-REPORT TO:	**AUDIT COMMITTEE**		
DATE:	3rd October 2024		
TITLE:	**ANNUAL TREASURY OUTTURN REPORT 2023/2024**		
TYPE OF REPORT:	Recommendation		
PORTFOLIO(S):	Cllr Chris Morley E-mail: cllr.chris.morley@west-norfolk.gov.uk		
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OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

Date of meeting:

ANNUAL TREASURY OUTTURN REPORT 2023/2024

Summary

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2017) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2023/2024 and covers:

1. The 2023/2024 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

Appendix 1 – Economic Outlook
Appendix 2 - Investments as at 31 March 2024
Appendix 3 - Borrowing as at 31 March 2024
Appendix 4 - Prudential Indicators
Appendix 5 – Historic Balances

The Council's Treasury Policy Statement 2023/2024 and annual Treasury Strategy Statement 2024/2025 were approved by Council on the 23February 2023.

Recommendations

The Audit Committee is asked to note the annual treasury outturn position for 2023/2024.

Reason for the Decision

The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The Annual Treasury Management Review 2023/2024

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/2024. 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 2023/2024 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 23nd February 2022)
- a mid-year, (minimum), treasury update report (Audit Committee 27 November 2023)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

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

2. Executive Summary

2.1 During 2023/2024, 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:

Prudential and treasury indicators	**2022/2023 Actual £'000**	**2023/2024 Actual £'000**
Capital expenditure	25,347	36,486
Capital Financing Requirement	50,391	65,379
Gross borrowing	10,000	15,000
External debt *	10,094	15,102
Investments *	27,113	7,554
Net borrowing/(investments)	(17,019)	7,548

* Both the External debt and Investments figures shown in the table above include interest accruals. Whereas elsewhere in the report the amounts shown are the principal amounts only.

2.2 Other prudential and treasury indicators follow below in the main body of this report. The Assistant Director Resources confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

3. Introduction and Background

3.1 This report covers the following:-

- Capital activity during the year i.e. capital expenditure and financing (section 4 below);
- Impact of this activity on the Council's underlying indebtedness, i.e. the Capital Financing Requirement (section 5 below);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (section 6 below);
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

4. The Council's Capital Expenditure and Financing

4.1 The Council undertakes capital expenditure on long-term assets. These activities may either 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.

4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	**2022/2023 Actual £'000**	**2023/2024 Actual £'000**
Capital expenditure	25,347	36,486
Financed in year	16,074	19,867
Unfinanced capital expenditure	9,273	16,619

5. The Council's Overall Borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure 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 2023/2024 unfinanced capital expenditure (see above table), 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 organises 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 utilising temporary cash resources within the Council.

5.3 Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 The total CFR can also be reduced by:

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

5.5 The Council's 2022/2023 MRP Policy, (as required by Department for Levelling Up, Housing and Communities Guidance), was approved as part of the Treasury Management Strategy Report for 2023/2024 on 23 February 2023.

5.6 The Council's CFR for the year is shown below and represents a key prudential indicator. It includes leasing schemes that are on the balance sheet, as these increase the Council's borrowing need.

CFR (£m): General Fund	**31 March 2022/2023 Actual £'000**	**31 March 2023/2024 Actual £'000**
Opening Balance	42,779	50,391
Add unfinanced capital expenditure (as above 4.2)	9,273	16,619
Less MPR/VRP	(1,661)	(1,631)
Closing Balance	**50,391**	**65,379**

5.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

5.7.1 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2023 Actual £'000	31 March 2024 Actual £'000
Gross borrowing position	10,000	10,000
CFR	50,391	65,379
(Under) / over funding of CFR	40,391	55,379

5.8 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2023/2024 the Council has maintained gross borrowing within its authorised limit.

5.9 **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 authorised limit not being breached.

5.10 **Actual financing costs as a proportion of net revenue stream** - 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.

