Report to Council

Treasury Management Outturn Report 2023/24

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Value for Money & Sustainability

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Reason for Decision

This report advises the Council of the performance of the Treasury Management function of the Council for 2023/24 and provides a comparison of performance against the 2023/24 Treasury Management Strategy and Prudential Indicators.

Executive Summary

The Council is required to consider the performance of the Treasury Management function in order to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). This outturn report provides an update. This report therefore sets out the key Treasury Management issues for Members' information and reviews and outlines:

- An economic update for 2023/24;
- An update of the Council's current treasury management position;
- Council Borrowing;
- Treasury Investment Activity;
- Treasury Performance for 2023/24;
- Treasury Management Prudential Indicators;

The Treasury Management Outturn report 2023/24 was presented to and considered by the Audit Committee at its 27 June meeting and to Cabinet at its 15 July meeting. Both were content to commend the report to Council for approval.

Recommendation

Council is recommended to:

1) Approve the actual 2023/24 prudential and treasury indicators presented in this report
2) Approve the Treasury Management Outturn Report for 2023/24

1 Background

1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested with low-risk counterparties, providing adequate liquidity initially before considering optimising investment returns.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 As a consequence, treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2 Current Position

2.1 Requirements of the Treasury Management Code of Practice

2.1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (Revised 2021) (the CIPFA Code) which requires the Authority to produce a quarterly treasury management update report; a requirement in the 2021 Code which is mandatory from 1 April 2023.

2.1.2 The treasury and prudential indicators are also incorporated at Appendix 1 to this report.

2.1.3 The Council's treasury management strategy for 2023/24 was approved on 1 March 2023. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's Treasury Management Strategy.

2.1.4 This Outturn report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for 2023/24;
- An update of the Council's current treasury management position;
- Council Borrowing;
- Treasury Investment Activity;
- Treasury Performance for the 2023/24;
- Treasury Management Prudential Indicators;

2.2 External Environment 2023/24

Economic Background

2.4.1 UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February but still above the Bank of England's 2% target. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January.

2.4.2 The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

2.4.3 Labour market data provided a mixed message for policymakers. Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e. including bonuses) and 7.8% for regular pay growth (i.e. excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast.

2.4.4 Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024. The vote at the March was 8-1 in favour of maintaining rates at this level, with the single dissenter preferring to cut rates immediately by 0.25%. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

2.4.5 In the Bank's quarterly Monetary Policy Report (MPR) released in August 2023 the near-term projection for services price inflation was revised upwards, goods price inflation widespread across products, indicating stronger domestic inflationary pressure with second-round effects in domestic prices and wages likely taking longer to unwind than they did to emerge. In the February 2024 MPR the Bank's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in calendar H2 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices, these effects would hold inflation slightly above target for much of the forecast horizon.

2.4.6 Following this MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in the latter half of 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

2.4.7 The US Federal Reserve also pushed up rates over the period, reaching a peak range of between 5.25-5.50% in August 2023, where it has stayed since. US policymakers have maintained the relatively dovish stance from the December Federal Open Market Committee meeting and at the meeting in March, economic projections pointed to interest rates being cut by a total of 0.75% in 2024.

2.4.8 Following a similarly sharp upward trajectory, the European Central Bank increased rates to historically high levels over period, pushing its main refinancing rate to 4.5% in September

2023, where it has remained. Economic growth in the region remains weak, with a potential recession on the cards, but inflation remains sticky and above the ECB's target, putting pressure on policymakers on how to balance these factors.

Financial Markets

2.4.9 Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October they started declining again before falling sharply in December as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 50+ bps higher than when it started.

2.4.10 Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023 and rising again to 3.92% (28th March 2024). The Sterling Overnight Rate (SONIA) averaged 4.96% over the period to 31st March.

Credit Review

2.4.11 In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

2.4.12 Earlier in the period, S&P revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's also revised the UK outlook to stable, Handelsbanken's outlook to negative, downgraded five local authorities, and affirmed HSBC's outlook at stable while upgrading its Baseline Credit Assessment. Fitch revised UOB's and BMO's outlooks to stable.

2.4.13 In the final quarter of the financial year, Fitch revised the outlook on the UK sovereign rating to stable from negative based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini- budget.

