Annex 1

Report To:	**Cabinet**
Date:	**17 July 2024**
Report Title:	**Treasury Management Annual Report 2023/24**
Report of:	**Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)**
Cabinet Member:	**Councillor Daniel Butcher, Cabinet Member for Finance and Resources**
Ward(s):	**All**
Purpose of report:	**To report on the activities and performance of the Treasury Management service during 2023/24**
Decision type:	**Budget and Policy Framework**
Officer Recommendations:	**To recommend to Full Council (via Cabinet):** **1. That members consider and approve the Annual Treasury Management report 2023/24 for publication.** **2. To approve the 2023/24 Prudential and Treasury Indicators included in the report.**
Reasons for recommendations:	**Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code).**
Contact Officer(s):	**Name: Ross Sutton** **Post title: Head of Financial Reporting** **e-mail: ross.sutton@lewes-eastbourne.gov.uk** **Telephone number: 07591 988346**

1. Introduction

1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

1.2 A requirement of the Code is the creation and maintenance of a Treasury Management Policy Statement (TMSS) which sets out the policies and objectives of the Council's treasury management activities. Regular monitoring reports are required to meet the Treasury Management governance and scrutiny aspects. The Audit and Governance Committee are to review details of treasury transactions against the criteria set out in the TMSS and make recommendations to Council as appropriate.

1.3 The timetable for reporting Treasury Management activity in 2023/24 is shown in the table below and takes into account the timescale for the publication of each Committee agenda. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Governance Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
5 October 2023	April to June 2023
28 November 2023	April to September 2023 (Mid Year Review)
11 March 2024	April to December 2023
18 July 2024	2023/24 Annual Report (up to 31 March 2024)

1.4 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years matter, performance is best viewed over a medium to long term basis. The action taken in respect of the debt portfolio in recent years has been beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

1.5 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Group (Link). The list is updated regularly to reduce the risk to the Council by removing lower rated counterparties and reducing maximum loan durations.

2. Economic Background

2.1 The Bank of England's Monetary Policy Committee have continued to hold the Bank Rate at 5.25% (since August 2023). A detailed economic commentary for the year ending 31 March 2024 is attached as **Appendix A**.

3. Interest Rate Forecasts

3.1 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

3.2 The latest forecast on 28 May 2024 sets out a view that the MPC are preparing the market for near term interest rate cuts. With falling inflation, a cut of 0.25% before the end of September is expected.

3.3 Link's forecast of bank rate and PWLB borrowing rates are set out below.

Link Group Interest Rate View	28.05.24											
	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	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

Note

1) In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
2) The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

4. Annual Investment Strategy

4.1 CIPFA published a revised 'Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes' in December 2021. These define treasury management investments as investments that arise from the organisation'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.

4.2 The Treasury Management Strategy Statement for 2023/24, which includes the Annual Investment Strategy (AIS), was approved by the Full Council on 23 February 2023. It sets out the Council's investment priorities as being:

- Security (of Capital)
- Liquidity
- Yield

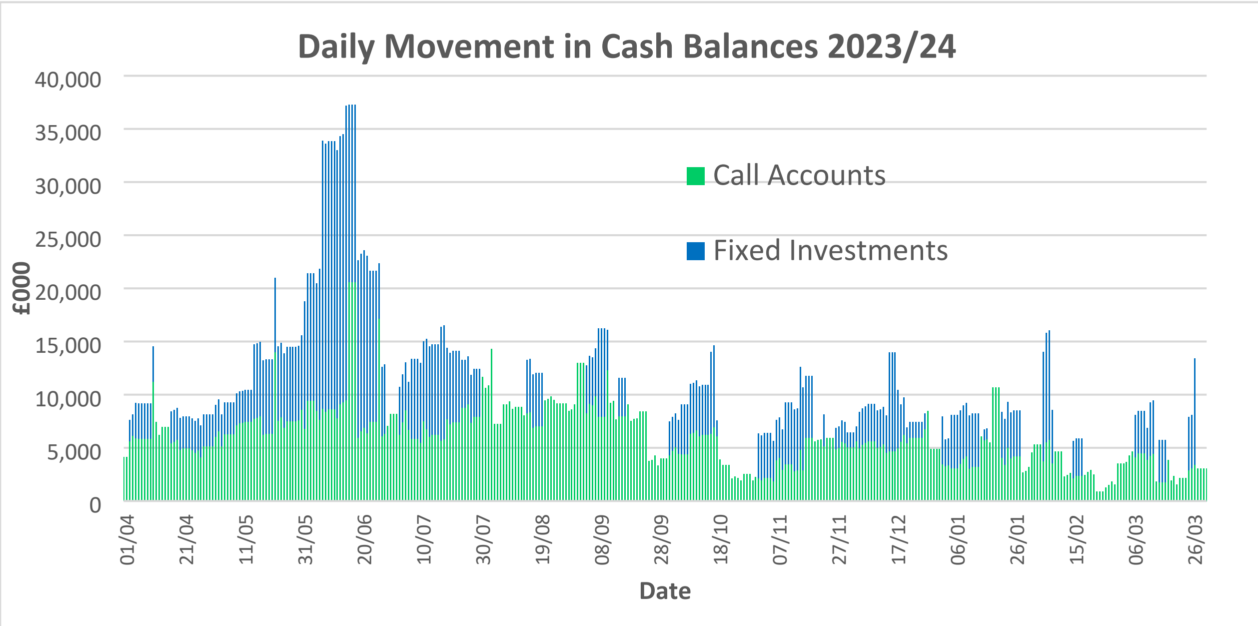
4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

