Agenda Item No: 11

Treasury Management Quarter Four Update and Annual Report 2023-24

To:	Strategy, Resources & Performance Committee
Meeting Date:	9 July 2024
From:	Executive Director of Finance and Resources
Electoral division(s):	All
Key decision:	No
Forward Plan ref:	Not applicable

Executive Summary: Through this report the committee supervises the council's treasury management, and ensures that public money across the council's cashflows, borrowing and investments is utilised and deployed effectively and in compliance with the Treasury Management Strategy. This fulfils the statutory requirement for Full Council to consider the treasury management position regularly.

Recommendation: Strategy, Resources and Performance Committee is recommended to note the Treasury Management Quarter Four Update and Annual Report for 2023-24 and endorse it for consideration at Full Council.

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1. Creating a greener, fairer and more caring Cambridgeshire

1.1 This report sets out how the council is managing its treasury activity, including borrowing, lending and investments. This is a key enabling function that underpins all of the council's activities, with particular attention drawn to borrowing that funds the council's capital programme which delivers schools, highways maintenance, green energy schemes and other key projects.

2. Background

2.1 Treasury management is the management of the council's investments and cash flows, banking and deposits, and borrowings and money market transactions. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2021 requires reporting on prudential indicators linked to treasury management activity quarterly as part of the authority's integrated revenue, capital and balance sheet monitoring, and consideration in more detail several times a year.

2.2 Updates on treasury management activities are provided quarterly to this committee, either through the Integrated Finance Monitoring Report (IFMR) or through this more detailed biannual report, and are necessarily retrospective in describing the position at the end of a quarter. However, changes to the UK economy and corresponding implications for our treasury management activity can sometimes be fast paced, therefore some of the information relevant to this biannual report may be partially out of date by the time it is reported. Any significant live treasury management information is therefore presented on a regular basis to committee as part of the Integrated Finance Monitoring Reports.

2.3 As part of the council's Treasury Management Strategy, implementing the requirements of the Prudential Code, the detailed treasury report needs to be considered by Full Council twice annually. The key prudential indicators against which our treasury management activity is assessed are reviewed quarterly by Strategy, Resources & Performance Committee though the IFMR and are set out in Appendix 1.

2.4 This report therefore forms the update on treasury management and is the second standalone report of 2023-24 for consideration by Council. The information presented is as at the end of the fourth quarter, so reflects a report made at a specific point in time. In the current environment where the economic context and loan rate projections move quickly, it is possible that some of the wider context has moved on by the time this report is reviewed.

2.5 This report covers the management of the council's cash, investments and borrowing. All three affect the general Council budget. This is principally through the level of capital financing costs that we pay as a Council when we need to borrow, but also in the returns we get on managing our cash balances and in returns from investments.

2.6 Treasury Management is a complex area of local authority financial management and governance. As such, the most recent revision of the Treasury Management Code has tightened its stipulations to require ongoing member training in this area, as well as the completion of self-assessments against the required competencies. Training for members of this committee with our external treasury management advisor was delivered in January; completion of self-assessments is being arranged.

3. Compliance with Treasury and Prudential Limits

3.1 The council's treasury and prudential indicators are summarised in Table 1 and Figure 1 and are provided in detail in Appendix 1.

3.2 It is a statutory duty for the council to determine and keep under review the affordable borrowing limits. During the quarter and year ended 31st March 2024, the council has operated in compliance with and within all of the treasury and prudential indicators agreed by Full Council in the Treasury Management Strategy (TMS) for 2023-24, as demonstrated below:

Table 1: Treasury and prudential indicators quarter 4 (see appendix 1 for more explanation of these indicators)

Prudential and Treasury Indicators	2023-24 Limit TMS	31 Mar 2023 Actual	Q1 30 Jun 2023 Estimate	Q2 30 Sep 2023 Estimate	Q3 31 Dec 2023 Estimate	Q4 31 Mar 2024 Actual
Annual capital expenditure	£257.6m	£140.2m	£200.1m	£192.4m	£196.0m	£177.0m
Annual capital financing	-£140.9m	-£101.9m	-£138.1m	-£134.6m	-£133.4m	-£122.1m
Annual MRP and other financing adjustments	-£21.6m	-£20.2m	-£22.0m	-£22.0m	-£22.0m	-£22.0m
In-year Capital Financing Requirement	**£95.1m**	**£18.1m**	**£40.0m**	**£35.8m**	**£40.5m**	**£32.9m**
Capital Financing Requirement (CFR) at 31st March[1]	£1,031.7m	£940.3	£980.3m	£976.1m	£980.8m	£972.7m
Authorised limit for external debt, and quarterly estimstes[1]	£1,170.0m	£737.8m	£716.8m	£719.4m	£761.8m	£778.7m
Operational boundary for external debt[1]	£1,140.0m	£737.8m	£716.8m	£719.4m	£761.8m	£778.7m
Ratio of financing costs to net revenue streams – yearly average	9.3%	8.2%	8.1%	7.0%	7.1%	7.2%
Ratio of net income from commercial and service investments to net revenue stream	4.8%	5.0%	5.6%	4.9%	5.0%	4.8%
Upper limit of fixed interest rates based on net debt[2]	150%	80%	84%	67%	71%	79%
Upper limit of variable interest rates based on net debt[2]	65%	20%	16%	33%	29%	21%
Principal sums invested over 365 days (excluding Third-Party Loans)	£50.0m	£34.2m	£33.5m	£32.7m	£33.2m	£32.3m
Maturity structure of borrowing limits:						
Under 12 months	Max. 80% Min. 0%	23.3%	24.5%	28.4%	27.5%	26.1%
12 months to 2 years	Max. 50%	10.9%	9.1%	5.6%	7.1%	10.3%

