Appendix 1 -
Treasury Management Outturn Report 2023-24

1. Purpose

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

1.2. During 2023/24, the minimum reporting requirements mandated that Full Council should receive the following reports:

a) an annual treasury strategy in advance of the year (Council 7 February 2023);
b) a mid-year treasury update report (minimum) (delegated and reported to Cabinet November 2023); and
c) an annual review following the end of the year comparing activity to the strategy, (this report and accompanying Investment Outturn).

1.3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members to enable members to comply with that obligation.

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

2. Summary and Highlights

2.1 This report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and includes coverage of the following:

i.) a review of the Treasury Management Strategy Statement.
ii.) a review of the Council's investment portfolio for 2023/24 (Section 3).
iii.) a review of the Council's borrowing strategy for 2023/24, including comments on any debt rescheduling undertaken during 2023/24 (Section 4).

iv.) the Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators (Annex 2 of this Appendix); and

v.) an economic update for the 2023/24 financial year (Annex 3).

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

Table 1: Prudential and treasury indicators

	2023/24	2023/24	2022/23	Movement	
	Budget £ (000)	Actual £ (000)	Actual £ (000)	2023/24 Budget to Actual	Actual 22/23 to 23/24
Capital expenditure	316.94	175.52	117.35	(141.43)	58.17
Capital Financing Requirement:	425.32	265.72	256.85	(159.60)	8.87
Gross borrowing	321.41	272.98	321.98	(48.43)	(49.00)
External debt	**321.41**	**272.98**	**321.98**	**(48.43)**	**(49.00)**
Treasury Investments					
Longer than 1 year	0.00	60.00	10.00	60.00	50.00
Under 1 year	216.26	286.26	447.00	70.00	(160.74)
Total	**216.26**	**346.26**	**457.00**	**130.00**	**(110.74)**
Net borrowing/(Investments)	**105.15**	**(73.29)**	**(135.03)**	**(178.43)**	**61.74**

2.3 On 31 March 2024 and throughout the financial year then ended, the council maintained a net investment position with total investment exceeding total borrowings. The net investment position on 31 March 2024 was £73.29m.

2.4 Total treasury investments were £346.26m on 31 March 2024 compared to £457m on 31 March 2023, a reduction of £110.7m. The investments comprised short term loans to other local authorities and housing associations, deposits with banks, money market funds and investments in variable net asset value funds.

2.5 The following **highlights** are detailed in this report:

i.) Liquid funds (*funds that can be accessed very quickly*) decreased by £64m during the year to £86m on 31 March 2024 and averaged £104m during the year. Sufficient liquidity has been retained throughout the year to meet the expected call on the Council's cash balances to fund spending.

ii.) Total interest income of £17.99m was recorded from treasury investments, significantly exceeding the budget of £4.68m, this substantial additional return helped to alleviate the financial pressure the council faced during the year. Whilst these significant returns are welcomed in the context of overall Council

budget, it is important to exercise caution as the amount of income generated is influenced by the level of cash available, prevailing interest rates, and the need for external borrowing. These elements are, in turn, impacted by external economic conditions, which may be unpredictable and subject to change.

iii.) The weighted average yield earned on all Council's treasury deposits was 4.45% compared to 1.58% average yield recorded in the previous year but was lower than the benchmarks set in the 2023/24 Treasury Management Strategy. The internally managed investments missed the 7-day SONIA backward looking rate by 59 basis points and the externally managed funds missed the respective benchmark by 40 basis points.

iv.) The Council's total long-term borrowing (Public Works Loan Board loans) as of 31 March 2024 was £272.9m compared to £321m on 31 March 2023. During the year, the prevailing market conditions presented an opportunity for the council to make an early settlement of £49m against the PWLB loan debt resulting in the council's debt reducing to £272.9m compared to the £321m at the start of the year. The early debt payment resulted in the Council earning a discount of £1.9m that will be recognised in the revenue account over the next ten years at £0.19m per annum, the reason for spreading the discount over a 10 years is to comply with the regulatory override for discounts, which mandates local authorities to amortise such discounts over the remaining life of the original loan.

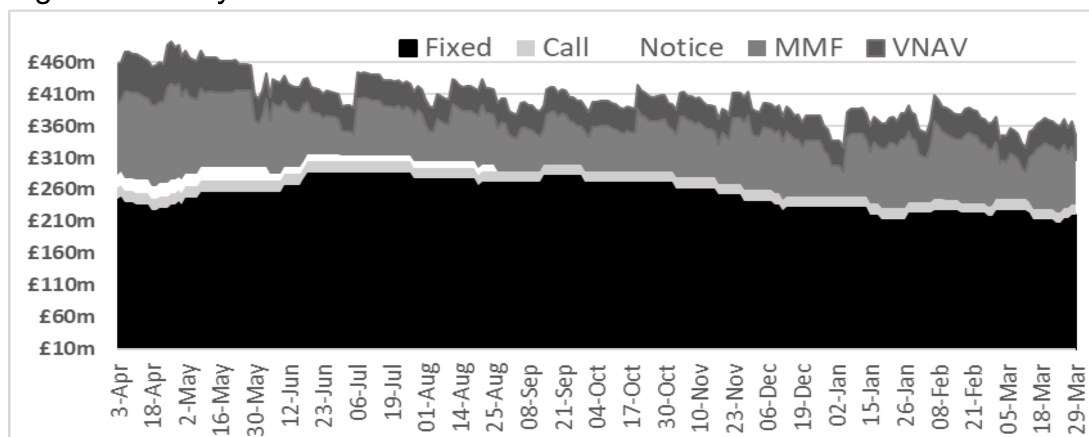
v.) The option to make a discounted three-year pension prepayment was not taken after further exploration of the pension early payment business case highlighted that an equivalent return could be delivered through core Treasury Management activity.

3. Annual Investment Strategy

Investment balances

3.1 The level of funds available for investment purposes during the year averaged £405m and totaled £346m as of 31 March 2024. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Figure 1 – Daily Investment Balances



3.2 The total investments balance reduced by £111m from the £457m at the end of the last financial year to £346m on 31 March 2024.

3.3 About 68% (£237m) of the total treasury investments were managed in-house through fixed term lending to local authorities, housing associations, together with a bank call account, while 32% (£110m) was externally managed through money market funds and special purpose variable net asset value funds.