4.4 There are no policy changes to the TMSS. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4.5 There have been some changes to individual counterparty credit ratings over the period. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

5. Treasury Management Activity

5.1 The chart below summarises the Council's investment position over the period 1 April 2023 to 31 March 2024. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts. Cash balances at 1 April were £4.1m and £3.1m at 31 March. The average balance over the year was £9.9m comprising £5.9m Call and £4.0m Fixed Term.



5.2 Fixed Term Deposits pending maturity

The following table shows that no fixed term deposits held at 31 March 2024 although the average amount over the year was £4.0m. All the deposits made met the necessary criteria for a suitable counterparty, including the minimum rating required of long-term 'A'- (Fitch).

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Debt Management Office (DMO)	-	-	-	-	-	*

Note: * indicates UK Government body and therefore not subject to a credit rating.

5.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured in quarter 4 in maturity date order. It is important to note that the table includes sums reinvested.

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Debt Management Office (DMO)	02/01/24	03/01/24	1	4,500,000	5.19%	*
DMO	03/01/24	15/01/24	12	2,500,000	5.19%	*
DMO	05/01/24	15/01/24	10	2,500,000	5.19%	*

DMO	16/01/24	18/01/24	2	1,000,000	5.19%	*
DMO	22/01/24	29/01/24	7	4,300,000	5.19%	*
DMO	05/02/24	08/02/24	3	10,300,000	5.19%	*
DMO	08/02/24	09/02/24	1	5,000,000	5.19%	*
DMO	15/02/24	19/02/24	4	3,500,000	5.19%	*
DMO	07/03/24	11/03/24	4	4,000,000	5.19%	*
DMO	11/03/24	14/03/24	3	3,000,000	5.19%	*
DMO	12/03/24	14/03/24	2	2,000,000	5.19%	*
DMO	15/03/24	18/03/24	3	4,000,000	5.19%	*
DMO	25/03/24	28/03/24	3	5,000,000	5.19%	*
DMO	27/03/24	28/03/24	1	5,000,000	5.19%	*

The weighted average rate of interest earned on deposits held in the period 1 April to 31 March 2024 was 4.76% (4.70% Q3). The average bank base rate for the period was 5.03%. DMO deposits can fluctuate below the base rate.

5.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following liquidity accounts in the period covered by this report, with the average amount held being £1.97m (£2.23m Q3), generating total interest of £177k.

Counterparty	**Balance at 31/03/24 £000**	**Average Balance £000**	**Average Interest Rate %**
Lloyds Bank Current Account	£1,962	£1,630	1.69%
Lloyds Bank Call Account	£1,110	£1,590	3.99%
Santander Business Reserve Account	£0	£2,685	3.17%

5.5 Money Market Funds

There were no funds Money Market Funds held at 31 March 2024, and there was no activity in the period.

5.6 Bond Funds, Multi-Asset Income Funds and Property Funds

There were no Short Dated Bond Funds, Multi-Asset Income Funds or Property Funds held at 31 March 2024, and there was no activity in the period.

6. Capital Position

6.1 This table below shows the capital expenditure outturn compared to the revised budget and forecast outturn. **Appendix B** provides further details. Note – the July Revenue and Capital Outturn report to Cabinet provides full capital scheme details.

	Original Budget £000	**Revised Budget £000**	**Forecast Outturn Q3 £000**	**Actual Outturn £000**
HRA	13,591	17,141	14,109	12,905
General Fund	28,010	20,811	13,339	13,477
Total Capital Expenditure	**41,601**	**37,952**	**27,448**	**26,382**

6.2 The budget has been updated for carry over underspends from the previous financial year, supplementary budgets approved during the year and schemes now deferred and reprofiled to 2024/25. The actual outturn for the year is £26.38m as compared to the forecast outturn at Q3 of £27.45m, a movement of £1.07m.