Prudential and Treasury Indicators	2023-24 Limit TMS	31 Mar 2023 Actual	Q1 30 Jun 2023 Estimate	Q2 30 Sep 2023 Estimate	Q3 31 Dec 2023 Estimate	Q4 31 Mar 2024 Actual
	Min. 0%					
2 years to 5 years	Max. 50% Min. 0%	7.3%	9.0%	9.0%	14.9%	14.3%
5 years to 10 years	Max. 50% Min. 0%	15.1%	14.3%	15.7%	13.5%	13.2%
10 years and above	Max. 100% Min. 0%	43.5%	43.1%	41.4%	37.0%	36.1%

Note 1 - Excluding PFI and Finance Lease Liabilities but including loans raised to on-lend to This Land ltd

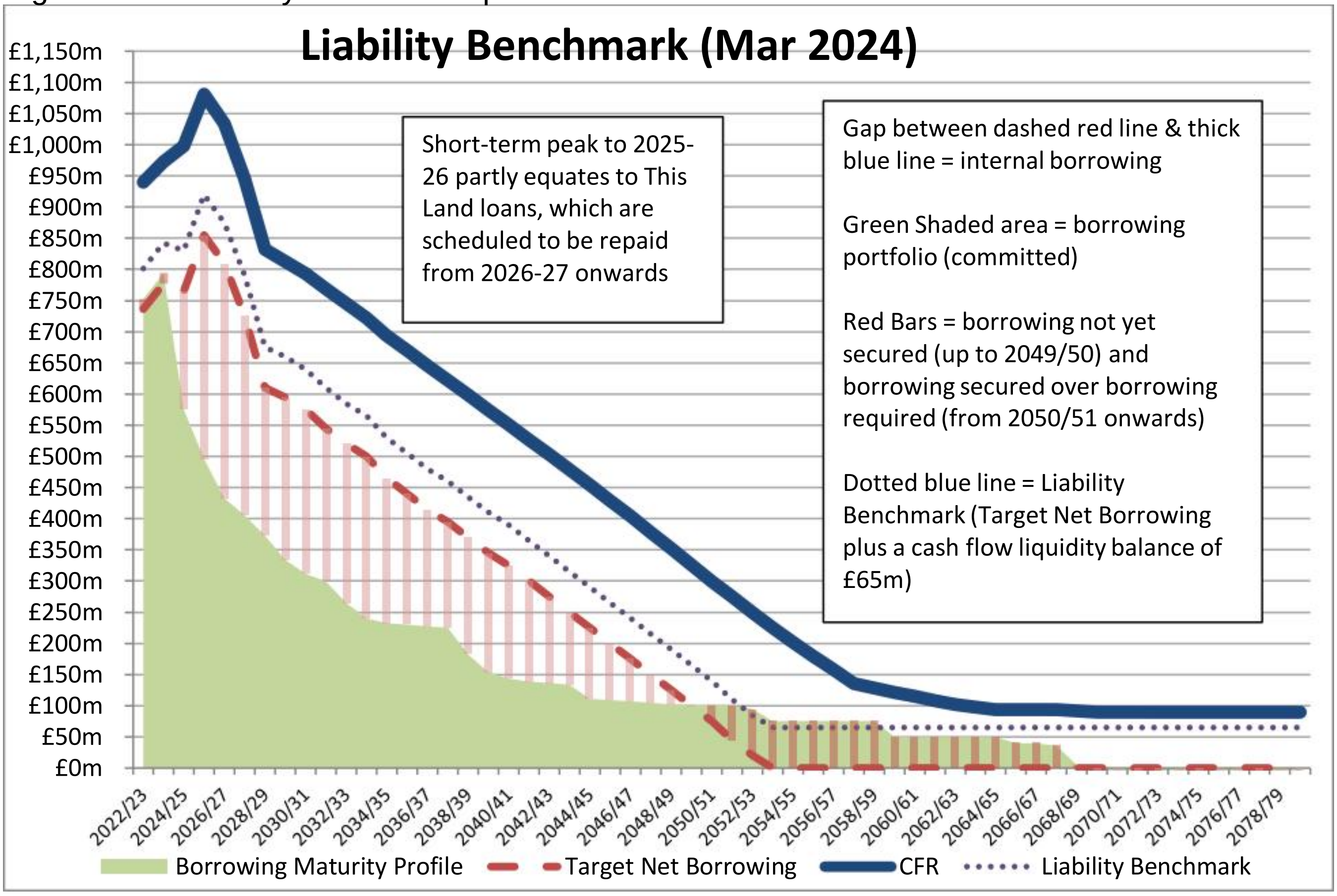
Note 2 - The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula.

3.3 From the table above it is worth noting the increase in borrowing for under 12 months in term compared to last year. This is still well within the maximum limit for this category of debt set out in the TMS; the alternative to this is locking borrowing in for longer terms at currently high interest rates. However, national expectations are for rates to reduce to lower levels in the medium-term, therefore the current strategy is to take out shorter-term borrowing until those cuts materialise.

3.4 The liability benchmark is a new prudential indicator this year and is a projection of the amount of loan debt outstanding that an authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows.

The peak in the blue CFR line in 2025-26 is £10m higher than set out in the 2023-24 TMS due to updated capital expenditure plans, however the peak in the dotted red external borrowing line is £95m lower than the TMS, due to an expectation of higher cash balances and therefore lower external borrowing required.

Figure 1: The liability benchmark quarter 4



3.5 All treasury management operations have also been conducted in full compliance with the council's Treasury Management Practices.

