SUBJECT:	**TREASURY MANAGEMENT STEWARDSHIP AND ACTUAL PRUDENTIAL INDICATORS REPORT 2023/24 (OUTTURN)**
DIRECTORATE:	**CHIEF EXECUTIVE & TOWN CLERK**
REPORT AUTHOR:	**LAURA SHIPLEY – FINANCIAL SERVICES MANAGER**

1. Purpose of Report

1.1 The annual Treasury Management stewardship report is a requirement of the Council's reporting procedures under regulations issued under the Local Government Act 2003. It covers the treasury management 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).

2. Executive Summary

2.1 During 2023/24 the Council complied with its legislative and regulatory requirements. The key prudential indicators for the year, with comparators, are as follows:

Actual Prudential Indicators	2022/23 Actual £'000	2023/24 Actual £'000
Capital Expenditure		
General Fund	10,818	11,632
HRA	12,647	14,732
Total	**23,465**	**26,364**
Capital Financing Requirement (CFR)		
General Fund	68,881	70,846
HRA	77,222	78,935
Total CFR	**146,103**	**149,781**
Gross Borrowing		
Borrowing at 31st March	121,962	107,742
Investments		
Longer than 1 year*	0	0
Under 1 year	36,685	17,543
Total	**36,685**	**17,543**
Net Borrowing (borrowing less investments)		
Net Borrowing at 31st March	85,277	90,199

Other prudential and treasury indicators are to be found in Appendix A and B. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

3. Background

3.1 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.

3.2 One of the requirements of the Prudential Code is to ensure adequate monitoring of the capital expenditure plans, prudential indicators (PIs) and treasury management response to these plans. This report fulfils that requirement and includes a review of compliance with Treasury and Prudential Limits in 2023/24 and shows the status of the Prudential Indicators at 31st March 2024. For the 2023/24 financial year the minimum reporting requirements were that members should receive the following reports:

- an annual Treasury Management Strategy in advance of the year (Council 28h February 2023)
- a quarterly treasury update (Executive Q1 21st August 2023 & Q2 19th February 2024)
- a mid-year treasury update report (Executive 20th November 2023)
- an annual report following the year describing the activity compared to the strategy (this report)

3.3 The regulatory environment places a greater onus on members for the review and scrutiny of treasury management policy and activities than in previous years. This report is 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.

3.4 In compliance with the Prudential Code treasury management reports are scrutinised by Performance Scrutiny Committee and reviewed by the Executive prior to reporting to Full Council if required. Member training for the Performance Scrutiny and Audit Committees was undertaken on 30th January 2024 in order to support their roles in scrutinising the treasury management strategy and policies.

4. Summary of Performance against Treasury Management Strategy 2023/24

4.1 The full details of transactions in the year and performance against the Prudential Indicators are included at Appendices A and B.

4.2 Key issues to note from activity during 2023/24:

- The Council's total debt (including leases and lease-type arrangements) at 31st March 2024 was £107.742m (Appendix A section 4.4) compared with the Capital Financing Requirement of £149.781m (Appendix A section 3.5). This represents an under-borrowing position of £42.039m, which is currently being supported by internal resources. Additional long-term borrowing will be taken in future years to bring levels up to the Capital Financing Requirement, subject to liquidity requirements, if preferential interest rates are available.

- The Council's Investments at the 31st March 2023 were £17.543m (Appendix A section 4.3), which is £19.142m lower than at 31st March 2023. Average investment balances for 2023/24 were £36.319m, which was higher than estimated balances of £12m in the Medium Term Financial Strategy 2023-28 due to higher than anticipated balances being made available through government grants. It should be noted that this refers to the principal amounts of investments held, whereas the investment values included in the balance sheet are based on fair value. In most cases, this will simply be equal to the principal invested, unless the investment has been impaired.

- Actual investment interest earned on balances was £1.781m compared to £475k estimated in the Medium Term Financial Strategy 2023-28 (Appendix A section 9.2).

- The interest rate achieved on investments was 5.11% (2.10% in 2022/23).

4.3 **Risk Benchmarking**

The following reports the outturn position against the security and liquidity and yield benchmarks in the Treasury Management Strategy.