Table 2 -Investment Balances movements during the year

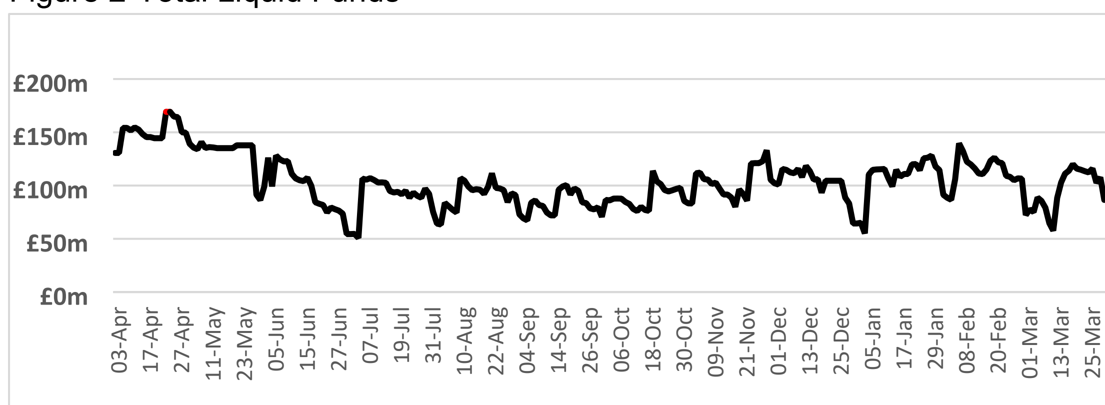
Investment Type in £ Millions	Balance on 31 March 2023	Movement	Balance on 31 March 2024
	£m	£m	£m
Building Society Loans	50	-50	0
Housing Association Loans	0	30	30
Local Authority Loans	200	-10	190
Bank Deposits	38	-22	16
Managed In House	**288**	**-51**	**237**
Money Market Funds	112	-42	70
VNAV Funds	56	-17	39
Externally Managed	**169**	**-59**	**110**
Total Funds	**457**	**-111**	**346**

3.4 Total **liquid funds** (bank balances plus money market funds) averaged £104m during the year and reduced from £151m at the beginning of the year to £87m on 31 March 2024. The early repayment of the £49m PWLB debt partly contributed to the reduction in liquid funds. As shown in Figure 2 below, the maximum level of liquid funds held was £169m held for a few days during the third week of April 2023, while the minimum total liquid funds held at any one time was £51m. The average liquid funds held throughout the year was

£104m and within the £150m upper limit set in the Treasury Management Strategy.

3.5 This level of liquidity ensured that cash is always available when it is needed for service delivery and capital expenditure. The high liquidity levels at the beginning of the year throughout April had been arranged to enable the three-year pension early payment of £104m, an option that was eventually not taken with the funds being re-directed onto treasury instruments with higher returns than the savings from the pension early payments.

Figure 2-Total Liquid Funds



3.6 **Fixed deposits** (fixed term loans) with local authorities, housing associations and building societies reduced from £250m at the end of last financial year to £220m while the **Variable Net Asset Value (VNAV) funds** declined by £17m from £56m to £39m following divestment from one of the three funds early in the year. VNAV funds are discussed in more detail later in Section 4 of this report.

3.7 The variable net asset funds tend to grow in value when interest rates are low and lose value in times of high interest rates as investors sell their investments and divert them to interest-earning assets.

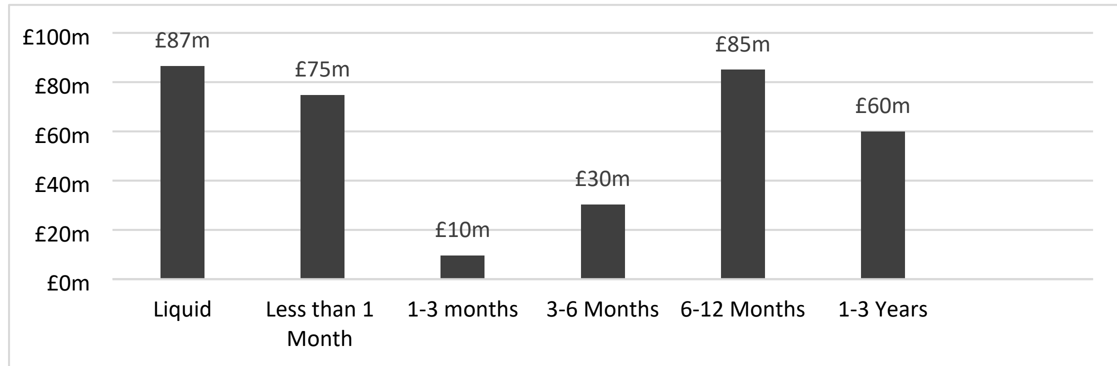
3.8 Throughout the year, we have maintained about £17m in a call account with the Council's main bank as a reserve, this is an instant access account in case we experience any technical issues with withdrawals from the liquid money market funds or if emergency payments are required after the cut off time for withdrawing from money market fund pools. This ensures the Council has available cash to meet its statutory duties.

Investments Maturity Profile

3.9 The maturity profile of the treasury investments on 31 March 2024, was largely short-term, with 83% of the investments maturing within twelve months, 25% liquid and only 17% maturing over 12 months. Investments in the liquid money market funds continued to enjoy relatively good interest rates meeting all the Council's three investment priorities of security, liquidity, and

yield. This is also in line with the prevailing market where borrowers and funds are reluctant to commit to long term securities as they will be tied to expensive debt/deposits when the long-term market expectation is that interest rates will begin to fall in the medium-term as inflation declines. The Figure 3 (below) illustrates the maturity profile of the investments at the end of the year.

Figure 3 – Investment Maturity Profile



Creditworthiness

3.10 As stipulated in the Treasury Management Strategy, investments have been made in either UK based banks, rated building societies with a minimum of A- Fitch credit rating, and UK local authorities.

3.11 The Council uses Fitch, S&P and Moody's ratings to assess the creditworthiness of Treasury investment counterparties. A creditworthiness ratings table can be found in Appendix 4.