4. Summary Treasury Management Position

4.1 The level of net debt borrowing (including third-party loans) expected to be required set in the Treasury Management Strategy (TMS) for 31st March 2024 was £825.0m. On 1 April 2023, net debt (excluding 3rd party loans and equity) was £737.8m; by 31 March 2024 this had increased to £778.7m. This reflects a small increase in borrowing during the year, albeit lower than forecast in the TMS due to slower spend on the council's capital programme than was forecast, continuing high levels of cash reserves in the early part of the year, plus tight management of cashflow as we approached the end of the financial year, both of which allowed the council to maintain high levels of internal borrowing.

4.2 Table 2 summarises the council's debt and investment position. For more in-depth information on investment and borrowing, please refer to sections 4 and 5.

Table 2: Net borrowing quarter 4

	Actual as at 1 Apr 2023	Actual as at 30 Sep 2023	Actual as at 31 Dec 2023	Actual as at 31 Mar 2024	Change 1 Apr 23 to 31 Mar 24
	£m	£m	£m	£m	£m
Borrowing repayable in <12mth	171.7	204.5	209.5	203.2	31.5
Borrowing repayable in >12mth	566.1	514.9	552.3	575.4	9.3
Total Borrowings	**737.8**	**719.4**	**761.8**	**778.7**	**40.9**
Less Treasury Investment	-106.7	-119.7	-57.2	-93.9	12.8
Total Net Debt/Borrowings	**631.1**	**599.7**	**704.6**	**684.7**	**53.6**
Less Third-Party Loans and Equity	-124.3	-124.2	-124.2	-124.1	0.2
Total Net Debt/Borrowings (including 3rd party loans and equity)	**506.8**	**475.4**	**580.5**	**560.6**	**53.8**

4.3 The council also reviews its treasury performance alongside near neighbours using CIPFA's financial resilience index. While the information in this is lagging (most recent is 2021-22) the council's gross external debt (equivalent to the total borrowings line in table 2) was rated as higher risk relative to the benchmarking group. This is likely due to relatively high gross borrowing resulting from loans to This Land ltd. However, we are relatively more average risk in respect of the 'interest payable divided by net revenue expenditure' indicator, showing that despite the high level of borrowing, we are in a relatively more sustainable position to service that debt.

5. Investments

5.1 The Treasury Management Strategy for 2023-24, including the Annual Investment Strategy for financial assets, was approved by Council in February 2023. It sets out the council's investment priorities as being:

1. Security of capital;
2. Liquidity; and then
3. Yield

5.2 The council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. Money Market Fund (MMF) and Call Account rates have continued to increase in line with Bank Rate increases, therefore the council has received a better return on short-term, laddered investment during the early parts of 2023-24. However, rates peaked in August and have remained static in the latter part of the year, suggesting consideration now needs to be given to lengthening the period of investment to secure higher rates into 2024-25, subject to the availability and need for cash.

5.3 At 31 March 2024, the council's investment balances totalled £93.9m; this is split between Money Market Funds, Call/Notice accounts, Collective Investment Funds and Deposit funds (see Table 3 below). This balance excludes Third-Party Loans and Share Capital (Equity) of £124.1m.

Collective Investment Funds

The revised Prudential Code 2021 states that authorities with an expected need to borrow must review any existing commercial investments annually and report the results of that review; this can be found in Appendix 2. The council concludes that there is currently no financial benefit from divesting in these funds and that this outweighs any risk from continuing to hold the investments. All four funds are continuing to struggle to maintain capital value in the current economic climate; however, the fund managers anticipate the values will recover in the medium-term. The drop in value, however, is tempered by a strong dividend position overall. The dividends delivered £1.591m in 2023-24, compared to a budget of £1.087m. The finance team and our external treasury management advisors keeps these funds under close review – the required annual review of these funds is in appendix 2.

5.4 **Property Fund:** The Property Fund's investment capital value in quarter 4 was £10.2m compared to the original investment of £12m. The portfolio is actively managed to achieve high income and long-term capital appreciation. The latest dividend rate of return for this fund was 4.38%, against a target of 4.35%. This is a longstanding investment fund with many local authorities as members and we would expect capital values and dividends to return to the level expected over the medium-term.

5.5 **Better World Cautious Fund:** This fund was previously called the Diversified Income Fund. In February 2024, the CCLA fund managers decided to merge the fund with the new Better World Cautious Fund in order to open the investment strategy to a wider customer base, as the new fund is available to smaller investors. The aim is to grow the fund more than was possible under the Diversified Income Fund, which could in turn reduce ongoing costs. At the end of quarter 4, the capital value of the investment was £2.3m compared to an original investment value of £2.5m. The investment objective of the fund is to provide a total return (the combination of capital growth and income) after costs, of inflation plus 2% per annum over any rolling 5-year period. The fund invests in a broad range of assets including fixed/floating income securities (bonds) and global equities (shares of companies). The new fund is subject to an enhanced ethical investment policy, which is more transparent, wider reaching and has a more robust approach to ethical limitations. The latest dividend rate of return for this fund was 2.91%, which is higher than expected.

5.6 **Multi-Class Credit Fund:** In January 2024, the sub-fund Allianz Global Multi-Asset Credit Sustainable and Responsible Investment Strategy merged with the sub-fund Allianz Global Multi-Asset Credit. This was proposed as both sub-funds have the same investment strategy, regional scope, benchmark and pricing, therefore merging helps to streamline the product range and increase efficiency by benefiting from economies of scale. At the end of quarter 4, the valuation of the council’s share of the fund stood at £14.1m compared to an original investment value of £14.5m. The fund aims remain to generate positive returns throughout the interest rate and economic cycles by allocating to different credit asset classes and through bottom-up security selection. The latest dividend rate of return for this fund was 4.17%, which is higher than expected.