Security

- The average security risk gives the estimated default rate on the investment counterparties which comprise the portfolio at 31st March 2024. The Council's actual average security risk for the portfolio as at 31st March 2024 is 0.007%, compared with the 0.012% for the budgeted portfolio. This reflects a very low risk portfolio and equates to a potential financial loss of £342 on the investment portfolio of £9m using individual risk of default percentages (£8.543m of our instruments do not have a counterparty credit rating).

- Specified Investments are high security sterling investments (i.e. high credit quality) with a maturity of no more than one year. Non-specified investments are all other investments representing a potentially greater risk; however, the risk is still minimal due to the stringent controls over counterparty credit quality contained within the Investment Strategy. The 2023/24 strategy set a maximum limit of 75% of the portfolio to be held in non-specified investments. At 31st March 2024, 100% of the investment portfolio was held in specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this limit throughout the year.

Liquidity

In respect of this area the Council set liquidity benchmarks to maintain:

- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark was expected to be 0.08 years (29 days).

The actual liquidity indicators at 31st March 2024 were as follows:

- Liquid short term deposits of £8.453 million as at 31st March 2024.
- Weighted Average Life of the investment portfolio was 0.098 years (36 days). This reflects the changing investment landscape with a balance between maintaining cash for liquidity purposes and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended.

During Q3 there was a short period where liquid funds dipped slightly below the target £5m liquidity level, no short term borrowing was necessary as fixed term investments were due to mature to bring liquidity back to normal operating levels.

Yield

The Local measure of yield benchmark employed is -
- Investments – return above the SONIA o/n rate (local indicator 5)

The average SONIA o/n rate for the financial year was 4.96%, actual return on investments achieved during the year was 5.11%.

4.4 **Benchmarking**

Link Asset Services is the Council's treasury management advisors who offer a benchmarking club for their clients, which the Council participate in. This is organised on a regional group basis. The group to which City of Lincoln belongs has 14 members within the East Midlands region. The following summary shows performance against the group average, Not Metropolitan districts and the population as a whole, indicating a lower than average risk portfolio, with much lower levels of investment balances achieving a level of return in excess of similar authorities.

Investment Benchmarking	CoLC	Benchmarking Group Average	Non-Met Districts	Population Average
Principal at 31/3/24	£17,543,000	£89,857,259	£35,007,008	£74,437,675
Weighted Average rate of return at 31/3/24	5.47%	5.24%	5.19%	5.17%
Weighted average maturity at 31/3/24	36 days	87 days	70 days	56 days
Weighted average credit risk at 31/3/24	2.6	2.89	2.52	2.53

4.5 Financing costs as a percentage of net revenue stream have reduced in 2023/24 when compared with 2022/23, due to a reduction in total borrowing (the council is letting debt mature rather than refinancing while interest rates are high) in turn reducing interest expense. See Appendix A section 7.4.1.

The HRA financing costs to net revenue stream, while less than 22/23, are slightly higher than anticipated due to higher than budgeted level of depreciation charged in year.

4.6 The financial year 2023/24 continued the challenging environment of previous years with inflationary pressures placing a burden on budgets, increasing the cost of borrowing and making investing surplus cash and monitoring counterparty risk increasingly important.

5. Strategic Priorities

5.1 Through its Treasury Management Strategy, the Council seeks to reduce the amount of interest it pays on its external borrowing and maximise the interest it achieves on its investments in order to support the Medium Term Financial Strategy and the delivery of the Council's Vision 2025.

6. Organisational Impacts

6.1 Finance

The financial impacts are contained within the main body of the report and within appendices A and B.

6.2 Legal Implications including Procurement Rules

The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the DLUCH Investment Guidance when carrying out their treasury management functions.

6.3 Equality, Diversity and Human Rights

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The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Due to the nature of the report, no specific Equality Impact Analysis is required.

7. Risk Implications

7.1 The Local Government Act 2003, the Prudential Code and the Treasury Management Code of Practice include a key principal that an organisations appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing.

8. Recommendation

8.1 That Executive notes the actual prudential indicators contained within appendices A and B and recommends to Full Council for approval.

8.2 That Executive approves the annual treasury management report for 2023/24.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	**Three** Appendix A – Annual TM Report Appendix B – Local TM Indicators Appendix C – Economic Background 23-24 report
List of Background Papers:	Medium Term Financial Strategy 2023-28 & 2024-29 Prudential Indicators 2023/24 & 2024-29 Treasury Management Strategy 2023/24 & 2024-29
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Annual Report on the Treasury Management Service and Actual Prudential Indicators 2023/24

1. Introduction

1.1 The Council undertakes capital expenditure on long-term assets. These activities can 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.