6.3 The financing of the capital programme has been updated in line with the capital expenditure changes in the table above (see Appendix B). The borrowing element will increase the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt, the Minimum Revenue Provision (MRP). The amount of unfinanced capital expenditure (i.e. borrowing) for the GF was £8.147m in the year of which £3m related to the exceptional financial support (capitalisation direction). There was no unfinanced HRA expenditure in the year.

7. Borrowing

7.1 The Council's capital financing requirement (CFR) for 2023/24 was forecast as £197.6m (GF £144.1m and HRA £53.5m). The actual CFR at 31/3/24 was £196.5m (GF £145.6m and HRA £50.9m), lower by £1.1m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (i.e. internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

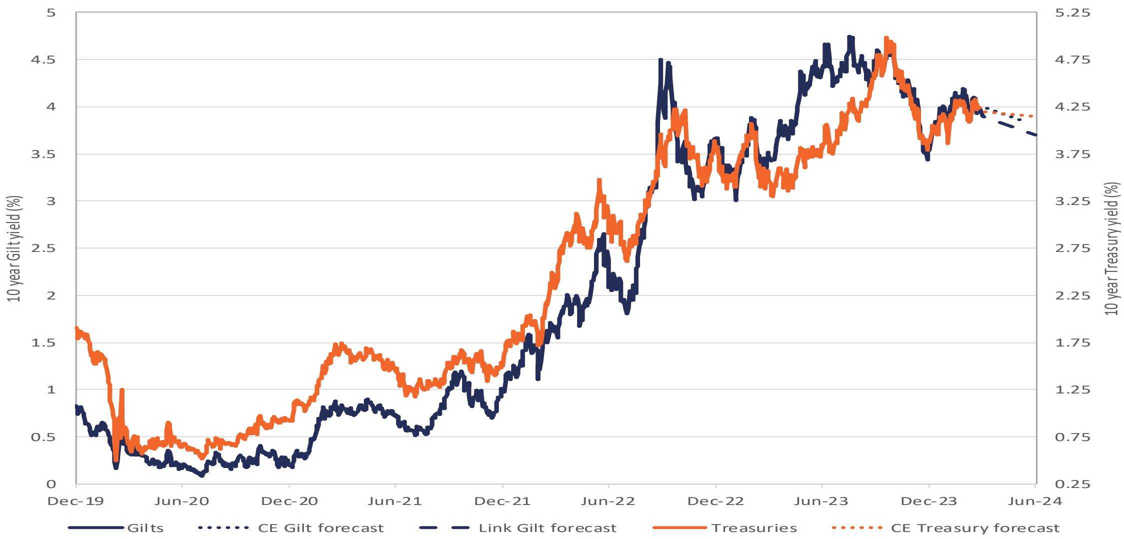
PWLB Rates

7.2 Gilt yields 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 bond yields 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.

7.3 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the 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.

7.4 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.

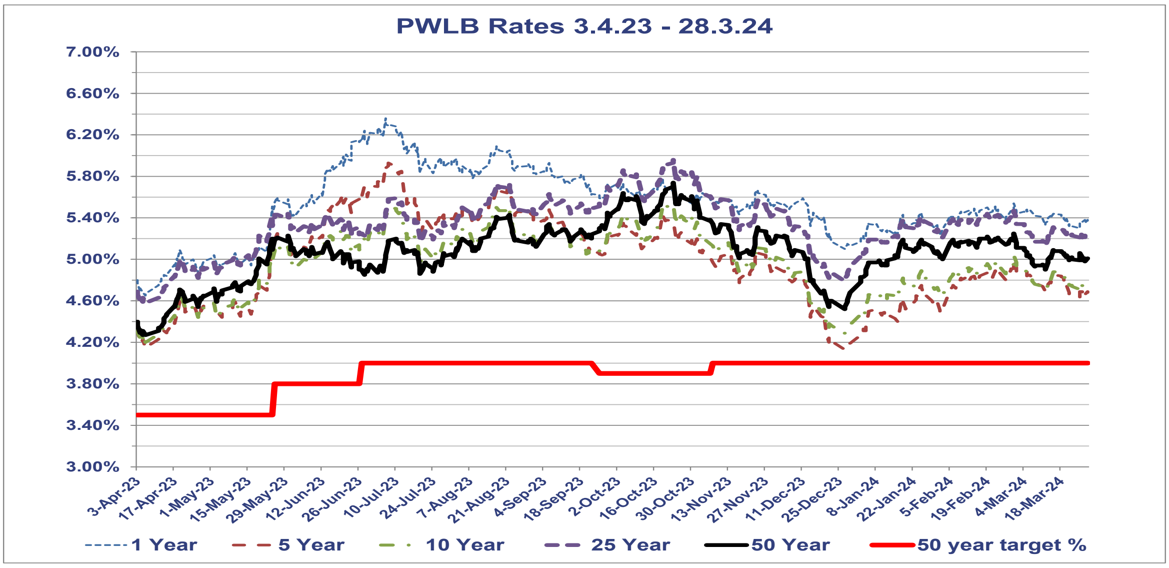
Graph of 10-year UK gilt yields v. US treasury yields (inclusive of Link's and Capital Economics' forecasts)