	2023/2024 £'000
Authorised limit	86,000
Maximum gross borrowing position during the year	10,000
Operational boundary	81,000
Average gross borrowing position	10,000
Financing costs as a proportion of net revenue stream	

6 Treasury Position as at 31 March 2024

6.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2023/2024 the Council's treasury, (excluding borrowing by finance leases), position was as follows:

6.2

DEBT PORTFOLIO	31 March 2023 Principal £'000	Rate/ Return	31 March 2024 Principal £'000	Rate/ Return
Fixed rate funding:				
- Market (Maturity Loan)	10,000	3.81%	10,000	3.81%
- Local Authorities (Maturity Loans)	-	-	5,000	7.05%
Total debt	**10,000**	**3.81%**	**15,000**	**5.43%**
CFR	**50,391**		**65,379**	
Over / (under) borrowing	**(40,391)**		**(55,379)**	
Total investments	**27,000**	**3.44%**	**7,500**	**5.55%**
Net of debt and investments	**17,000**		**(7,500)**	

structure of the debt portfolio was as follows:

	31 March 2023 Actual £'000	31 March 2024 Actual £'000
Under 12 months	-	5,000
12 months and within 24 months	-	
2 years and within 50 years	-	
Over 50 years	10,000	10,000

As at the 31 March 2024 the council had a single short-term loan of £5 million, over the year end (25/03/24 to 25/04/24). There are two market loans with Barclays of £5m each and these mature in 2077.

6.3 The £7,500,000 investments at the year-end comprised of; £1,500,000 Money Market Funds, and £6,000,000 with Local Authorities

6.4 Full details for both the borrowing and the investments can be found in Appendices 1 and 2.

6.5

INVESTMENT PORTFOLIO	Actual 31 March 2023 £000	Actual 31 March 2023 %	Actual 31 March 2024 £000	Actual 31 March 2024 %
Treasury investments				
Call Accounts / Instant Access Accounts	4,000	15%		
Money Market Funds	11,000	41%	1,500	20%
Local authorities	8,000	30%	6,000	80%
Other Short Term Fixed Investments	4,000	15%		
TOTAL TREASURY INVESTMENTS	**27,000**	**100%**	**7,500**	**100%**

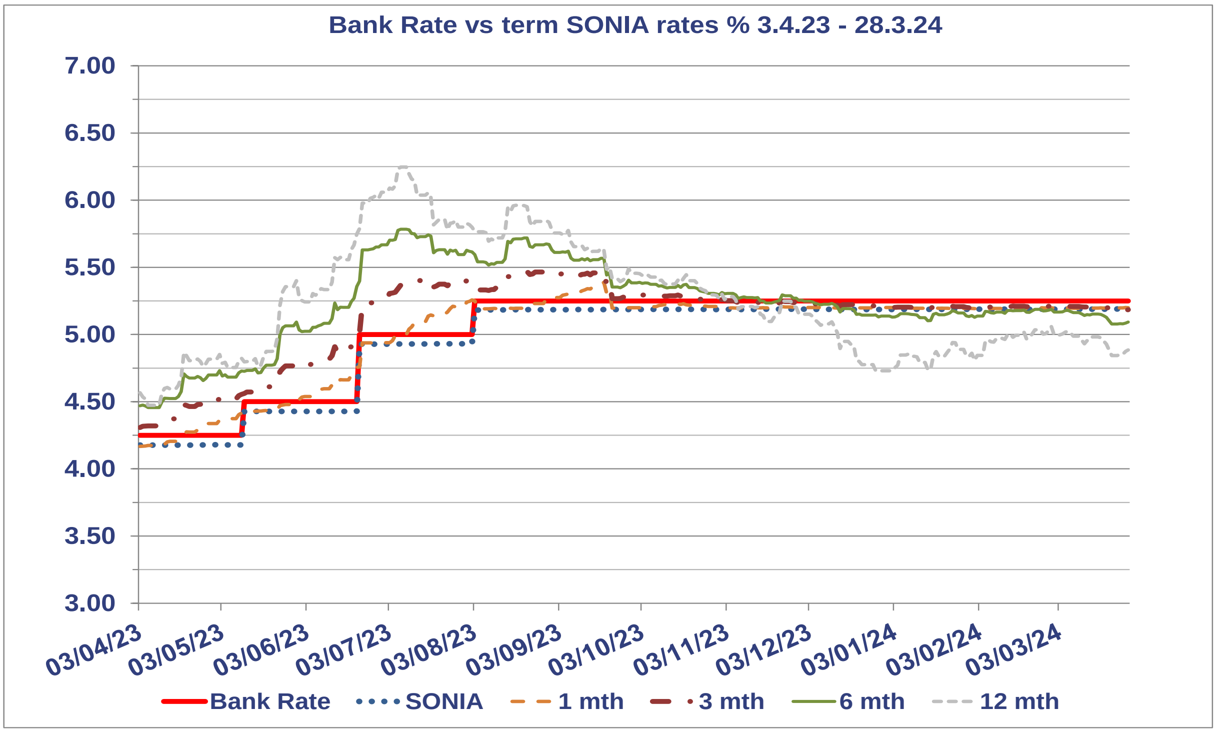
ity structure of the treasury investment portfolio was as follows:

	31 March 2023 Actual £000	31 March 2024 Actual £000
Treasury Investments:		
Longer than 1 year	0	4,000
Up to 1 year	27,000	3,500
Total	**27,000**	**7,500**

7 The Strategy for 2023/2024

7.1 Investment strategy and control of interest rate risk

Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2023/24



For reference, 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.

To support the Risk-Free Rate transition in sterling markets the Bank of England began publishing the SONIA Compounded Index from 3.8.20. This simplifies the calculation of compounded interest rates and in doing so provides a standardised basis through its publication as an official source.

The table below summarises interest rate trends for the financial year up to 28/03/2024, focusing on the Bank Rate and SONIA across 1, 3, 6, and 12-month periods. It shows the highest and lowest rates, their dates, averages, and spreads. For example, the highest 12-month Bank Rate was 6.25% on 07/07/2023, and the lowest was 4.47% on 06/04/2023, with an average of 5.25% and a spread of 1.77%. This data is vital for local authorities in England for financial planning, helping them manage borrowing costs, optimize investment returns, and ensure financial stability. By understanding these fluctuations, they can time their borrowing to benefit from lower rates and adjust investment strategies for better returns. The figures also affect the Public Works Loan Board (PWLB) rates, which are influenced by the Bank Rate and SONIA. Higher rates in the table mean higher PWLB rates, impacting borrowing costs for local authorities.

FINANCIAL YEAR TO QUARTER ENDED 28/03/2024						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	28/03/2024	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	5.03	4.96	5.02	5.13	5.23	5.25
Spread	1.00	1.01	1.22	1.17	1.33	1.77

7.2 Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to fluctuating inflationary pressures, and realised that tighter monetary policy was called for.

Starting April at 4.25%, the Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024. (The rate was cut from 5.25 to 5% on the 1st of August 2024).

The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate 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, became an on-going feature of the investment landscape.

With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.

While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

7.3 Borrowing strategy and control of interest rate risk

7.4 During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2024 and 2025 as inflation concerns are dampened. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

7.6 Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. The Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