Capital expenditure activity is regulated by the CIPFA Prudential Code, which requires actual outturn to be reported in the following areas: -

- Capital expenditure;
- Capital Financing Requirement;
- Debt;
- Ratio of financing costs to net revenue stream.

The remaining prudential indicators are included to make the annual reporting comprehensive and to comply with the requirements of the Treasury Management Code.

1.2 Part of the Council's treasury activities is to address any borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance. This area of activity is regulated by the CIPFA Code of Practice on Treasury Management.

1.3 Wider information on the regulatory requirements is shown in section 11.

2. The Council's Capital Expenditure and Financing 2023/24

2.1 This forms one of the required prudential indicators and shows total capital expenditure for the year and how this was financed.

Indicators 1&2 - Capital Expenditure	2023/24 Actual £'000	2023/24 Revised Estimate £'000	2022/23 Actual £'000
General Fund capital expenditure	11,632	15,333	10,818
HRA capital expenditure	14,732	16,120	12,647
Total capital expenditure	**26,364**	**31,453**	**23,465**
Financed by:			
Capital receipts	2,557	2,379	1,934
Capital grants & contributions	6,223	12,606	10,330
Direct Revenue Financing	3,394	3,962	62
Major repairs reserve	9,645	6,886	7,465
Borrowing need	**4,545**	**5,620**	**3,674**
Total Financing	**26,364**	**31,453**	**23,465**

2.2 Further details on 2023/24 Capital Expenditure and Financing can be found in the Financial Performance Detailed Outturn 2023/24 report elsewhere on the agenda.

3. The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position and represents 2023/24 and prior years' net capital expenditure that has not yet been charged to revenue or other resources.

3.2 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

3.3 The General Fund element of the CFR is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). The total CFR can also be reduced by:

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

3.4 The Council's MRP policy for 2023/24 was approved by Council on 28th February 2023 as part of the Prudential Indicators 2023/24 – 2025/26 and Treasury Management Strategy 2023/24

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

Indicators 3 & 4 - Capital Financing Requirement (CFR)	31 March 2024 Actual £'000	31 March 2024 Revised Estimate £'000	31 March 2023 Actual £'000
CFR - General Fund			
Opening balance 1 April	68,881	68,881	68,407
Plus un-financed capital expenditure	2,832	3,447	1,298
Finance leases	-	-	-
Less MRP/VRP*	(867)	(867)	(824)
Other adjustment			
Use of capital receipts	-	-	-
Closing balance 31 March	**70,846**	**71,461**	**68,881**
CFR - Hosuing Revenue Account			
Opening balance 1 April	77,222	77,222	74,451
Plus un-financed capital expenditure	1,713	2,090	2,771
Closing balance 31 March	**78,935**	**79,312**	**77,222**
Total CFR 31 March	**149,781**	**150,773**	**146,103**

4. Treasury Position at 31st March 2024

4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Chief Finance Officer and the treasury team manage the Council's actual borrowing position by either:

- borrowing to the CFR,
- choosing to temporarily utilise some flow funds instead of borrowing (under-borrowing)
- borrowing for future increases in the CFR (borrowing in advance of need).

4.2 It should be noted that the figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest (outstanding interest due to be paid and received as at 31st March), or where the carrying amount is based on fair values.

4.3 During 2023/24 the Chief Finance Officer managed the borrowing position to £107.742 million. The treasury position at the 31st March 2024 compared with the previous year was:

Borrowing and Investment Position	31 March 2024		31 March 2023	
	Principal £'000	Average Rate (full year)	Principal £'000	Average Rate (full year)
Borrowing Position				
Fixed Interest Rate Debt	107,742	3.21%	121,962	3.02%
Variable Interest Rate Debt	-	N/A	-	N/A
Total Debt (borrowing) *	**107,742**	**0**	**121,962**	**3.02%**
Capital Financing Requirement (borrowing only)	149,781	N/A	146,103	N/A
Over/(under) borrowing	**(42,039)**	**N/A**	**(24,141)**	**N/A**
Investment Position				
Fixed Interest Investments	9,000	5.65%	22,000	2.17%
Variable Interest Investments	8,543	5.30%	14,685	2.01%
Total Investments **	**17,543**	**5.47%**	**36,685**	**2.10%**
Net Borrowing Position	**90,199**		**85,277**	

* Excludes local Bonds & Mortgages and other long-term liabilities (e.g. finance leases)

** The interest rate given differs from the interest rate given in Paragraph 4.6 of the main report because the rates above are for investments held at 31 March whereas the average rate of investment is for investments held during 2023/24.