7.5 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **HRA Borrowing rate** is gilt plus 40bps (G+40bps)

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. As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.



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%

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

7.7 Link's core debt management advice remains unaltered, to continue to reappraise any capital expenditure plans/profiles, and internally/temporarily borrow for any financing and re-financing. Only seek longer-dated debt if there is absolute certainty on the long-term rates and can conclude it is affordable, sustainable and prudent if funded at prevailing levels.

External Debt

7.8 The Council's long term borrowing at 31 March 2024 was £111.3m (£112.6m Q3) from the Public Works Loan Board (PWLB). Debt at the start of the year was £113.7m and £2.4m of EIP loans have been repaid. The long term borrowing is at fixed rates of interest ranging from 1.6% to 5.0%. No new long term borrowing has been undertaken this year to-date. This is a prudent and cost-effective approach in the current economic climate but the position is continually monitored.

7.9 The table below details short term (less than one year) borrowing from other local authorities. As at 31 March 2024, £80m of short term loans were held (£65m at Q3). Four new loans, total of £20m were taken out at the end of March of which £10m was to replace debt that had matured. Debt of £30m will mature in the first quarter of 2024/25. During the third quarter, £35m of loans matured and were repaid on time.

Lender	Principal £000	Date From	Date To	Days	Rate %
Loans held at 31/3/24					
West of England Combined Authority	10,000	28 Apr 23	26 Apr 24	364	4.85%
Bolton MBC	10,000	22 May 23	20 May 24	364	4.35%
West Yorkshire Pension Fund	10,000	5 Feb 24	5 Jun 24	121	5.90%
Wealden DC	5,000	3 Jan 24	5 Jul 24	184	5.55%
Rugby BC	5,000	25 Mar 24	25 Oct 24	214	6.00%
West Yorkshire Combined Authority	10,000	23 Nov 23	8 Nov 24	351	5.60%
Crawley BC	5,000	19 Feb 24	19 Nov 24	274	5.75%
Warwickshire County Council	10,000	7 Feb 24	18 Dec 24	315	5.60%
North Northamptonshire Council	5,000	27 Mar 24	10 Jan 25	289	6.50%
Cambridge & Peterborough CA	5,000	25 Mar 24	27 Jan 25	308	6.25%
Rugby BC	5,000	7 Mar 24	7 Feb 25	337	6.00%
Loans repaid in Q3					
Tameside MBC	5,000	13 Feb 23	15 Jan 24	336	4.20%
West Midlands Combined Authority	5,000	27 Jul 23	29 Jan 24	186	4.10%
Warwickshire County Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
Salford City Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
West Yorkshire Combined Authority	5,000	9 May 23	9 Feb 24	276	4.25%
Wokingham BC	10,000	7 Jun 23	28 Mar 24	295	4.50%

7.10 Total debt at the beginning of the financial year was £177m (£114m long term and £63m short term) increasing to £191m (£111m long term and £80m short term), an increase of £14m. The movement between long-term and short-term debt has continued in accordance with advice received from Link to limit the council's exposure to high interest rates over the long term. Once interest rates have reduced and Link advice changes, the council will consider options to move short term debt to more longer-term instruments.

8. Debt Rescheduling

8.1 Debt rescheduling opportunities have increased in the year where gilt yields, which underpin PWLB rates and market loans, have risen materially. The Council will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio. This is dependent on levels of investment balances. No debt rescheduling has currently been undertaken in the financial year.

9. Capital Financing Costs Summary

9.1 The table below summaries the General Fund (GF) interest payable, minimum revenue provision (MRP) and interest receivable forecast for the year.