3.12 There were no changes to credit ratings of investment counterparties and countries during the year except for Deutsche Bank AG which had its Standard & Poors (S&P) rating changed from A to A- while unchanged by the other two rating agencies. The Council currently has no investment with Deutsche Bank AG However, officers continue to monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

3.13 While a number of local authorities have issued Section 114 notices and many others are reported to be facing serious financial challenges, the sector generally remains a relatively safe investment due to statutory protection. Where a loan is made to a UK local authority, the lender is provided with a statutory protection via the Local Government Act 2003. It means that all money borrowed by a local authority, together with any interest on the money borrowed, shall be charged, on all the revenues of the authority. There are only a small number of local authorities that have a formal credit rating, so lenders will rely on this statutory protection when they arrange any loans with a UK based local authority. The CIPFA Code of Practice on Local Authority Accounting also includes wording to support this view. It says, "Local authorities shall not recognise a loss allowance for expected credit losses on

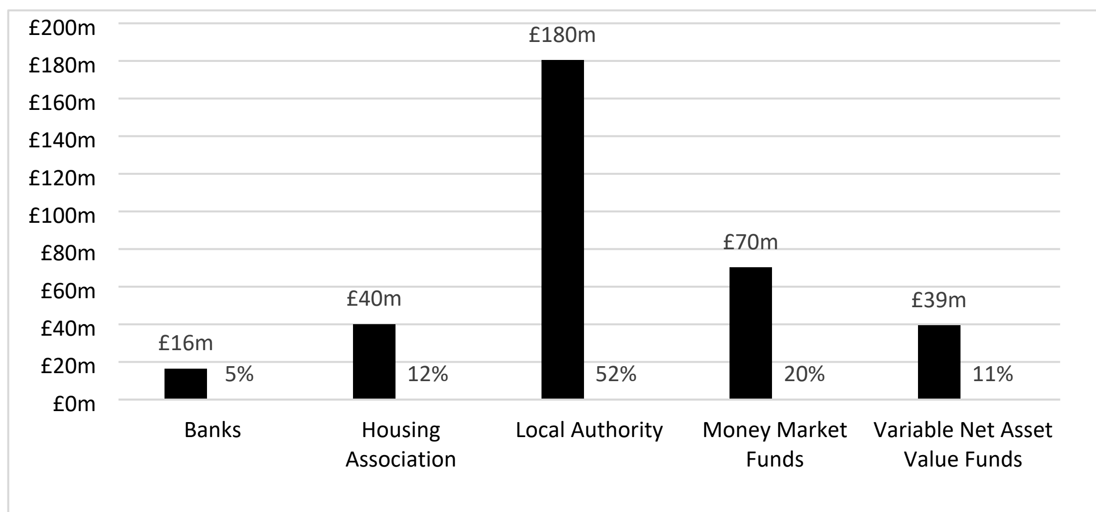
a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provision prevents default."

3.14 Despite this cover, the Council still endeavours to invest with local authorities that have good financial standing. This approach contributes to the effective management of reputational risk associated with investing Warwickshire taxpayers' money.

Investment Counterparty Criteria

3.15 As set out in the 2023/24 Treasury Management Strategy, we have continued to prioritise security and liquidity with yields being considered within these two parameters. The approach resulted in the Council's treasury investments being spread across diverse sectors which exhibit strong security and liquidity features. The graph below (*Figure 4*) illustrates which sectors and in what proportions the treasury funds were invested as of 31 March 2024.

Figure 4 – Investments Sectoral Spread



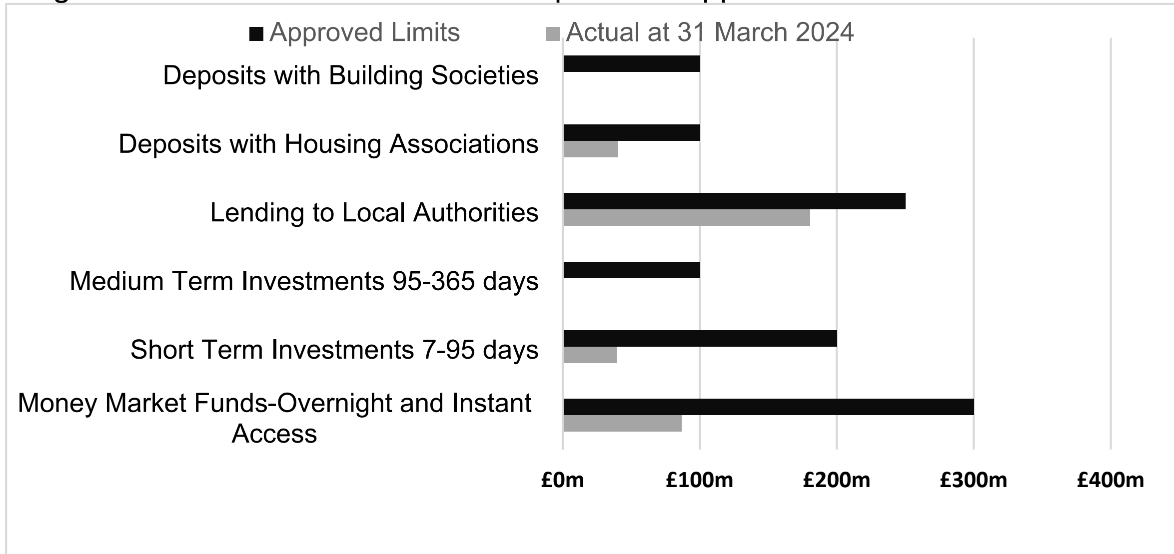
3.16 Local authorities (councils, police, and fire authorities) and housing associations together held 64% of the Council's treasury funds on fixed term loans with varying durations of up to January 2026. Investments held with local authorities alone amounted to £180m equivalent to 52% of the total investment portfolio. As pointed out above, investments in local authorities remain the safest investments, regardless of the increasing financial pressures in the sector, due to the statutory protection.

3.17 While the investment counterparty criteria selection included Housing Associations, we had not invested in any housing association until the first quarter when we placed three fixed term loan investments with three different housing associations. As on 31 March 2024 the Council had £40m invested with four housing associations maturing between one to three years. This

expansion is increasing the range of viable investment options open to us and reduces the investment concentration risk profile.