4.4 The total debt position also includes other long term liabilities such as finance leases and embedded leases within service contracts. The total debt position at 31st March 2024 was £107.742 million as shown below:

Indicator 5 - External Borrowing	31 March 2024 Actual £'000	31 March 2024 Revised Estimate £'000	31 March 2023 Actual £'000
Gross borrowing	107,742	109,242	121,962
Other long term liabilities	0	0	0
Total External debt	**107,742**	**109,242**	**121,962**

The Council made the decision to repay a £1.5m LOBO loan in the final quarter of the year due to the lender demanding an increased interest rate which wasn't in line with market conditions. The council will seek to reborrow this amount in the new financial year when interest rates are forecast to decrease.

The borrowing portfolio at 31st March 2024 is shown below.

Borrowing Type	Lender	Outstanding Loans	No Of Loans	Ave Rate %
LA BORROWING	North Kesteven District Council	2,000,000	1	2.05
MARKET LOANS	BARCLAYS	10,000,000	4	4.24
PWLB	PWLB	95,742,569	32	3.55
Total / Ave Rate		**107,742,569**	**37**	**3.59**

4.5 The maturity structure of the debt portfolio was as follows:

Indicator 13 - Maturity Structure of fixed borrowing	31 March 2024 Actual £'000	31 March 2024 Actual %	31 March 2023 Actual £'000
Under 12 months	2,675	2%	12,500
12 months and within 24 months	1,578	1%	2,000
24 months and within 5 years	7,073	7%	3,397
5 years and within 10 years	15,433	14%	11,862
10 years and above	80,983	75%	92,203
Total	**107,742**	**100%**	**121,962**

4.6 The maturity structure of the investment portfolio was as follows:

Investment Maturity Structure	31 March 2024 Actual	31 March 2023 Actual £'000
Longer than 1 year	0	0
Under 1 year	17,543	36,685
Total	**17,543**	**36,685**

5. The Strategy for 2023/24

5.1 The Council's overall core borrowing objectives are:

- To reduce the revenue costs of debt in line with the targets set for the Chief Finance Officer by Council (see local indicators).
- To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing.
- To effect funding at the cheapest cost commensurate with future risk.
- To forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.
- To monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements.
- To proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the General Fund and the Housing Revenue Account.

To manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.

6. Actual Debt Management Activity during 2023/24

6.1 Borrowing

6.1.1 No additional borrowing was taken out during 2023/24; however, a LOBO loan of £4.5m was repaid following the request from the lender to increase the interest rate. This loan was replaced with a preferential borrowing rate from PWLB at a lower interest rate than the previous loan. In addition, £12.720m was repaid as planned during the financial year, plus the repayment of a further LOBO of £1.5m as set out in paragraph 4.4 (total reduction in borrowing of £14.220m)

6.1.2 The average rate achieved for borrowing (excluding finance and embedded leases) in 2023/24 was 3.21%, which compares favourably to the target of 3.4%. The average rate has remained low due to an increase in internal borrowing whilst interest rates are high.

Borrowing Interest	31 March 2024 Actual £'000	31 March 2023 Actual £'000
Interest Payable on Borrowing		
- General Fund	1,322	1,408
- HRA	2,317	2,432
Total Interest payable on borrowing	**3,639**	**3,840**
Interest payable on finance leases	**0**	**0**
- General Fund	0	0
- HRA	0	0
Total Interest Payable on Borrowing	**0**	**0**

6.2 Rescheduling

6.2.1 Two LOBO loans were repaid during the year due to the lenders requesting increased interest rates. One at £4.5m which had 42 years remaining to maturity which was replaced with a 10 year EIP loan from PWBL and the other £1.5m which will be replaced on a like for like basis in the new financial year.

7. Prudential Indicators and Compliance Issues

7.1 Some of the required prudential indicators provide either an overview or specific limits on treasury activity. These are shown in the following paragraphs.