2.4.14 Moody's, meanwhile, upgraded the long-term ratings of German lenders Helaba, Bayern LB and LBBW on better solvency and capital positions, despite challenges from a slowing German economy and exposure to the commercial real estate sector.

2.4.15 Credit default swap prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023. Earlier in the year some Canadian lenders saw their CDS prices rise due to concerns over a slowing domestic economy and housing market, while some German lenders were impacted by similar economic concerns and exposure to commercial real estate towards the end of the period, with LBBW remaining the most elevated.

2.4.16 Heightened market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

2.3 The Oldham Council Treasury Position

2.3.1 On 31 March 2023, the Authority had net borrowing of £91.319m arising from its revenue and capital income and expenditure. This had risen to £144.396m by the end of 2023/24.

2.3.2 The actual and planned level of capital expenditure are the drivers of borrowing for capital purposes. Appendix 1 shows the actual level of capital expenditure at the end of 2022/23 and 2023/24. It also shows the financing including the level of prudential borrowing.

2.3.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1 - Balance Sheet Summary

	31 March 2023 £'000	31 March 2024 £'000
General Fund CFR	465,723	488,980
Total CFR	**465,723**	**488,980**
Less: Other debt liabilities PFI	204,339	193,890
Borrowing CFR	**261,384**	**295,090**
External borrowing	160,996	181,110
Internal borrowing	100,388	113,980
Less: Usable Balance Sheet Resources	(154,194)	(132,737)
Less: Working capital	(15,871)	(17,957)
Net Investments	**(69,677)**	**(36,714)**

2.3.4 Table 1 shows the CFR for 2023/24 is £488,890m, an increase of £23.257m compared to £465.723m at the end of 2022/23, but a slight reduction compared to the CFR of £490.527m approved in the 2024/25 Treasury Management Strategy at the 2024/25 Budget Council meeting. The CFR excluding other debt liabilities relating to Private Finance Initiative schemes is forecast at £295.090m an increase of £33.706m compared to the position at the end of 2022/23.

2.3.5 The table clearly highlights that the Council borrowing is well below the CFR and the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy has been prudent in recent years as investment returns have been low and counterparty risk is still an issue that needs to be considered. This along with raising interest rates for external debt means that the Council will continue to analyse and assess the market to determine the optimum time to externally borrow.

2.3.6 The treasury management position as at 31 March 2024 and the change over the year is shown in Table 2 below.

Table 2 - Treasury Management Summary

Borrowing/Investments	31 March 2023 Balance £'000	Movement £'000	31 March 2024 Balance £'000	31 March 2024 Average Rate %
Long-term borrowing				
- Public Works Loan Board	35,241	-	35,241	2.81%
- Lender Option Borrowing Option	85,500	-	85,500	4.33%
- Other	40,001	-	40,001	4.03%
Short-term borrowing	254	20,114	20,368	6.20%
Total Borrowing	**160,996**	**-**	**181,110**	**-**
Long-term investments	13,896	(542)	13,354	5.16%
Short-term investments	20,000	(10,000)	10,000	5.28%
Cash and cash equivalents	35,780	(7,220)	13,360	4.95%
Total Investments	**69,676**	**(32,962)**	**36,714**	
Net Borrowing (total borrowing less total investments)	**91,319**		**144,396**	

As can be seen in the table above, short term borrowing has increased by 20.114m in the 2023/24 financial year; this borrowing was undertaken in March when cash levels reduced during the latter part of the financial year. Overall, the level of investments have decreased £32.962m since the end of 2022/23 due to the use of cash to fund the capital programme whilst interest rates are high for long term borrowing.

2.4 **Borrowing**

2.4.1 CIPFA's 2021 Prudential Code is clear that Local Authorities must not borrow to invest primarily for financial return and that it is not prudent for Local Authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.

2.4.2 Public Works Loan Board (PWLB) loans are no longer available to Local Authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

2.4.3 Oldham Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council, and it has no plans to do so in future.

2.4.4 The chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

2.4.5 Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau.

2.4.6 Gilt yields fell in late 2023, reaching April 2023 lows in December 2023 before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.