3.18 The counterparty and sectoral total investments were all within the limits set in the Treasury Management Strategy approved by the Council. The graph below (*Figure 5*) illustrates how the sectorial exposures compared to the approved sector limits.

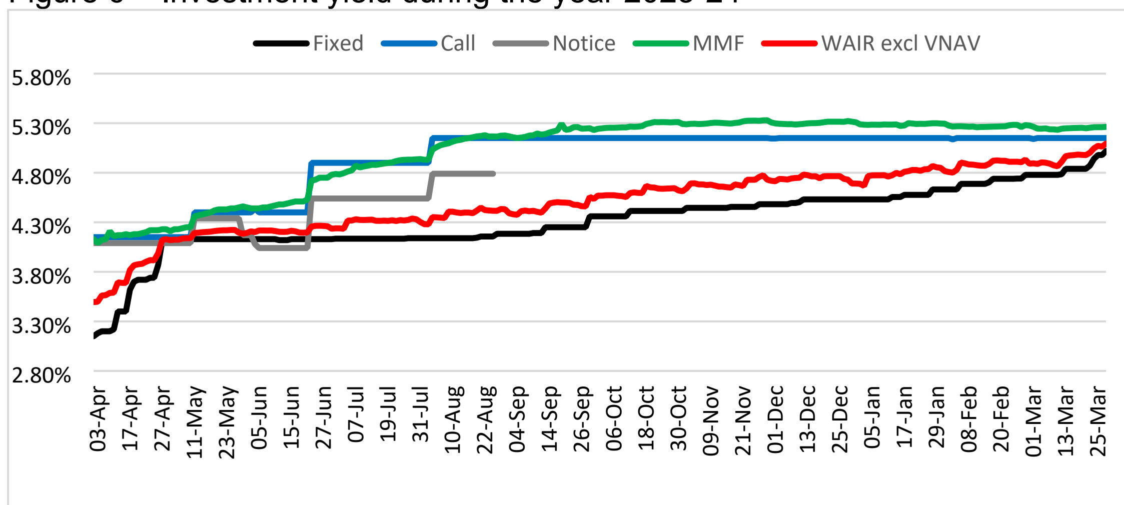
Figure 5 – Sectoral Investments Compared to Approved Limits



Investment Yield

3.19 During the first two quarters of the year, market interest rates continued with the upward trend and continued to rise further due to subsequent global and national political and economic events. However, following the Bank of England's stagnation of the bank rate, interest rates largely remained stable during the second half of the year in response to the Monetary Policy Committee's decision to hold the bank rate at 5.25% at the last five meetings. This is reflected in the graph below which shows the liquid funds, for instance deposits with banks and money market funds, earning on average 5.15% and 5.28% respectively during the second half of the year compared to averages 4.71% on bank deposits and 4.73% on money market funds during the first half of the year.

Figure 6 – Investment yield during the year 2023-24



3.20 The high interest rates environment that prevailed during the year, together with adjustments to the mix of investments, resulted in treasury activities outperforming the budget after recording total income of £17.99m compared to a budget of £4.68m. The interest income budget for the year was set up before the increase in interest rates. The additional income generated has been used to fund the overspends in 2023/24 in the demand-led services and has been critical to supporting the financial sustainability of the Council.

3.21 The recorded £17.99m interest income represents an annual yield of 4.45% on an average investment portfolio of £405m. The 4.45% yield achieved on the Council's treasury investments was lower than the benchmarks set in the 2023/24 Treasury Management Strategy Statement. As shown in Table 3 below, the investments managed inhouse achieved a yield of 4.37% compared to the 4.96% 7-day backward SONIA while the externally managed funds returned 4.61% in comparison to the 7-day backward SONIA compounded rate of 5.01% benchmark. Internally managed funds did not meet the benchmark yield largely due to fixed loans to local authorities and building societies loans carried forward from the low interest rate environment of the previous year. The treasury portfolio diversifies across fixed rate and variable rate investments, and this provides some protection from interest rate volatility. For example, if rates had decreased quickly, then the fixed rate investments would have provided some protection from the pace of reduction in rates. This is illustrated in Figure 6 above which shows the fixed deposit rates (black line) stagnated from May 2023 to early August after which rates consistently increased as more fixed loans matured and new ones were issued at higher rates.

3.22 The Treasury activities income was earned on investments that are managed inhouse and externally managed as shown in the Table 3 below.

Table 3-Investment Income against budget

Investment Yields during the Year	Average Investment Balances £000	Yield £000	Budget £000	Yield %	Relevant Benchmark %
Managed In House	276,067	12,056	2,959	4.37%	4.96%
Money Market Funds	86,823	4,397		5.06%	5.01%
Variable Net Asset Value Funds	41,725	1,533		3.67%	5.01%
Externally Managed	128,548	5,930	1,722	4.61%	5.01%
Total Funds	404,615	17,986	4,681	4.45%	

3.23 During the first half of the year interest rates on total treasury deposits and loans averaged 4.23% and increased to an average of 4.78% during the second half of the year. The interest rates accruing on the treasury investment balances held as of 31 March 2024 are shown in Appendix 1.

4. Variable Net Asset Value (VNAV) Investments

4.1 As noted earlier in the report, included in the treasury investments is £39m invested in variable net asset value investments as of 31 March 2024. These are investments that trade in a similar way to listed stock, where the value of the assets held can vary up and down depending on the performance of the funds. At the beginning of the 2023/24 financial year the Council had investments in three separate funds namely, the Threadneedle Social Bond Fund, CCLA Local Authority Property Fund and the BlackRock ICS Sterling Liquid Environmentally Aware Fund. During the first quarter, a decision was made to divest from the BlackRock fund and divert funds to fixed deposits where higher returns were prevailing.

4.2 Both funds are kept under regular review and at regular intervals it is possible to exit either fund, in full or partially as needed.

4.3 The remaining two funds, in previous years, when the base rate was low, paid a good rate of dividends, their dividend rates have dipped following the increase in the base rate, but have paid relatively consistent dividends. During the financial year, **these funds earned a combined dividend of £1.533m in** income, equivalent to 3.67% yield on the average investment balance of £42m held during the period.