General Fund	Original Budget £000	Forecast Outturn Q3 £000	Actual Outturn £000
Interest Payable - Borrowing	2,750	4,446	4,532
MRP	649	589	478
Interest Receivable – Treasury Investments	(99)	(385)	(369)
Interest Receivable – Loans	(1,299)	(1,328)	(1,502)
Net Cost	**2,001**	**3,322**	**3,139**

9.2 The actual outturn is £3.1m compared to the Q3 forecast of £3.3m. Interest payable includes £4.224m short and long term borrowing and £0.304m and interest payable by the general fund on HRA reserves and balances. The increase in interest payable compared to budget is due to a number of factors including base rates have risen to 5.25% (3.25% at the beginning of 2023), debt is now higher than the original estimated level due to the revenue budget overspend position, PWLB borrowing is prohibitive due to a 1% premium on rates arising from the capitalisation direction and also the shortage of cash available in the local authority lending market is continually driving up rates. Rates were approaching 7% towards the end of March.

9.3 The table below summaries the Housing Revenue Account (HRA) interest payable and interest receivable forecast for the year.

HRA	Original Budget £000	Forecast Outturn Q3 £000	Actual Outturn £000
Interest Payable - Borrowing	1,781	1,596	1,660
Interest Receivable – HRA balances	(57)	(290)	(304)
Net Interest Cost	**1,724**	**1,306**	**1,356**

9.4 Interest receivable has increased due a change in which HRA reserves and balances that interest is now paid on and also base rate rises to 5.25%.

10. Compliance with Treasury and Prudential Limits

10.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement and Treasury Management Practices (TMPs).

10.2 The tables below show the Prudential and Treasury Indicators position comparing the Budget to the Forecast for the year.

Prudential Indicators	**2023/24 Budget**	**2023/24 Forecast Q3**	**2023/24 Actual**
Authorised Limit for external debt	£241m	£243m	£243m
Operational Boundary for external debt	£219m	£232m	£232m
Capital Financing Requirement (CFR) - GF	£146m	£144m	£146m
Capital Financing Requirement (CFR) - HRA	£54m	£54m	£51m
Gross External debt – GF (including loans to Housing Companies £30m)	£118m	£129m	£137m
Gross External debt - HRA	£47m	£54m	£54m
Total Debt compared to CFR under / (over) borrowing	£35m	£15m	£5m
Proportion of GF Financing Costs to Net Revenue Stream	25.4%	30.1%	33.2%
Proportion of HRA Financing Costs to Rental Income (including depreciation)	47.0%	45.1%	44.7%
Proportion of net income from commercial and service investments to Net Revenue Stream	16.1%	12.1%	12.3%

Note - Section 6 and Appendix B provide the requirements for a Capital Expenditure indicator.

Treasury Indicators	**2023/24 Budget**	**2023/24 Forecast**	**2023/24 Actual**
Upper limit for principal sums invested for longer than 365 days	£2m	£2m	£2m
Maturity structure of fixed rate borrowing - upper limits			
Under 12 months	75%	75%	75%
12 months to 2 years	75%	75%	75%
2 years to 5 years	75%	75%	75%
5 years to 10 years	75%	75%	75%
1 0 years and above	75%	75%	75%

Note – Paragraphs 10.7 to 10.9 and Appendix C provide the requirements for a Liability Benchmark indicator.

10.3 As at 31 March 2024, indicators were on target or remain within acceptable parameters with the exception of Gross External Debt and the Proportion of GF Financing Costs to Net Revenue Stream.

10.4 Gross External Debt (GF and HRA) at 31 March 2024 was £191m, an increase of £26m on the estimated (February 2023) position of £165m but remains within the Council's Operational Debt Boundary. Linked to debt, is the Proportion of GF Financing Costs (gross of interest receivable) to Net Revenue Stream which has increased to 33.2%. Paragraph 9.2 above provides an explanation of why interest payable has increased and the table in paragraph 7.5 shows how variable interest rates on short term borrowing have increased. Higher rates are payable on replacement debt as existing debt matures.

10.5 The total Capital Financing Requirement (CFR) at 31 March 2024 was £197m, £3m less than the original estimate of £200m.

10.6 Approved limits within the Annual Investment Strategy were not breached during the period ending 31 March 2024, except for the balance held with Lloyds Bank (the Council's own bank), which exceeded the £5m limit for 1 day during the fourth quarter (average of 7 days Q1-Q3). Exceptions normally occur where (i) other investments have been recalled back to Lloyds a day early in readiness for larger than usual outgoings the following day or (ii) other investments are received back too late in the day to reinvest so remain with Lloyds overnight.