5.7 **Infrastructure Income Fund:** At the end of quarter 4, the valuation of the council’s share of the fund stood at £5.7m, compared to an original investment value of £8m. The fund’s objective is to deliver a regular income, whilst preserving investor’s capital throughout market cycles and with the potential for growth. The fund invests in a diversified portal of global listed securities and offers exposure to companies engaged in the provision, storage, supply and consumption of clean energy. The capital value of the fund has struggled over the last year, however, the Council receives monthly detailed updates from the fund managers and the performance of the fund (in terms of capital value) is expected to increase over the medium to long term once interest rates start to fall. The fund performance generally sits between the two sector benchmarks but is also less volatile. The latest dividend rate of return has held up well at 4.3%, against a target of 4.5%.

5.8 The average investment balance during quarter 4 (excluding Third-Party Loans and Equity) was £63.1m, which carried a weighted average rate of 5.06%; over the whole year, the average investment balance was £102.4m with a weighted average rate of 4.82%. The level of investment funds varies dependent on the timing of precept receipts, grants, the progress of the capital programme and decisions made about timing of borrowing. Table 3 below shows the investment by counterparty at 31st March 2024.

Table 3: Investments allocation by counterparty quarter 4

Counterparty as at 31st Mar 2024	Liquidity	Principal £m	Principal %
Allianz Global Investors	Notice Period 14 days	14.1	15.0
Handelsbanken	Instant Access	12.6	13.4
Aberdeen Liquidity Fund - Sterling Fund Class L-1	Same-Day	11.7	12.5
Insight Liquidity Sterling C3	Same-Day	11.5	12.3

Counterparty as at 31st Mar 2024	Liquidity	Principal £m	Principal %
Deutsche Managed Sterling Platinum	Same-Day	11.0	11.7
CCLA Local Authorities Property Fund	Notice Period 6 months	10.2	10.8
NatWest Markets Plc	Fixed (3-6 months)	10.0	10.6
Valu-Trac Administration Services	Same-Day	5.7	6.1
CCLA Better World Cautious Fund	Notice Period 6 months	2.3	2.5
Barclays Bank plc	Instant Access	2.0	2.1
National Westminster Bank plc	Instant Access	1.8	1.9
Santander UK plc	Instant Access	1.0	1.1
		93.9	100.0

5.9 The table below summarises the maturity profile of the council's investment portfolio at the end of quarter 4 (excluding Third-Party Loans and Equity):

Table 4: Investment maturity profile at end of quarter 4

		Daily	0-3m	3-6m	~5yrs	Total	
Product	Access Type	£m	£m	£m	£m	£m	%
Money Market Funds	Same-Day	34.3				**34.3**	*39.3*
Bank Call Account	Instant Access	17.4				**17.6**	*18.6*
Fixed Deposit Account	3-6 Months			10.0		**10.0**	*10.6*
Pooled Property Fund	Redemption Period Applies				10.2	**10.2**	*10.8*
Pooled Diversified Income Fund	Redemption Period Applies				2.3	**2.3**	*2.5*
Pooled Multi-class credit Fund	Redemption Period Applies				14.1	**14.1**	*15.0*
Income Fund (Energy)	Same-Day				5.7	**5.7**	*6.1*
	Total	**51.6**	**0.0**	**10**	**32.3**	**94.1**	***100.0***
	%	*54.9*	*0.0*	*10.6*	*34.3*	***100.0***	

5.10 The tables below set out details of the amounts outstanding on loans and share capital investments classed as capital expenditure advanced to third-party organisations at the end of quarter 2. Unless otherwise stated, the original loan value is the outstanding amount. Where appropriate, the council holds security over these loans in the form of property charges (fixed and/or floating).

Table 5: Loans/equity holdings in This Land companies end of quarter 4

Loan Summary	Amount Outstanding (£m)	Repayment Year
Land, Construction & Development loans	113.851	2026/27, 2027/28 and 2028/29
Equity holding	5.851	N/A
Total Loans/Equity in This Land Ltd	119.702	

Note: £13.3m of individual loans to This Land ltd in addition to the above have been repaid in full.

Table 6: Loans/equity holdings in Pathfinder Legal Services end of quarter 4

Loan Summary	Amount Outstanding (£m)	Repayment Year
Cashflow loan	0.325	2029/30
Equity holding	0.475	-
Total Loans/Equity in Pathfinder Legal Services	0.800	

Table 7: Other Third-Party Loans principal outstanding end of quarter 4

Loan Counterparty	Original Amount (£m)	Amount Outstanding (£m)	Repayment Year
Arthur Rank Hospice Charity	4.000	2.960	2042/43
Estover Playing Field 2015 Community Interest Company (Guaranteed by March Town Council)	0.350	0.042	2024/25
Wisbech Town Council	0.150	0.150	2043/44
VIVA Arts & Community Group	0.300	0.030	2031/32
Total Third-Party Loans	4.800	3.182	

5.11 Investment returns compared to benchmark returns are shown in Table 8 below. The preferred benchmark is SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. The council uses the 30-day backward looking rate on a SONIA basis, as this most accurately reflects the type and length of investments (excluding Collective Investment Funds) that the council holds. The decision to use backward looking is because this reflects the rates at the time of decision-making, rather than forward looking rates at the time of reporting.