4.4 In addition to dividend income, the variable net asset funds' underlying assets experience fluctuations in market value, leading to unrealised gains and losses. These accounting adjustments in asset values will only be realised upon divestment from the funds. These gains or losses are currently accounted for through the balance sheet. While International Financial Reporting Standard (IFRS) 9 requires such movements to be accounted though the revenue account, in 2018 the UK Government issued a statutory override that requires authorities to remove the impacts of the fair value movements of pooled investment funds from their budgets and record them in

an unusable reserve. This override will expire on 31 March 2025 after which any movements in value will affect authorities' revenue accounts.

4.5 Despite the asset valuation volatility, these funds have continuously paid good dividends since their inception.

Threadneedle Social Bond Fund

4.6 The Threadneedle Social Bond Fund gained in value during the year by 2.8%, a reasonable performance given the high interest period when similar funds tend to lose value as investors seek high returns on the money market. The Council entered this asset in July 2014 at a share price of 102.40p. Several further purchases and redemptions of shares were made in 2014 and 2017. The share price had remained above this initial purchase price level until 2022/23 when it closed the year at 99.44p. The Fund's share price has since recovered towards the initial purchase price to 102.23p on 31st March 2024. Total dividend income for the year from the Fund was £1.028m representing a return of 3.51% per annum.

CCLA Property Fund

4.7 The Council entered this asset in August 2014 at a share price of 248.23p. A further purchase was made in August 2015. The share price has consistently remained above the original purchase price. During the year CCLA property fund value declined by 3.9% resulting in an accounting loss of £239,487 being made. The accounting losses are unrealised losses as the asset remains on the Council's balance sheet and will only be realised when the asset is sold or until such time as the Government ends the statutory override that is currently in place which means that any gains or losses are reflected in an unusable reserve on the balance sheet and not in the general fund. During the year, the Council received £505,000 dividend income from the fund equivalent to 5.10% annual yield.

4.8 The balances held in these two funds are regularly reviewed considering prevailing market conditions and their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives.

5. Borrowing

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2023/24 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organizes the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the

Government, through the Public Works Loan Board [PWLB], or the money markets), or utilizing temporary cash resources within the Council.

5.3 As of 31 March 2024, the Council's CFR was £265.7m representing a net increase of £9m from the 31 March 2023 CFR of £256.85m.

5.4 Total actual borrowing stood at £272.98m on 31 March 2024, compared to £321m at the start of the financial year on 1 April 2023. The reduction was due to the early repayment of PWLB six loans during the first quarter as reported in the half-year treasury report. The next scheduled debt repayment is during the 2029 financial year.

5.5 The authorized limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The Council's authorized borrowing limit for the year under review was £472m. The Council's total borrowings remained within this limit throughout the year.

5.6 The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorized limit not being breached. This limit was set at £393m for the 2023/24 financial year and was not breached during the year.

5.7 While no new loans were drawn, due to market conditions around interest rates and gilt yield the Council was able to take the opportunity to repay prematurely some of our debt. Normally the Council faces repayment penalties that prevents repayment, however, conditions shifted to enable a £1.9m repayment discount. The discount arises due to the Public Works Loan Board (PWLB) being able to re-lend the funds at interest rates higher than the loans the Council holds, so the discount incentivises councils to repay early.

5.8 Another factor in the debt early repayment decision was that this reduced our over-borrowed position, moving the debt more towards our liability benchmark. The decision also reduced peak exposure to debt in loan repayments in future years (this can be seen in Appendix 1, Graph 3), which will allow the Council to re-profile this exposure more effectively as we take out future debt to finance our capital programme, thereby delivering on one of the borrowing objectives set out in the 2023/24 Treasury Management Strategy.

5.9 The table below summarises the loan early settlement transaction:

PWLB Early Repayment	£m
Total Principal to be repaid	49.0
Discount	1.9
Net Payment after discount	**47.1**
Accrued interest to be repaid	0.3
Total Repayment	**47.4**

Debt Maturity Profile

5.10 The table below together with a chart in Annex 1 illustrate the maturity profile of the Council's borrowings. There is no scheduled repayment in the next four years. The next scheduled repayment will be due in the 2029 financial year with the last repayment in 2060.

Tenor Bucket	£
Liquid	0
< 1 Year	0
1 - 2 Years	0
2 - 5 years	£8m
5 - 10 years	£25m
10 - 20 years	£29m
20 - 30 years	£92m
30 - 40 years	£119m
Total Debt	**£273m**

Debt Rescheduling

5.11 Debt rescheduling opportunities have increased significantly in the period where gilt yields, which underpin PWLB rates and market loans, have risen materially. However, during the year under review, no viable opportunity was identified to reschedule the Council's PWLB debt. Treasury Officers continue to closely monitor the debt market developments and review any potential opportunities for debt rescheduling.

PWLB maturity Certainty Rates 3rd April to 29th December 2023

5.12 Gilt yields and PWLB rates were on a rising trend from April through to October but dropped back significantly in November and December. 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%.

5.13 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.

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

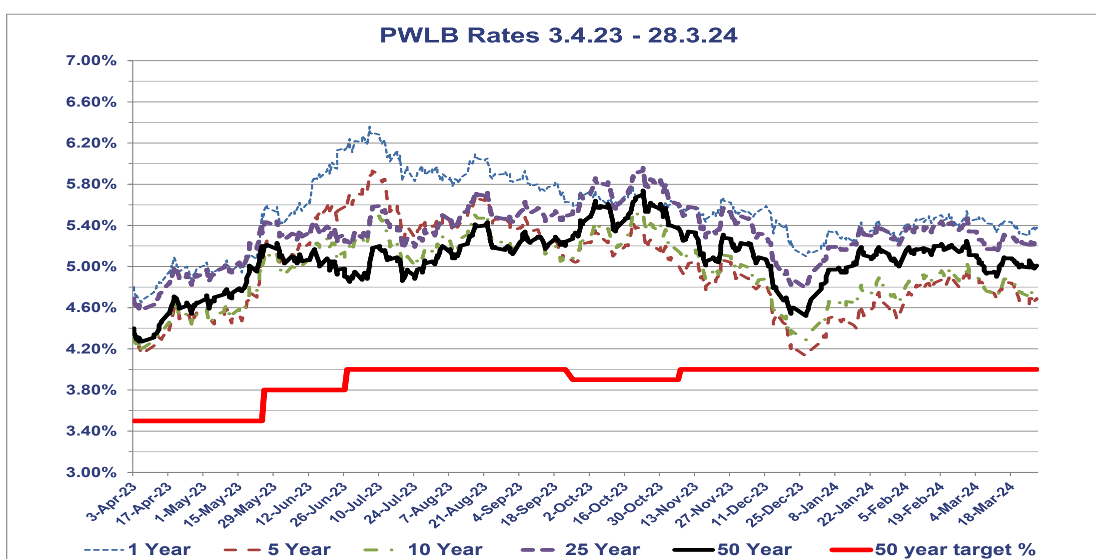
- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

- HRA Borrowing rate is gilt plus 40bps (G+40bps)

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

5.15 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.