7.2 <u>External Borrowing and the CFR</u>

7.2.1 In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. The Prudential code stated that gross external borrowing should not, except in the short term, exceeded the CFR for 2023/24 plus the expected changes to the CFR over 2023/24 and 2024/25 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Indicator 6 - External Borrowing to Captal Financing Requirement	31 March 2024 Actual £'000	31 March 2024 Revised Estimate £'000	31 March 2023 Actual £'000
Debt as at 1 April	121,962	121,962	125,177
Change in debt	(14,220)	(12,720)	(3,215)
Actual Gross debt as at 31 March	**107,742**	**109,242**	**121,962**
Capital Financing Requirement	149,781	150,773	146,103
Under/(Over) Borrowing	**42,039**	**41,531**	**24,141**

7.3 The Authorised Limit and Operational Boundary

7.3.1 The Authorised Limit is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. 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.

7.3.2 The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

7.3.3 The table below shows the highest borrowing position reached in the year (including temporary borrowing and other long term liabilities) compared to the Authorised Limit and Operational Boundary.

Indicator 7 & 8 - Authorised Limit and Operational Boundry	2023/24 £'000
Authorised Limit (revised estimate)	122,647
Operational Boundary (revised estimate)	118,942
Maximum gross borrowing position during 2023/24	121,962
Average gross borrowing position during 2023/24	113,474
Minimum gross borrowing position during the year	104,743

7.4 Actual financing costs as a proportion of net revenue stream

7.4.1 This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

Indicators 9 & 10 - Ratio Financing Costs to Net Revenue Stream	2023/24 Actual %	2023/24 Revised Estimate	2022/23 Actual %
General Fund	15.14%	14.80%	17.90%
HRA	30.44%	28.80%	33.50%

The reduction in financing costs as a % of net revenue stream in 2023/24 when compared with 2022/23, is due to the council letting debt mature rather than refinancing while interest rates are high, therefore carrying less debt and less interest paid.

The HRA financing costs to net revenue stream are slightly higher than anticipated due to higher than budgeted levels of depreciation charged in year.

8. Investment Position

8.1 The Council's investment policy is governed by DLUHC Guidance, which has been implemented in the Annual Investment Strategy approved by Council on 28th February 2023. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

8.2 The Council's longer-term cash balances comprise primarily revenue and capital resources, although these are influenced by cash flow considerations. The Council's core cash resources comprised as follows, and meet the expectations of the budget.

Balance Sheet Resources (draft)	31/03/2024 £'000	31/03/2023 £'000
General Fund		
Balances	2,376	2,420
Earmarked reserves	8,107	7,040
Provisions	730	1,985
Usable capital receipts	1,663	13
Total	**12,876**	**11,458**
HRA		
Balances	1,136	1,184
Earmarked reserves	4,507	3,509
Usable capital receipts	6,339	6,405
Total	**11,982**	**11,098**
Total General Fund & HRA	**24,858**	**22,556**

Please note that at the time of writing the year end position is yet to be finalised and the balance sheet resources are draft, subject to approval of recommendations made in the outturn report.

8.3 Investments during the year have been in-line with limits below -

	2023/24 Limits
Indicator 11 - Upper Limit for Fixed Interest Rates	100%
Indicator 12 - Upper Limit for Variable Interest Rates	75%
Indicator 14 - Maximum Principal Sums Invested for longer than 365 days	£7m

9. Investments Held by the Council

9.1 The Council does not have the expertise or resources to actively use a wide range of investment products and therefore performance tends to be more stable but lower over the longer term than for professionally managed funds (whose performance may fluctuate more). The Council maintained an average balance of £36.319m and received an average return of 5.11%. A comparable performance indicator is SONIA overnight average rate (4.96%).

9.2 In 2023/24, £1.781m interest was earned on balances (£1.167m in 2022/23). This is £1.306m more than the £475k estimated in the Medium Term Financial Strategy 2023-28 primarily due to increases in the BoE base rate during the year and higher than anticipated levels of balances. The analysis of this result is shown in the table below.

	MTFS 2023-28 Budget £'000	Outturn 2023/24 £'000
Interest earned on Investments		
General fund	167	718
HRA	308	1,063
Total interest earned	**475**	**1,781**
Average balance invested in year	12,000	36,319
Average interest rate achieved	4.44%	5.11%

* The interest rate given differs from that given in Paragraph 4.3 of the main report because this is an average interest for the year whereas the interest rate given in paragraph 4.3 is a rate for balances at 31 March 2024.