Table 8: Average benchmark versus Council performance for 2023-24 (excluding Collective Investment Funds) quarter 4

	Benchmark	Benchmark Return	Council Performance
Quarter 1	**30-day backward SONIA**	4.4%	4.2%
Quarters 1-2	**30-day backward SONIA**	4.6%	4.6%
Quarters 1-3	**30-day backward SONIA**	4.8%	5.2%
Quarters 1-4	**30-day backward SONIA**	4.9%	4.8%

5.12 Market conditions aside, the council's return on investments is influenced by several factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument:

- Credit risk is the consideration of the likelihood of default and is controlled through the creditworthiness policy approved by Council.
- The duration of an investment introduces liquidity risk; the risk that funds cannot be accessed when required.
- Interest rate risk, arising from fluctuating market interest rates.

These factors and associated risks are actively managed by the council's finance team. Given the recent volatility of the financial markets, the finance team is keeping a close eye on the credit ratings of institutions we have deposits with, as well as looking to spread deposits across a range of institutions and is also considering the mix of type and duration of deposits.

6. Borrowing

6.1 The council can borrow money to fund its capital program to deliver on its strategic ambitions. The amount of borrowing required each year is based on plans for capital expenditures, projections of the Capital Financing Requirement, underlying borrowing requirements, forecasted cash reserves, and current and future economic conditions. The following table shows the highest, lowest (with dates) and average Public Works Loan Board (PWLB) rates for 2023-24:

Table 9: Highest / Lowest / 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%

6.2 The council continues to utilise short to medium-term borrowing from other local authorities and authorised brokers, particularly in the current environment of higher interest rates which we expect to reduce over the medium-term. However, during 2023-24 we found that these market loans were much less readily available than they previously had been, and as such, they were significantly less competitive compared to PWLB. Therefore the council has taken out significantly more PWLB than in recent years, compared to market loans. The council intends to continue with the strategy of keeping a reasonable proportion of the borrowing portfolio short-dated to avoid fixing in the current higher interest rates, and is able to do so having taken advantage of the low-interest rate environment of the last few years to previously extend the average duration of loans in the portfolio by fixing loans for extended maturities at historically low levels. This does present a risk that we will see higher costs over the medium-term if interest rates do not fall in line with current predictions. We take advice on our borrowing strategy from our external treasury management advisors. The council's average interest rate for borrowing was still relatively low at 3.33% at the end of quarter 4, despite facing higher rates on new loans due to Base Rate increases, as well as higher rates on a number of historic debts; the average for the year was 2.82%. This average will continue to rise, as we continue to have to refinance historic loans at higher rates.

6.3 During the year, the council repaid a total of £197.2m upon maturity. Out of this amount, £61.0m was short-term loans from other local authorities and £117.5m longer-term loans, and £18.7m was longer-term PWLB. The council raised £238.0m in loans from during this period; £88.0m from other local authorities of which £83.0m was short-term borrowing and £5.0m was for longer-term loans, and £150.0m was longer-term borrowing from PWLB. The following table shows the movement in borrowing over the year:

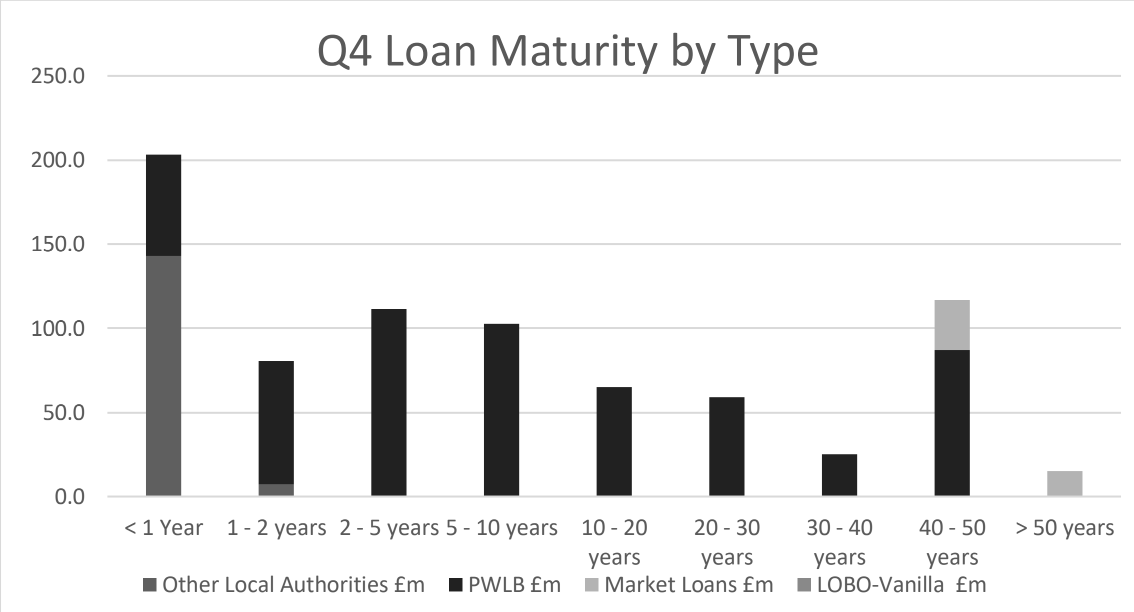
Table 10: Movement in borrowing during 2023-24

Actual as at 1 Apr 2023 £m	Repaid During 2023-24 £m	Raised During 2023-24 £m	Actual as at 31 Mar 2024 £m
737.8	-197.2	238.0	778.7

6.4 At the end of quarter 4, the council held £778.7m in borrowing, with £203.2m maturing within a year. The council continues to be able to re-finance loans as required, albeit now at higher rates than the maturity loan in the case of some loans that were taken out during the period of historically low interest rates. Refinancing of maturing PWLB loans is also no longer possible at a lower rate in most cases, as current rates are now comparable to some of the older loans that were also fixed at a time of higher interest rates. Therefore, an increase in our revenue capital financing budget is built into the business plan.