PWLB RATES 3.04.23 - 28.03.24 (note: the 1st/2nd April was a weekend)



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%

6. Liability Benchmark

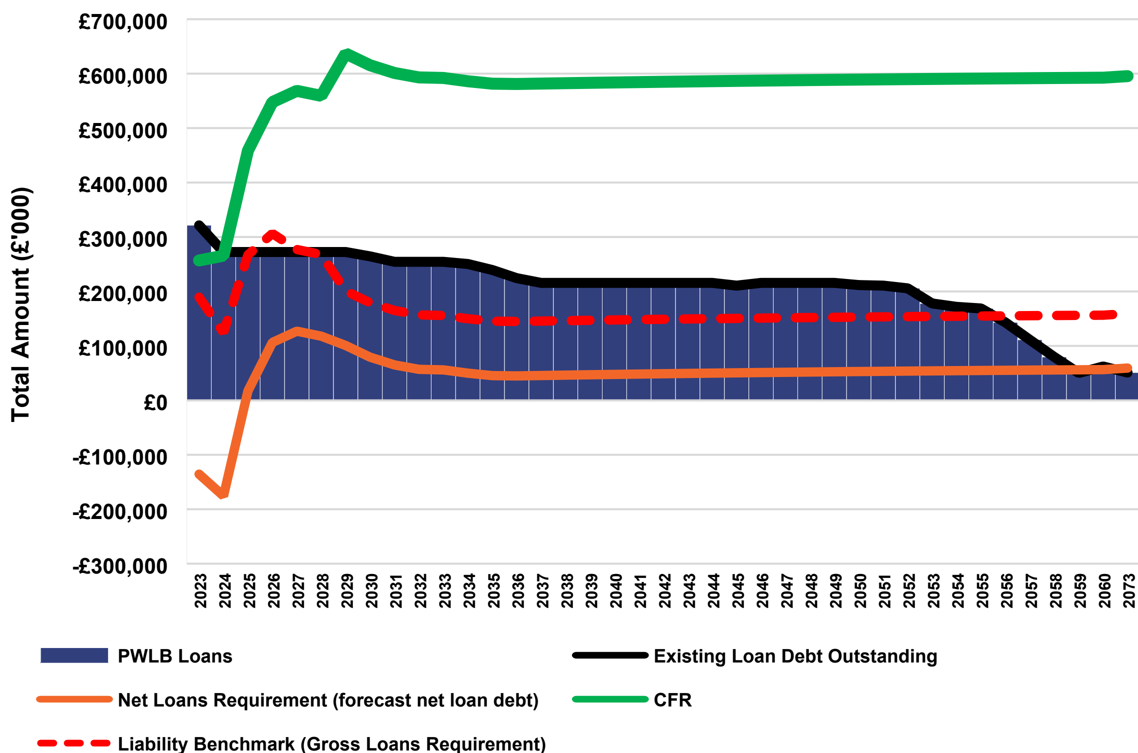
6.1 The purpose of this prudential indicator is to compare the Authority's existing loans outstanding against a standardised assessment of need for external loan debt, referred to as the liability benchmark. The benchmark reflects the borrowing required to finance capital spending but while taking into account the ability to use cash balances instead of borrowing externally and maintaining necessary cash liquidity. If existing external loans outstanding are below the debt required, the authority will potentially need to borrow to meet

the shortfall. Conversely, if the existing external loans outstanding exceeds the requirement, the resulting excess cash may need to be invested. Therefore, the chart offers insight to the authority on how much it needs to borrow, when, and to what maturities to match its planned borrowing needs.

6.2 The liability benchmark is the lowest level of borrowing compared to the CFR borrowing requirement – borrowing only when reserves reach a set minimum level. This assumes that internal resources such as reserves and working capital are utilised and that cash and investment balances are reduced gradually over time.

6.3 As capital spending increases over the next few years and the Council utilises its reserves rather than borrowing more, and the gap between external debt (the black line) and the liability benchmark (the dotted red line) reduces until the Council does start borrowing externally again.

6.4 The cash liquidity buffer is reflected in the gap between the dotted red line (the liability benchmark) and the solid orange line (the net loans requirement). This buffer is planned to be brought down to £100m over time, representing a more efficient use of balance sheet resources, and this shows as a reduced gap between these two lines.