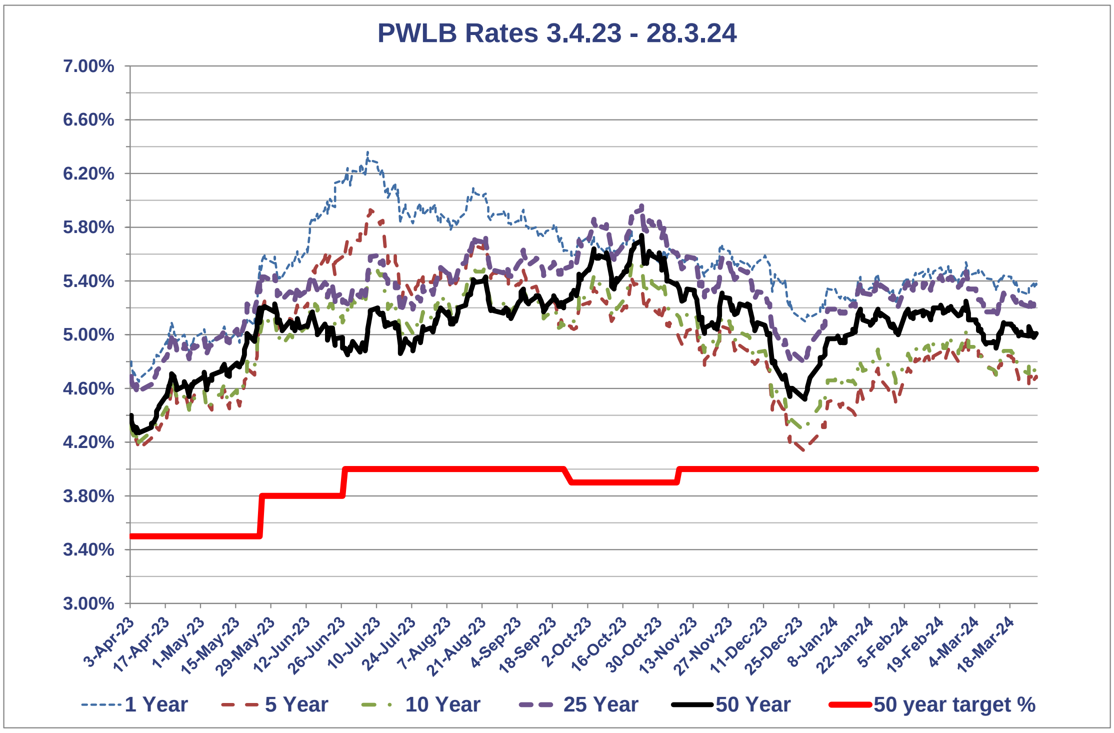
By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.

Forecasts for the Bank of England base rate and various Public Works Loan Board lending rates at the time of approval of the treasury management strategy report for 2023/24 were as follows.

Link Group Interest Rate View	08.01.24												
	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