Liability Benchmark

10.7 There is a requirement to provide a comparison of the existing loan portfolio against committed borrowing needs in order to understand future debt requirements. The chart covers the following four areas:

i. Existing Loan Debt = current borrowing portfolio;
ii. Capital Financing Requirement (loans only);
iii. Net Loans Requirement = loan debt (less treasury management investments) forecast based on approved prudential borrowing and planned MRP;
iv. Liability Benchmark = Net Loans Requirement plus short term liquidity allowance.

10.8 **Appendix C** includes liability benchmark charts for both the General Fund and HRA. Only approved expenditure and financing budgets for the period to 2025/26 are to be included although the charts cover the full debt maturity profile and MRP to 2068/69.

10.9 The GF chart shows the CFR, Loan Debt Outstanding and Liability Benchmark reducing in line over time. The HRA chart shows the CFR and Liability Benchmark increasing and then levelling out as there are no MRP payments or capital receipts. The HRA PWLB Loan Debt reduces over time as debt matures. Any gaps between actual loan debt outstanding and the liability benchmark will need to be managed in the future.

11. Non-treasury investments

11.1 The non-treasury investment activity includes the Council provision of a financial guarantee through its subsidiary company, Investment Company Eastbourne Limited (ICE) Limited. The principal activity of the company is to guarantee an external financial liability with Canada Life and the future rental income of Infrastructure Investments Leicester Limited by virtue of contractual arrangement. In return for providing the above Guarantee (including rental guarantee) in 2018, ICE receives a £0.34m annual guarantee fee (indexed pa).

The ICE Board of Directors meet regularly and review key financial monitoring (including the guarantee fees payment schedule) in line with the agreed governance arrangements/agreement.

11.2 The Council provide loans to its two subsidiary companies Eastbourne Housing Investment Company Limited and South East Environmental Services Limited and Aspiration Homes LLP which is a joint venture with Lewes District Council. As at 31 March 2024, £29.7m of loans had been provided, an increase of £0.9m on the previous year. Interest received on those loans in 2023/24 was £1.39m.

12. Environmental, Social and Governance (ESG) Investment

12.1 The Cabinet at its meeting on 8 February 2023 approved the 2023/24 Treasury Management and Investment Strategy, which included Non-Specified investments such as ESG products that meet the Council's internal and external due diligence criteria.

12.2 While a wide range of ESG investments are currently limited, there are expectations to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with Link will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the DLUHC Investment Guidance (i.e. prioritising security, liquidity before yield).

12.3 There were no green deposits held at 31 March 2024, and no activity during the year.

13. Financial Appraisal

13.1 All relevant implications are referred to in the above paragraphs.

14. Risk Management Implications

14.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

15. Equality Analysis

15.1 This is a routine report for which a detailed Equality Analysis is not required to be undertaken.

16. Legal Implications

16.1 There are no legal implications from this report.

17. Environmental sustainability implications

17.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report that would affect the Council's sustainability policy. 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 treasury activities and highlights compliance with the Council's policies previously approved by members.

18. Appendices

Appendix A - Link Treasury Services - Economic Commentary
Appendix B – EBC Capital Programme 2023/24
Appendix C - Liability Benchmark
Appendix D – Glossary of Terms

19. Background Papers

Treasury Management and Prudential Indicators 2023/24, Capital Strategy & Investment Strategy (Cabinet 8/2/23)

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Appendix A

Link Group – Economic commentary

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?

Euro-Zone 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.

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Appendix B

Capital Programme 2023/24	Original Budget £000	Revised Budget £000	Forecast Outturn (at Q3) £000	Actual Outturn £000
HOUSING REVENUE ACCOUNT (HRA)				
Construction of New Dwellings	8,141	10,811	8,709	8,750
Improvement to Stock	5,000	5,880	4,950	3,869
Adaptations for Disabled Tenants	450	450	450	556
Total HRA	**13,591**	**17,141**	**14,109**	**12,905**
GENERAL FUND (GF)				
Housing Grants	1,200	2,247	2,247	3,020
Loans to Housing Companies	751	890	864	65
Regeneration	19,237	10,798	4,776	3,194
Asset Management	3,660	2,133	1,602	1,647
Service Delivery	2,592	3,266	2,683	1,898
Information Technology	170	263	228	212
Digital Transformation	-	1,214	939	571
Corporate	400	-	-	-
Capitalisation Direction	-	-	-	3,000
Total General Fund	**28,010**	**20,811**	**13,339**	**13,477**
Total Capital Expenditure	**41,601**	**37,952**	**27,448**	**26,382**

