borrowing of £214.916m arising from its revenue and capital income and expenditure. The Council's investments, representing income received in advance of expenditure plus balances and reserves held, have reduced significantly in 2023-24. The Council continued to pursue its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The Council has an increasing Capital Financing Requirement because of its capital programme.

1.3 Overall, during 2023-24, the Council paid interest on capital and temporary borrowing of £22.805m against a budget of £16.258m and received interest on treasury investments of £15.589m against a budget of £4.663m, as shown in Table 7.

1.4 The Compliance Report confirms that the Council complied with the prudential indicators set by Council at its meeting of 15 February 2023, in accordance with the Chartered Institute of Public Finance and Accountancy's "*Treasury Management in the Public Services: Code of Practice 2021 Edition*" (the CIPFA Code).

Legal

2.1 The Treasury Management function for borrowing and investment forms part of the prudential funding structure established by the Local Government Act 2003. Local authorities are required to have regard to a range of guidance when exercising these powers.

2.2 Treasury Risk Management at the Council is conducted within the framework of CIPFA's "*Treasury Management in the Public Services: Code of Practice 2021 Edition"* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year and a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code, by reporting on annual treasury outturn for 2023-24, and also assists with the requirements in the Council's Financial Regulations, which require that the borrowing and investments of the Council should be arranged in such a manner so as to comply with the CIPFA Code of Practice on Treasury Management.

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations. 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.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None