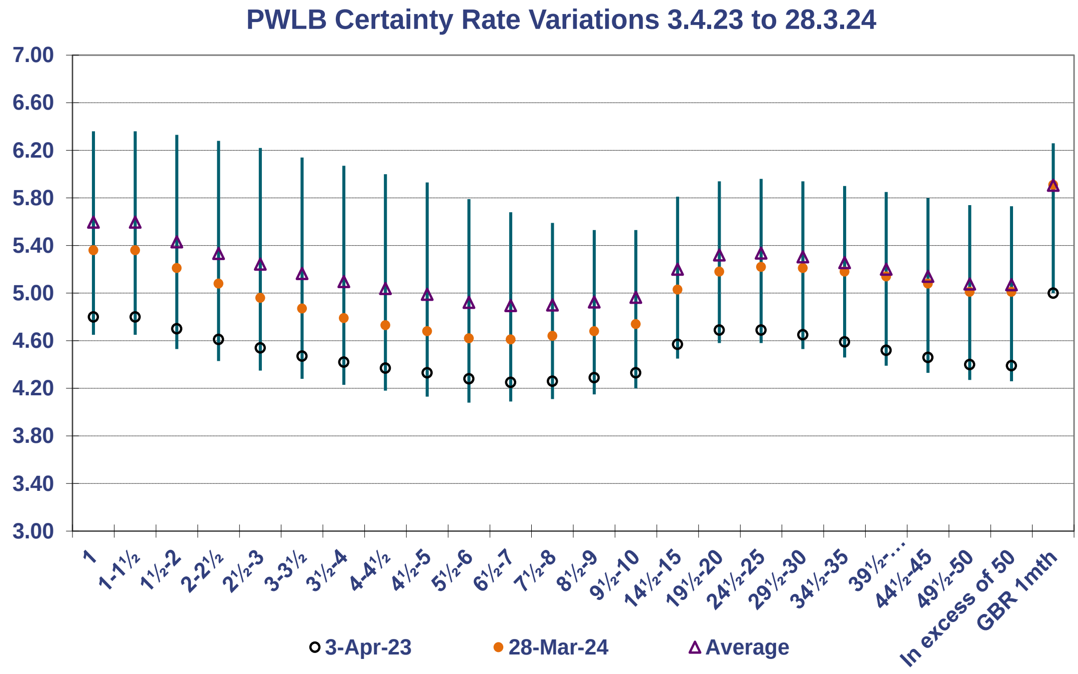
PWLB RATES 2023/24

The graph below shows PWLB loan interest rates over a year to 28 March 24 based on different maturity levels. PWLB rates, influenced by gilt yields, are critical for local authorities as they determine borrowing costs for various projects. As of March 28, 2024, the rates are: 1-year at 4.56%, 5-year at 4.12%, 10-year at 4.25%, 25-year at 4.35%, and 50-year at 4.30%. Higher rates increase borrowing costs, impacting budgets and project funding, while lower rates reduce costs, enabling more investment in public services and infrastructure. Different rates are used for projects of varying durations, from short-term cash flow management to long-term infrastructure developments.



The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, operating within a policy framework set by HM Treasury. This borrowing is for capital projects.

The below graph represents the movement in Certainty Rates over time. The PWLB Certainty Rate is a reduced interest rate offered to local authorities in England, which is 20 basis points (0.20%) lower than the standard PWLB rate. This rate is available to local authorities that provide detailed information about their long-term borrowing and capital spending plans. Overall, the Certainty Rate supports local authorities in managing their finances more effectively and investing in long-term community benefits.



These rates in the table below show how much interest local authorities would pay to borrow money for different periods. The “lowest rate” is the cheapest borrowing cost during the year, the “highest rate” is the most expensive, and the “average rate” is the typical cost over the year. The “spread” shows the range between the highest and lowest rates. Lower rates mean cheaper borrowing costs, which is better for funding projects.