HRA Financing				
Capital Receipts	3,318	1,666	1,666	1,520
Grants & Contributions	1,200	2,986	2,986	3,080
Major Repairs Reserve	5,450	6,330	5,400	4,345
Revenue	-	4,079	4,057	3,960
Borrowing Need	3,623	2,580	-	-
Total HRA	**13,591**	**17,141**	**14,109**	**12,905**

GF Financing				
Capital Receipts	250	92	50	50
Grants & Contributions	20,036	12,970	6,285	5,280
Revenue	50	-	-	-
Borrowing Need	7,674	7,749	7,004	5,147
Borrowing Need – Capitalisation Direction	-	-	-	3,000
Total GF	**28,010**	**20,811**	**13,339**	**13,477**

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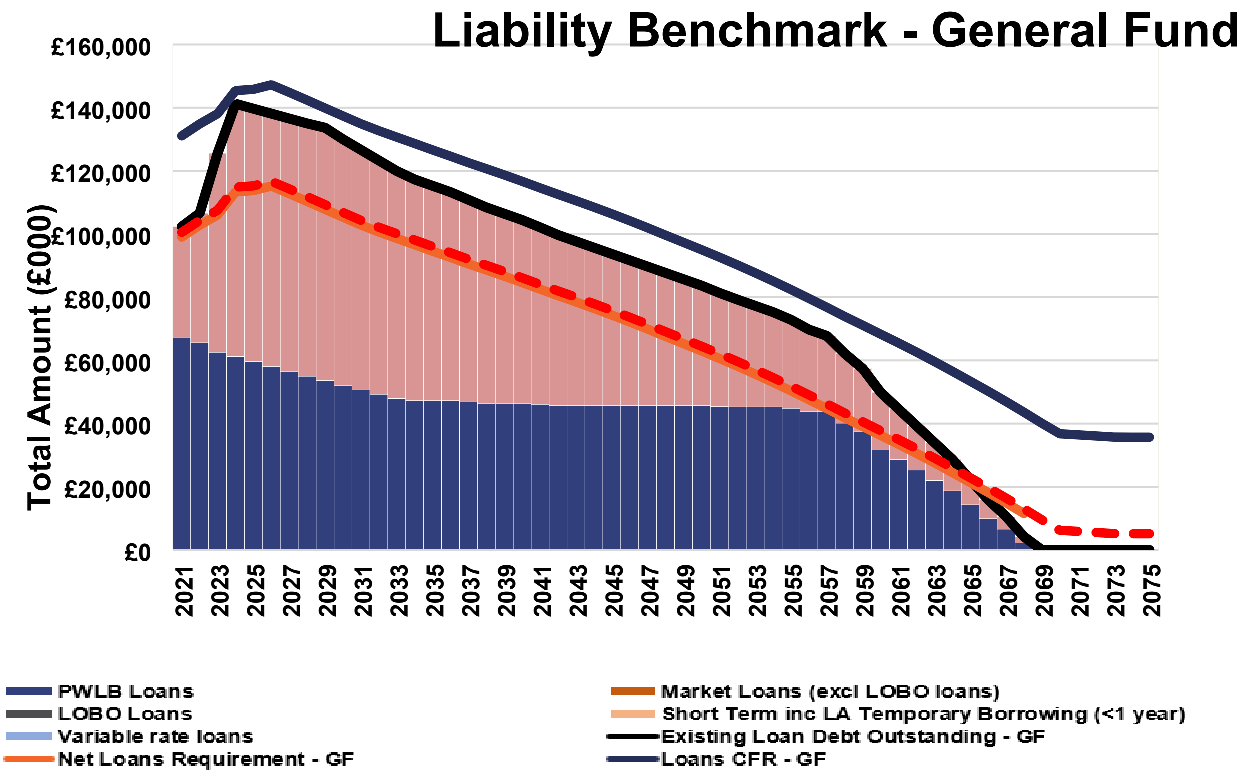
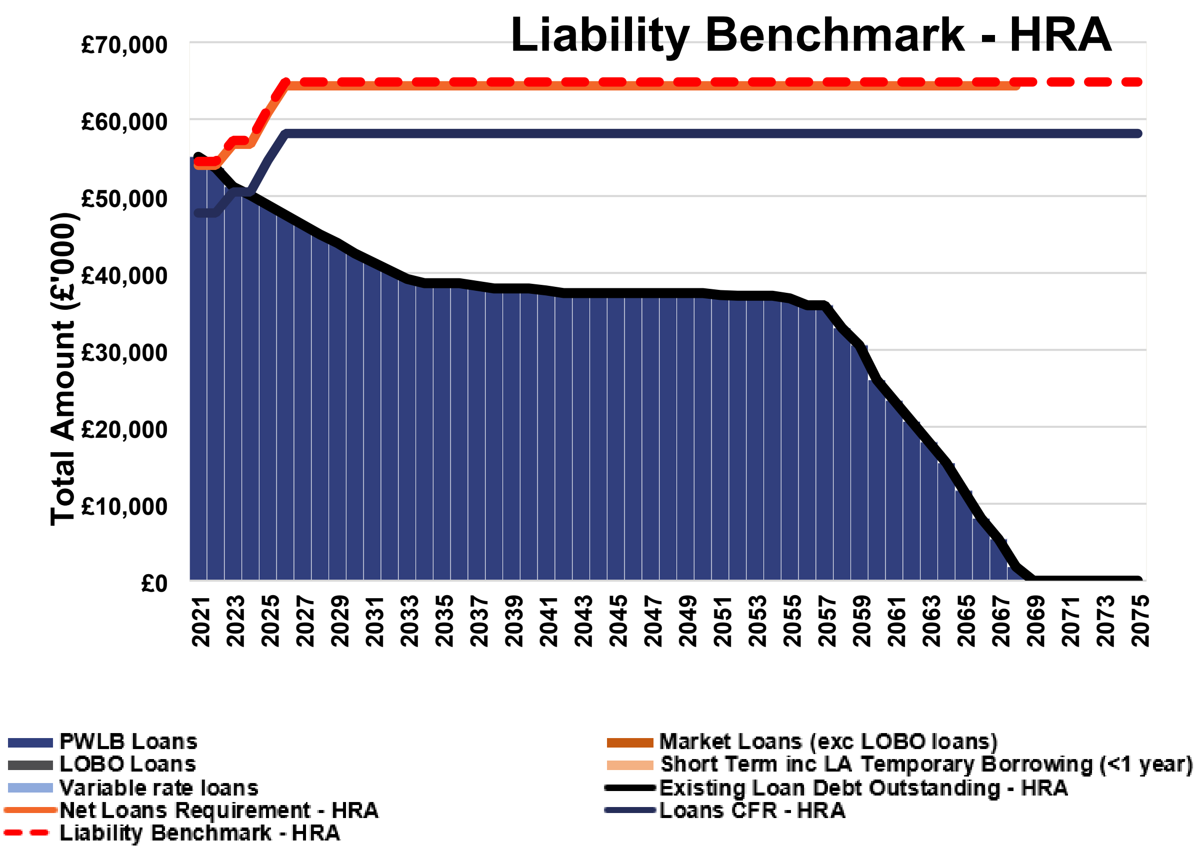
Appendix C