6.5 Figure 2 below sets out the maturity profile of the council’s borrowing portfolio at the end of quarter 4; £583.7m is held with PWLB, £150.0m from other local authorities and £45.0m in market loans.

Figure 2: Loan maturities by type at 31st March 2024



6.6 The council held one Lender-option/Buyer-option (LOBO) loan (a type of variable rate loan quite common in the past) at the start of 2023-24; we were notified by the lender that they intended to raise the loan's interest rate at the next call date in December 2023, triggering the council's option to repay the loan at par. The council gave notice to repay on the basis of the borrowing strategy set out above, which is to take the option of short-term borrowing in the expectation that rates will reduce over the medium-term. As such, there are no longer any LOBO loans included within these figures.

6.7 The council is in an internally borrowed cash position. This means that we are utilising cash balances held (for example from grants received in advance of linked expenditure) to defer the need to borrow. Balances will need to be replenished at some point in the future (subject to expenditure demands), which is in accordance with our Treasury Management Strategy. This strategy is prudent while investment returns are lower than the cost of servicing debt and serves to mitigate counterparty risk. The council therefore plans to maintain this internal borrowing position but will closely monitor those reserves, balances and cashflows supporting this approach.

6.8 No rescheduling of borrowing took place during 2023-24. The council's loan portfolio limits opportunities for rescheduling. In the case of PWLB loans, early redemption rates exceed the carrying rate of existing borrowing, resulting in substantial exit costs. Similarly, market borrowing lenders hedge against forecast interest rate movements using the loans cashflow profile, passing on the cost of unwinding these instruments as an exit premium to the council. Officers are closely monitoring the situation.

7. Capital Financing Budget

7.1 The capital financing budget is held as a central budget and complies with the reporting requirement in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Treasury Management Practice. The outturn position is an underspend of £3.5m.

Table 11: Debt financing budget quarter 4

	Budget (£m)	Outturn (£m)	Variance (£m)
Interest payable	25.0	20.6	-4.4
Interest charged to Other Funds	-6.9	-6.5	0.4
Interest receivable	-3.0	-6.6	-3.6
Interest receivable charged from Other Funds	2.3	7.2	4.9
Capitalisation of interest cost	-2.4	-2.1	0.3
Technical & Other	0.2	0.1	-0.1
Minimum Revenue Provision	22.9	22.0	-0.9
Total	38.1	34.6	-3.5

7.2 The underspend is comprised of the following elements:

- The council has continued to focus on maximising savings and efficiency in money management by using cash balances to undertake internal instead of external borrowing where possible, or to at least delay the taking out of those loans. This, combined with forecast lower capital expenditure than budgeted, has resulted in a fall in the borrowing required.

- Interest receivable also achieved additional income, through both higher cash balances, and more sustained higher rates than originally anticipated. This was then offset by a higher recharge out to other funds as a result of the higher rates.

- The council is required to repay an element of the capital spend funded by borrowing each year through a revenue charge (the Minimum Revenue Provision (MRP)), so that over the course of the usable life of the asset we have provided for enough funding to repay the associated borrowing. Following analysis of capital schemes completed in 2022-23 and how they were funded, the MRP payment for 2023-24 was recalculated and resulted in a charge that was -£0.9m lower than budgeted.

8. Economic Position for 2023-24 and Interest Rate Forecasts

8.1 The economic position for 2023-24 provides context for the monetary policy strategy of central banks, which in turn impacts on historic interest rate movements and forward-looking forecasts. The following summarises the key economic impacts of 2023-24:

- The Bank of England kept interest rates at 5.25%, consistent with the previous five meetings. Even though no MPC members are voting to raise interest rates now, the bank's guidance remains relatively hawkish.
- The MPC is becoming more confident that inflation will sustainably decrease to the 2.0% target.
- The Bank of England predicts that the UK economy will show some improvement in the first quarter of 2024, but it is still rebounding from a shallow recession in the

second half of 2023. In quarter 4 2023, there was a negative GDP growth of -0.3% and a negative year-on-year growth of -0.2%.

- The CPI measure of inflation was expected to fall below the 2% target rate in April due to falling gas and electricity price caps, and to remain below the Bank of England benchmark for the next couple of years. However, the Bank of England remains cautious. Core CPI was at 4.5% in February and ideally needs to decrease further.
- The retail sector, a key driver of the UK economy, is expected to see a boost in 2024. Rising real household incomes, despite the impact of higher interest rates on household interest payments, are projected to support retail activity. Additionally, cuts to the national insurance tax from April are expected to enhance real household disposable income by 0.5 - 1.0%. After a 1.9% rise in real household disposable income in 2023, a 1.7% rise is predicted to occur in 2024 and a 2.4% rise in 2025.

8.2 Due to the Monetary Policy Committee increasing the base rate further during 2023-24, this has led to a significant rise in borrowing rates compared with the previous decade. While it is anticipated that the peak has now been reached and that rates will start to gradually decrease from September onwards, there are numerous factors that influence this position and therefore caution should be exercised.

9. Significant Implications

9.1 Finance Implications

This report provides information on performance against the Treasury Management Strategy. Decisions on treasury management, which are driven by the capital programme and the council's overall financial position, will impact the capital financing budget and are also reported through the financial monitoring process.

9.2 Legal Implications

There are no significant implications for this category.

9.3 Risk Implications

The council continues to operate within the statutory requirements for borrowing and investments.

9.4 Equality and Diversity Implications

There are no significant implications for this category.

10. Source documents

10.1 The council's 2023-24 Treasury Management Strategy

Appendix 1 – Prudential and Treasury Indicators at 31 March 2024

In this section, we will monitor Prudential and Treasury Indicators to ensure they align with the indicators approved by the council in February 2023, as outlined in the Treasury Management Strategy.