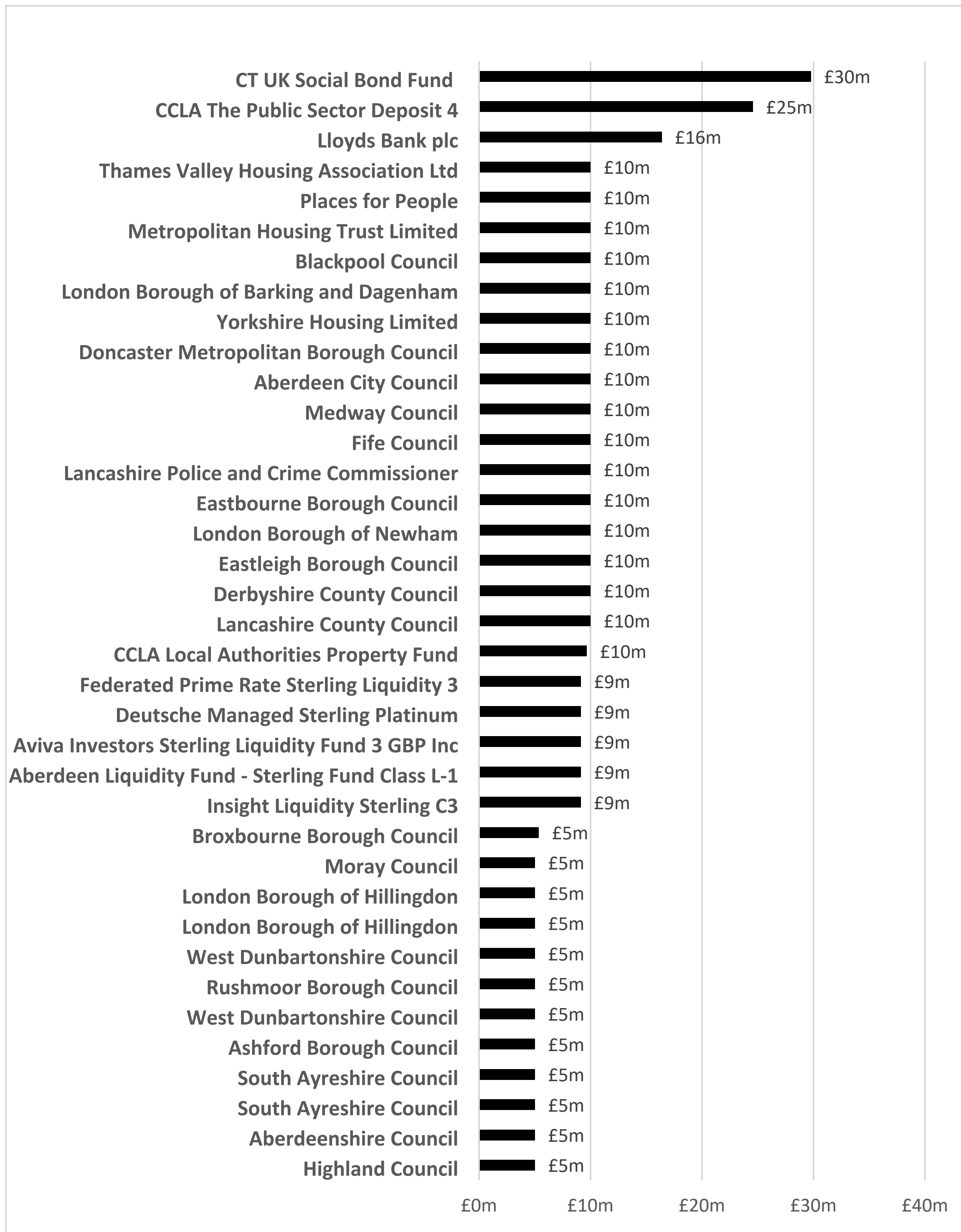


Annex

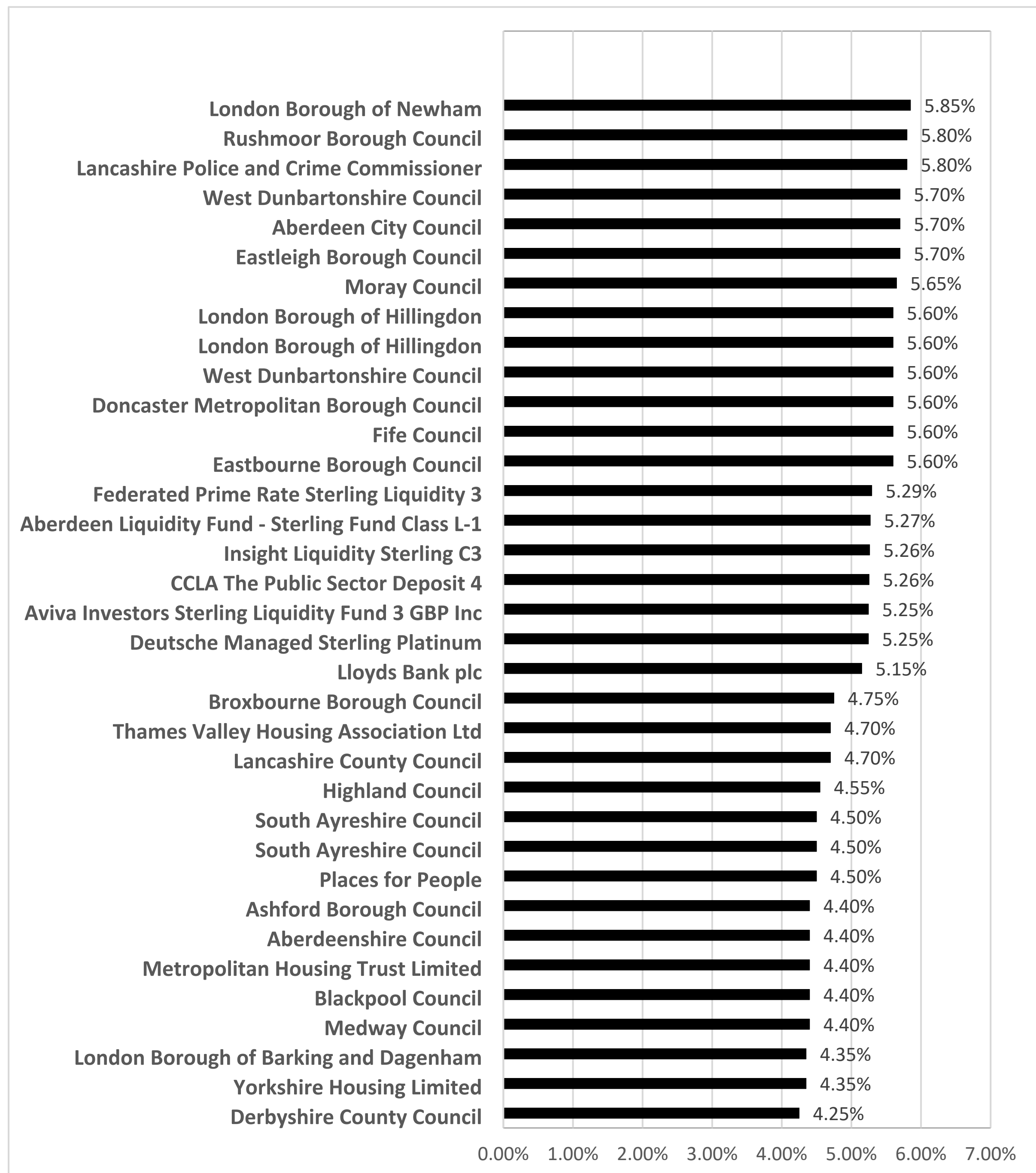
Annex 1 – Investment and Borrowing Portfolio
Annex 2 – Prudential Indicators
Annex 3 – Economic Update
Annex 4 – Creditworthiness ratings table