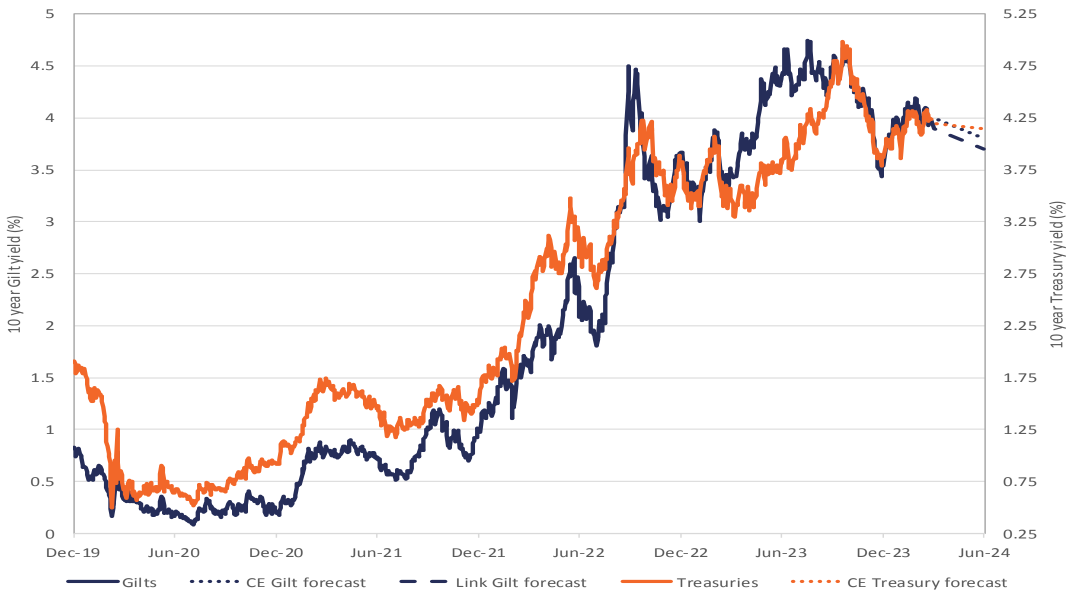
HIGH/LOW/AVERAGE PWLB RATES FOR 2023/24

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.54%	4.99%	4.97%	5.34%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

7.7 Public Works Loan Board (PWLB) lending rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

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



7.8 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%.

7.9 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 40 40bps (G+40bps)

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

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

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

8 Borrowing Outturn

8.1 No long term borrowing was undertaken during the year other than the short term loan of £5 million at the end of the final quarter of the year.

8.2 **Borrowing in advance of need**
The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.3 **Rescheduling**
There was no rescheduling during the year.

9 Investment Outturn

9.1 Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Cabinet on 7 February 2024. 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.).

9.2 The investment activity during the year conformed to the approved strategy, and £6 million of our own funds were loaned to other Local Authorities in quarter 3, £2 million matures in June 2024 and £4 million matures in October 2025.

9.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2022 £'000	31 March 2023 £'000	31 March 2024 £'000
Balances	9,386	* 7,507	*7,006
Earmarked reserves	36,895	34,456	31,505
Provisions	727	*1,201	*740
Usable capital receipts	4,947	4,870	*4,870
Total	**51,281**	**50,472**	***44,121**

*The figures are provisional until the Council produces and publishes its draft Statement of Accounts for 2023/2024

9.4 **Investments held by the Council**

- The average balance of investments for the year was £20,444
- The average rate of return for the year on investments was 4.98%

10 Background Information

- Monthly budget monitoring reports
- Treasury Policy Statement 2023/2024 and Annual Treasury Strategy (Cabinet 7 February 2023)

Appendix 1 – Economic Outlook

The following is provided by the Councils Treasury Advisors – The Link Group (April 24)

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 sprang 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.

APPENDIX 2 - Investments as at 31 March 2024:

Treasury Investments	**Principal**	**Start Date**	**End Date**	**Rate %**
BNP Paribas	£1,500,000	N/A	N/A	5.26%
Total Liquid Accounts	**£1,500,000**			
South Ayrshire Council	£4,000,000	16/10/2023	16/10/2025	5.65%
Babergh District Council	£2,000,000	15/12/2023	17/06/2024	5.70%
Total Fixed Term Investments	**£6,000,000**			
Total Treasury Investments	**£7,500,000**			

APPENDIX 3 - Borrowing as at 31 March 2024:

Start Date	End Date	Loan No	Value £	Institution	Rate %	Term
25.03.24	25.04.24		£5,000,000	Wokingham Borough Council	7.05	1 month
Total Short Term			**£5,000,000**			
22.03.07	21.03.77	5888	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
12.04.07	11.04.77	5887	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
Total Long Term			**£10,000,000**			
Total Borrowing			**£15,000,000**			

APPENDIX 4: Prudential Indicators

PRUDENTIAL INDICATOR	2022/2023 Actual £000's	2023/2024 Actual £000's
Capital Expenditure	25,347	36,486
Ratio of financing costs to net revenue stream	0.78%	0.78%
Net borrowing		
Brought forward 1 April	10,000	10,000
Carried forward 31 March	10,000	15,000
Change in year - increase/(decrease)	-	5,000
Net Investment		
Brought forward 1 April	(34,615)	(27,000)
Carried forward 31 March	(27,000)	(7,500)
Change in year - increase/(decrease)	(7,615)	(20,000)