Did the council adopt the CIPFA code of practice for Treasury Management in Public Services?

Yes, the council has adopted the CIPFA's Treasury Management in the Public Services: Code of Practices and Cross-sectoral Guidance Notes.

1. The capital prudential indicators

Capital expenditure.

	2023-24 TMS £m	Q1 23-24 £m	Q2 23-24 £m	Q3 23-24 £m	Q4 23-24 £m
Total Capital Expenditure	257.6	200.1	192.4	196.0	177.0
Capital Financing	-140.9	-138.1	-134.6	-133.4	-122.1
Net Capital Financing Need	**116.8**	**62.0**	**57.8**	**62.5**	**54.9**
MRP and other financing movements	-21.6	-22.0	-22.0	-22.0	-22.0
Capital Financing Requirement	**95.1**	**40.0**	**35.8**	**40.5**	**32.9**

For the detail of capital expenditure and funding please refer to the capital forecast outturn in the Integrated Finance Monitoring Report.

The council's borrowing need (The Capital Financing Requirement (CFR))

Capital Financing Requirement in 2023-24 TMS £m	Actual Borrowings (1 April 23) £m	Actual Gross Borrowings (31 Mar 24) £m	Increase in borrowing during 2023-24 £m	Difference between CFR & Borrowings (31 Mar 24) £m
1,031.7	737.8	778.7	40.9	-253.0

Liability benchmark

There are four components to the liability benchmark:

1. **Existing loan debt outstanding**: existing loans that are still outstanding in future years.
2. **Loans CFR**: calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. Only approved borrowing should be included.

3. **Net loans requirement**: the council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark (or gross loans requirement)**: this equals net loans requirement plus short-term liquidity allowance.

The authorised limit for external borrowing

2023-24 TMS Limit £m	Actual Borrowings 31 Mar 24 £m	Headroom compared to Authorised Limit £m
1,170.0	778.7	391.3

The Authorised Limit is the legal cap on the amount of debt the council can have, and it must not be exceeded. This means that the council cannot have more debt than this limit in any given year.

The operational boundary

2023-24 TMS Limit £m	Actual Borrowings March 31 24 £m	Headroom compared to Operational Boundary £m
1,140.0	778.7	361.3

The operational boundary serves as a warning that the debt is approaching the authorised. limit and requires close monitoring.

2. Treasury management limits on activity

Interest rate exposure

	2023-24 TMS Limit	Q1 23-24	Q2 23-24	Q3 23-24	Q4 23-24
Fixed rate	150%	84%	67%	71%	79%
Variable rate	65%	16%	33%	29%	21%

The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation, exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula. Where the indicator is negative, it is due to investment income of that category exceeding debt of that category. The formulas are shown below:

Fixed rate calculation:

$$\frac{\text{Fixed rate borrowing* – fixed rate investments}}{\text{Total borrowing – total investments}}$$

Variable rate calculation:

<u>Variable rate borrowing** – variable rate investments</u>
Total borrowing – total investments

* Defined as greater than 1 year to run
** Defined as less than 1 year to remaining to maturity or, in the case of LOBO borrowing, the next call date falling within 12 months – to reflect the risk of fluctuation of short-term borrowing costs

Maturity structure of borrowing

	2023-24 TMS Upper Limit	**Q1 23-24**	**Q2 23-24**	**Q3 23-24**	**Q4 23-24**
< 1 Year	80%	24.5%	28.4%	27.5%	26.1%
1 - 2 years	50%	9.1%	5.6%	7.1%	10.3%
2 - 5 years	50%	9.0%	9.0%	14.9%	14.3%
7.5 - 10 years	50%	14.3%	15.7%	13.5%	13.2%
>10 years	100%	43.1%	41.4%	37.0%	36.1%

Note: The guidance for calculation of this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity.

Total principal funds invested for the periods longer than 365 days

	2023-24 TMS Limit	**Q1 23-24**	**Q2 23-24**	**Q3 23-24**	**Q4 22-23**
Investment longer than 354 days to run*	£50.0m	£33.5m	£32.7m	£33.2m	£32.3m

**Treasury Management Investment only*

3. Affordability Indicators

Ratio of financing costs to net revenue stream.

2023-24 TMS	**Q1 23-24**	**Q2 23-24**	**Q3 23-24**	**Q4 23-24**
9.3%	8.1%	7.0%	7.1%	7.2%

Ratio of net income from commercial and service investments to net revenue stream

2023-24 TMS	**Q1 23-24**	**Q2 23-24**	**Q3 23-24**	**Q4 23-24**
4.8%	5.6%	4.9%	5.0%	4.8%

Appendix 2: Collective Investment Funds Annual Review

Local Government Capital Finance Framework
The revised Prudential Code 2021 states that authorities with an expected need to borrow must review any existing commercial investments annually and report the results of that review. The relevant extract of the Code is as follows:

Authorities with existing commercial investments (including property) are not required by this Code to sell these investments. Such authorities may carry out prudent active management and rebalancing of their portfolios. However, authorities that have an expected need to borrow should ***review options for exiting their financial investments*** *for commercial purposes and summarise the review in their annual treasury management or investment strategies. The reviews should* ***evaluate whether to meet expected borrowing needs by taking new borrowing or by repaying investments, based on a financial appraisal that takes account of financial implications and risk reduction benefits****. Authorities with commercial land and property may also invest in maximising its value, including repair, renewal and updating of the properties*.