Annex 1: Investment and Borrowing Portfolios

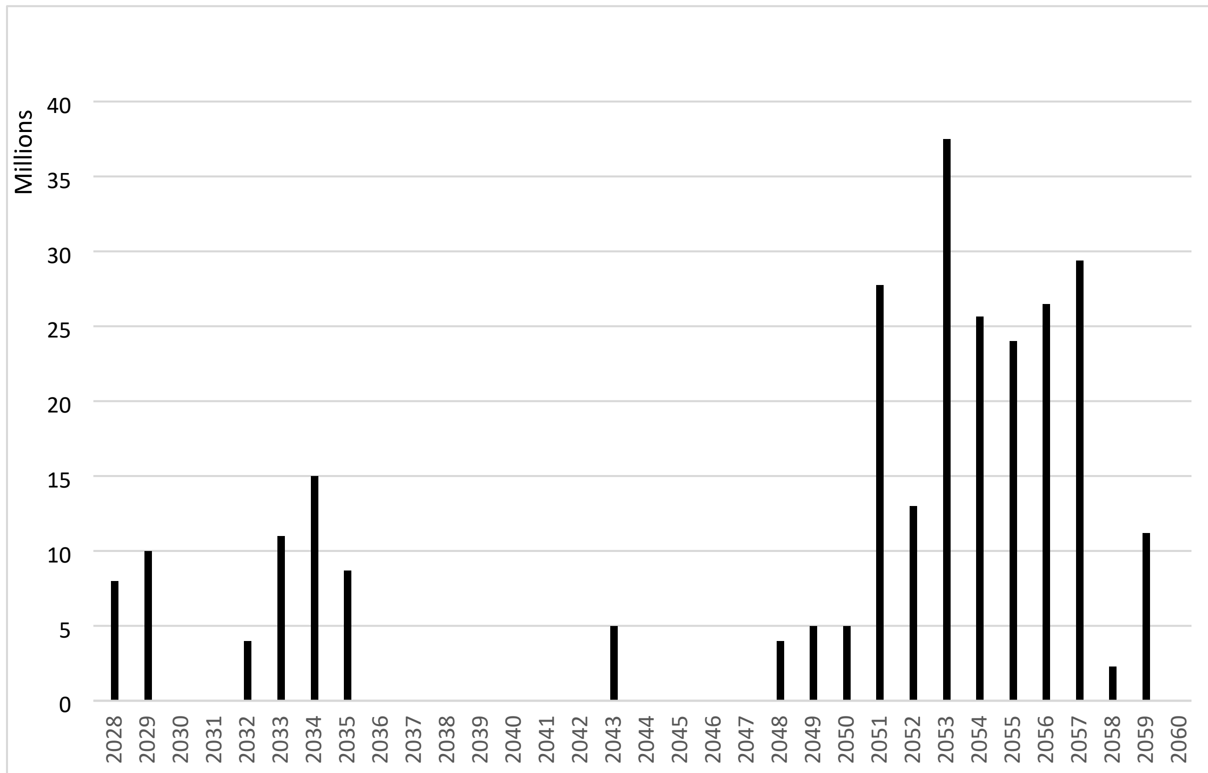
Investments held as of 31st March 2024



Investment yield as of the 31st March 2024 (Treasury Yields by Counterparty)



Borrowing profile as at the 31st March 2024



Annex 2: Prudential Indicators

PRUDENTIAL INDICATOR (1). AFFORDABILITY PRUDENTIAL INDICATORS	2023/24 Actual	2024/25 Estimate	2025/26 Estimate
	£'000	**£'000**	**£'000**
Capital Expenditure	175,518	299,952	173,229
	%	**%**	**%**
Ratio of financing costs to net revenue stream	4.68%	3.60%	4.74%
Gross borrowing requirement	**£'000**	**£'000**	**£'000**
Gross Debt	272,975	272,975	272,975
Capital Financing Requirement as at 31 March	265,720	458,704	547,765
Under/(Over) Borrowing	(6,693)	186,291	275,352
PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**2023/24 Actual**	**2024/25 Estimate**	**2025/26 Estimate**
Authorised limit for external debt -	**£'000**	**£'000**	**£'000**
Borrowing	472,000	509,000	616,000
TOTAL	**472,000**	**509,000**	**616,000**
Operational boundary for external debt -	**£'000**	**£'000**	**£'000**
Borrowing	393,313	486,819	588,665
TOTAL	**393,313**	**486,819**	**588,665**
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%
Upper limit for variable rate exposure			
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%
Upper limit for total principal sums invested for over 365 days	**£'000**	**£'000**	**£'000**
(per maturity date)	£150,000	£150,000	£150,000

Annex 3: The Economy and Interest Rates (provided by Link Group Treasury Management Advisors)

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 across the curve, from the 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".

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.

APPENDIX 4 – Creditworthiness Ratings Table

Moodys	S&P	Fitch	Description
Aaa	AAA	AAA	Highest credit quality, minimum credit risk
Aa1, Aa2 Aa3	AA+, AA, AA-	AA+, AA, AA-	Very high credit quality, very low credit risk
A1, A2, A3	A+, A, A-	A+, A, A-	High credit quality (upper-medium grade)
Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-	Good credit quality, currently low credit risk
Ba1, Ba2, Ba3	BB+, BB, BB-	BB+, BB, BB-	Speculative elements, issue faces uncertainties and adverse conditions
B1, B2, B3	B+, B, B-	B+, B, B-	High credit risk, but issue still able to meet financial commitments
Caa1, Caa2, Caa3	CCC+, CCC, CCC-	CCC	Issuer currently vulnerable, default likely
Ca	CC	CC	Issuer currently highly vulnerable, near default
C	R, SD, D	C, RD, D	Lower rating typically in fault on some or all of its financial obligations