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2022/2023 unfinanced capital expenditure, and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

CFR (£m): General Fund	31 March 2022/2023 Actual £'000	31 March 2023/2024 Actual £'000
Opening Balance	42,779	50,391
Add unfinanced capital expenditure (as above 4.2)	9,273	16,619
Less MPR/VRP	(1,661)	(1,631)
Closing Balance	**50,391**	**65,379**

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2022/2023. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2023 Actual £'000	31 March 2024 Actual £'000
Borrowing	10,000	15,000
Investments	(27,000)	(7,500)
Net Position	**(17,000)**	**7,500**
Closing CFR	**50,391**	**65,379**

Actual financing costs as a proportion of net revenue stream

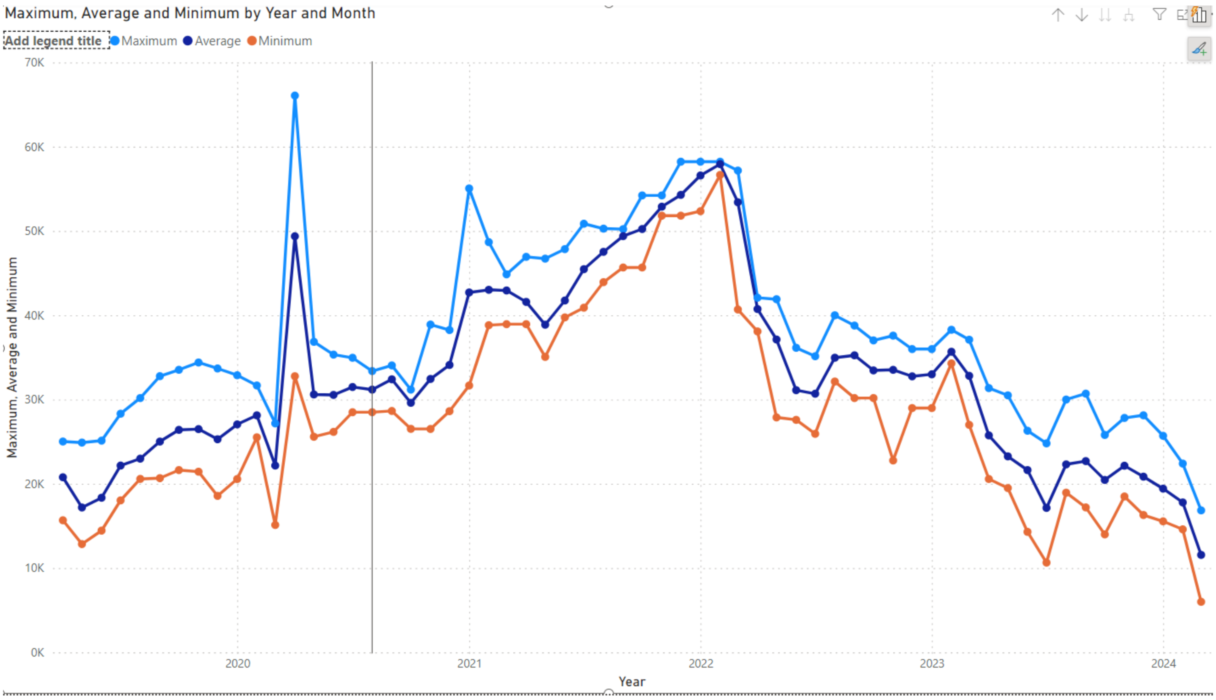
This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream (Council Tax and Government Grant).