CCC Position on Commercial Financial Investments
The council currently holds four financial commercial investments, which we refer to as Collective Investment Funds. These were entered into over a period of time between 2019 and 2021 as a way of providing an ongoing yield from a diverse range of investment classes – this provided for an income stream to the council that reduced the need to make savings. Currently, we hold a reasonably diversified range of funds - property, diversified income, multi-class credit and infrastructure income and these have performed well.

These investments are monitored on a monthly basis by the Finance team, the income generated from them is monitored monthly through the Integrated Finance Monitoring Report and they are also reported to Strategy & Resources Committee and Full Council on a twice-yearly basis through the Treasury Management Reports.

A summary of the position as at 31 March 2024 is provided below:

Fund	Purchase date	Purchase Amount	Current Value	Net Yield	Budgeted Dividends	Actual Dividends
					2023-24	2023-24
		£0	£0	%	£0	£0
Property Fund: CCLA	27/02/2019	11,000	10,173	4.38	-382	-518
	27/02/2020	1,000				
Better World Cautious Fund: CCLA	03/12/2019	1,500	2,337	2.91	-52	-74
	29/02/2020	600				
	06/09/2021	350				
Multi-Class Credit: Allianz	11/09/2020	14,000	14,126	4.17	-354	-621
	15/09/2020	500				
Infrastructure Income Fund: Valu-Trac Gravis	06/05/2021	4,000	5,701	4.30	-299	-377
	21/05/2021	4,000				
		36,950	**32,337**		**-1,087**	**-1,591**

Some of the factors that the team consider in assessing each of these funds are; the longevity of the fund, whether there are active managers in place, the types of asset class involved and the council's percentage holding of the fund.

CCC Position on Borrowing

The council has a revised capital financing requirement for 2024-25 of £48.4m, with a further £112.8m in the following two years; following this, some of the council's 3rd party loans are scheduled to be repaid which reduces the borrowing requirement from 2026-27 onwards. The detail of this can be found in the council's Treasury Management Strategy, published as part of the 2024-25 Business Plan; these figures have been updated to take into account the rebase lining exercise for the 2024-25 Capital Programme, and the final borrowing position of 2023-24.

Options for exiting financial investments.

The notice periods for exiting each of the four investments is provided below:

Fund	Notice Period
Property Fund: CCLA	6 months
Better World Cautious Fund: CCLA	6 months
Multi-Class Credit: Allianz	14 days
Infrastructure Income Fund: Valu-Trac Gravis	Same-Day

As at 31 March 2024, each of the four funds was valued below purchase price, therefore disinvestment at this point would result in a capital loss to the council of up to £4.6m. The council was aware on entering into these investments that they should be held for the medium to long term, precisely to mitigate against short-term fluctuations in value as determined by the state of the economic environment and market factors, which have been somewhat turbulent over the last two years. Approval to invest in these funds was given, taking into account a recommended minimum hold period for each fund, ranging between 3 and 5 years. The funds are at the following points in the minimum hold period:

Fund	Recommended Min. Hold Period	Duration Held to Date
Property Fund: CCLA	5 years	5 years
Better World Cautious Fund: CCLA	3-5 years	4.5years
Multi-Class Credit: Allianz	3-5 years	3.5 years
Infrastructure Income Fund: Valu-Trac Gravis	3-5 years	3 years

Options for repaying debt

If the council had divested of these funds as at 31 March 2024, £32.3m of cash would have been released that could have been used to internally borrow, avoiding the need to take out that amount of external borrowing. However, part of the reason for holding these investments is for treasury management purposes, as two of the four funds are very/reasonably liquid and all funds can be accessed within 6 months. Therefore, full divestment from all of these funds would require an increase in the average deposit balance the council aims to hold by around £20m to top our liquid cash balances up to the level we aim to hold, actually only leaving £12.3m available for internal borrowing. The £20m additional deposit balance would then likely be invested in short-term money market funds (standard day to day treasury management activity to ensure a modest return on fully liquid funds) at a rate of around 5.2% currently. This would generate around £1m of interest per year.

In the current high-interest rate environment, the council is only taking out short-term (1-2 year) borrowing, most recently at a rate of 5.25%. Reducing external borrowing by £12.3m would therefore save the council around £650k per year.

The trade-off between the income currently generated by the funds, and saving the one-year cost of funding that borrowing/investing the remainder in liquid deposits is therefore currently as follows:

Income generated through CIF = £1.6m, versus:

Reduced cost of borrowing £12.3m @ 5.25% £m	Interest Receivable on £20m @ 5.2% £m	Total saved/additional income £m
0.6	1.0	**1.7**

However, due to the loss in capital value, we would also be required to recognise a one-off £4.6m loss on disinvestment (though due to a current statutory override on the relevant accounting requirement, this would not hit the council’s revenue funds). At the above rates, it would take a very long time to recoup this loss (and these rates are very unlikely to remain at these levels).

Conclusions
Therefore, there is currently no financial benefit from divesting in these funds. In addition, the cost of borrowing is particularly high at the moment due to high interest rates; these are expected to have peaked, and to start to fall over the coming years. Likewise, the eventual reduction in interest rates will impact on the interest received from short-term liquid treasury management activity. Conversely, the dividend return received from these funds currently remains reasonably stable (and increasing), irrespective of the interest rate environment. Therefore, in the longer-term, the financial benefit is likely to continue to be higher from remaining invested in these funds.

The risk from continuing to hold these funds is further drops in capital value. However, taking into consideration the long-term nature of these investments and where we are in the recommended periods, combined with the assessment of other factors such as the longevity of the funds, having active fund managers in place, and given the types of asset class involved, the Treasury team are comfortable that the risks of holding do not outweigh the financial benefit from continuing to hold these investments and therefore at this point, the council should remain invested in these funds. The Treasury team will, however, continue to keep a close eye on the both the capital value and dividend performance of these funds.