9.3 The investment portfolio as at 31st March 2024 is shown below.

Investments	Principal £	Rate %	Investment Period (Days)
Babergh District Council	3,000,000	5.75	364
SMBC Bank International Plc	2,000,000	5.7	182
Lloyds Bank Corporate Market - NRFB	2,000,000	5.61	182
Close Brothers	2,000,000	5.55	183
Total Fixed Short term Investments	**9,000,000**		
BNP Paribas Insticash Sterling	1,543,000	5.3	Call
Federated Short-Term Sterling Prime Fund	7,000,000	5.26	Call
Total Money Market Fund Investments	**8,543,000**		
Total Investments / Average Rate	**17,543,000**	5.47	

9.4 The Economic Background for 2023/24 (Section 8) sets out the economic conditions during this period. Below is Link's forecast for interest rates at 25th March 2024.

Link Group Interest Rate View	25.03.24												
	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

10. Risk Benchmarking

10.1 The regulatory framework also requires the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Security and liquidity benchmarks are used to assess the level of risk in the investment portfolio and whether sufficient liquidity is being maintained.

10.2 The following reports the current position against the benchmarks originally approved in the 2023/24 Treasury Management Strategy.

Security

- The Council's security risk for the portfolio as at 31st March 2024 is 0.007%, which compares with the 0.012% for the budgeted portfolio. This equates to a potential financial loss of £342 on the investment portfolio of £9m - £8.543m of the portfolio is not subject to historic counterparty risk information.
- Specified Investments are high security sterling investments (i.e. high credit quality) with a maturity of no more than one year. Non-specified investments are all other investments representing a potentially greater risk however the risk is still minimal due to the stringent controls over counterparty credit quality contained within the Investment Strategy. The 2023/24 strategy set a maximum limit of 75% of the portfolio to be held in non-specified investments. At 31st March 2023, 100% of the investment portfolio was held in specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this limit throughout the year.

Liquidity

In respect of this area the Council set liquidity benchmarks to maintain:

- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark was expected to be 0.08 years (29 days).

The actual liquidity indicators at 31st March 2024 were as follows:

- Liquid short term deposits of £8.453 million as at 31st March 2023.
- Weighted Average Life of the investment portfolio was 0.098 years (36 days).

During Q3 there was a short period where liquid funds dipped slightly below the target £5m liquidity level, no short term borrowing was necessary as fixed term investments were due to mature to bring liquidity back to normal operating levels.

10.3 Performance Indicators set for 2023/24

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury management function over the year. The Chief Finance Officer set 5 local indicators for 2023/24, which aim to add value and assist the understanding of the main prudential indicators. These indicators, detailed in Appendix B, are:

- Debt – Borrowing rate achieved against SONIA overnight average.
- Investments – Investment rate achieved against SONIA overnight average.

- Average rate of interest paid on the Councils Debt during the year – this will evaluate performance in managing the debt portfolio to release revenue savings.
- The amount of interest on debt as a percentage of gross revenue expenditure.
- The ratio of net income from commercial and service investments to net revenue stream.

11. Regulatory Framework, Risk and Performance

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

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM has issued Investment Guidance to structure and regulate the Council's investment activities;

Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices.

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

11.3 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Link Asset Services, the Council's advisers, has proactively managed its treasury position over the year. The Council has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, utilising long-term loans.

11.4 Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

Appendix B

Local Treasury Management Indicators

Local Indicators	2023/24 Revised Estimate	2023/24 Actual	2022/23 Actual
1. Borrowing rate achieved (i.e. temporary borrowing of loans less then 1 year)	SONIA o/n rate (4.96%)	1.30%	0.55%
2. Investment rate achieved against the SONIA rate	SONIA o/n rate (4.96%)	5.11%	2.10%
3. Average rate of interest paid on Council debt during the year	3.40%	3.21%	3.02%
4. The amount of interest on debt as a percentage of gross revenue expenditure.	3.60%	3.16%	3.30%
5. Net Income from Commercial and Service Investments to Net Revenue Stream	11.14%	11.11%	11.05%

Economic Background for 2023/24

The following commentary on the economic conditions for 2023/24 is provided by Link Asset Services, the Council's treasury management advisers.

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.