	2023/2024 £'000
Authorised limit	86,000
Maximum gross borrowing position during the year	10,000
Operational boundary	81,000
Average gross borrowing position	10,000
Financing costs as a proportion of net revenue stream	0.78%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2022/2023 £'000	2023/2024 £'000
Authorised limit for external debt -		
Borrowing	71,000	86,000
Operational boundary for external debt -		
Borrowing	66,000	81,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	71,000	86,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	28,400	34,400

Maturity structure of fixed rate borrowing during 2022/2023	upper limit	lower limit	Actual
under 12 months	100%	0%	100%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	0%

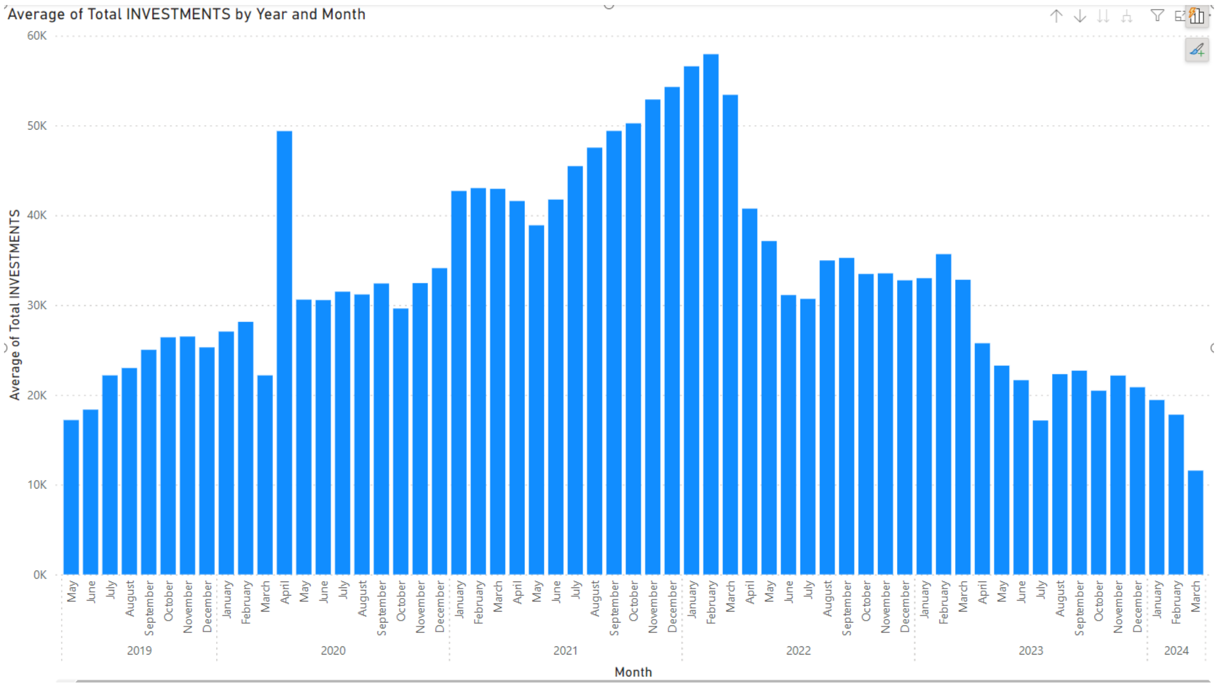
Appendix 5 Historic Balances



The accompanying line graph provides a detailed analysis of our investment balances, which are primarily utilised for managing cash flows. The graph delineates three critical metrics:

1. Maximum Total Balances: This line represents the peak total balances of investments held within a given month.
2. Average Total Balances: This line illustrates the average total balances maintained throughout the month.
3. Minimum Total Balances: This line indicates the lowest total balances of investments recorded in a given month.

The variance between the maximum and minimum values is predominantly driven by the timing of cash outflows for payments and inflows from receipts into our bank accounts.



The graph above illustrates average total investments per month over several years. The outlier month in April 2020 coincides with COVID grants receipts.