Liability Benchmark Charts





GLOSSARY

Local Authority Treasury Management Terms

Term	Description
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
Capital Financing Requirement (CFR)	A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and Minimum Revenue Provision (MRP).
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body.
Cost of Carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty Limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
CPI	Consumer Price Index - the main measure of inflation for macroeconomic purposes.
Deposit	A regulated placing of cash with a financial institution.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DLUHC	Department for Levelling Up, Housing and Communities supports communities across the UK to thrive.
DMO	Debt Management Office is an executive agency of HM Treasury responsible for debt and cash management for the UK Government lending to local authorities and managing certain public funds.
EIP	Equal Instalments of Principal where loans are repaid with equal instalments of principal together with interest on the balance outstanding.
Equity	An investment which usually confers ownership and voting rights.
FTSE	Financial Times Stock Exchange – an important indicator of the health of the UK stock market and economy. The FTSE100 is an index made up of shares from the biggest 100 companies by market capitalisation.
GDP	Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country in a specific time period.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
Gilts	A gilt is a UK government liability denominated in sterling, issued by HM Treasury and listed on the stock exchange.

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Term	Description
LIBID and LIBOR	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR. London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. No longer in use, see SONIA below.
LOBO	Lender's Option Borrower's option.
MMF	A Money Market Fund is a type of mutual fund that invests in cash, cash equivalents and short term debt securities.
MPC	The Bank of England's Monetary Policy Committee (MPC) are responsible for making decisions about the bank rate.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme.
OBR	The Office for Budget Responsibility gives independent and authoritative analysis of the UK's public finances. OBR is an executive non-departmental public body, sponsored by HM Treasury.
PMI	Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. Market conditions can be expanding, staying the same or contracting.
PWLB	Public Works Loan Board is a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments.
Quantitative Easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
TMSS	Treasury Management Strategy Statement.