2.4.7 On 31 March, the PWLB certainty rates for maturity loans were 4.74% for 10-year loans, 5.18% for 20-year loans and 5.01% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

2.4.8 As at 31 March Oldham Council held £181.110m of loans. Short term borrowing was undertaken during the final quarter of the financial year. Outstanding loans on 31 March (borrowing position) are summarised in Table 3 below.

Table 3 - Borrowing Position

Borrowing Sources	31 March 2023 Balance £'000	Movement £'000	31 March 2024 Balance £'000	31 March 2024 Weighted Average Rate %	31 March 2024 Weighted Average Maturity (years)
Public Works Loan Board	35,241	-	35,241	2.81%	17.37
Banks (LOBO)	85,500	-	85,500	4.33%	42.67
Banks (fixed-term)	40,000	-	40,000	4.03%	45.30
Local Authorities (short - term)		20,114	20,114	6.20%	
Local Bonds (long-term)	1	-	1	1.00%	-
Local Bonds (short-term)	22	-	22	0.00%	-
Local Charitable Trusts (short-term)	231	-	231	1.94%	1
Total Borrowing	**160,996**	**-**	**181,110**		

LOBO Loans

2.4.10 Oldham Council continues to hold £85.500m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate and terms or to repay the loan at no additional cost.

2.4.11 With market interest rates having risen, the probability of LOBOs being called has been higher than in the recent past. A total of £50.500m of LOBO loans had annual/semi-annual call option dates during the year, however no lender exercised their option.

2.4.12 Currently Oldham Council has £55.500m LOBO loans with call dates within the next 12 months. Of this sum, £30.500m is held with Dexia Finance over 5 loans, and the remaining £25.500m is 4 separate loans with four other providers, Danske Bank and KA Finanz, FMS Wertmanagement and KBC Bank. At the time of writing no call options have been exercised.

2.4.13 Council officers have liaised with treasury management advisors, Arlingclose, over the likelihood of the options being exercised for LOBO's within the loan portfolio. If the option is exercised the Authority plans to repay the loan at no additional cost. If required, the Authority will repay the LOBO loans with available cash or by borrowing from alternative sources or the PWLB, always providing that overall savings can be demonstrated.

2.4.14 As the Council is now operating in a higher interest rate environment, there may in the 2024/25 financial year, be opportunities to repay the Council's historical LOBO borrowing. The Council will investigate all opportunities and will ensure any repayments create revenue savings.

2.5 Treasury Investment Activity

2.5.10 CIPFA published a revised the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

2.5.11 At 31 March the Council held £36,714m invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2023/24, the Authority's investment balances ranged between £27.548m and £96.259m due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4 - Treasury Investment Position

Investment Placements	31 March 2023 Balance £'000	Movement £'000	31 March 2024 Balance £'000	31 March 2024 Income Return %
Banks & building societies (unsecured)	10,000	(10,000)	-	4.06%
Government (incl. Local Authorities)	10,000	-	10,000	5.28%
Money Market Funds	35,780	(22,420)	13,360	5.10%
Property Pooled Fund	13,896	(542)	13,354	5.16%
Total investments	**69,676**	**(32,962)**	**36,714**	

2.5.3 Both the CIPFA Code and Government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

2.5.4 As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

2.5.5 Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Money Market Rates also rose and were between 5.28% and 5.29% by the end of March 2024

2.5.6 The Council in previous years has invested £15.000m in the Churches, Charities & Local Authorities (CCLA) pooled property fund. As this is a longer-term investment short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. This fund generated an average total return of £0.518m, 5.16% income return.

2.5.7 Investor sentiment for UK commercial property remained subdued with caution showed by buyers and sellers. With interest rates and bond yields remaining relatively high and investors demanding higher yields, property prices remained under pressure. The outlook for offices remains challenging from changing working practices. This was evident in the decrease in the capital value of the Councils CCLA property fund by £0.542m in the year to 31 march 2024..

2.5.8 The combination of the above had a negative effect on the value of the Council's property funds since March 2023. Income returns have however increased to 5.16% compared to 4.25% at the beginning of the year.

2.5.9 The change in the Authority's funds' capital values and income return over the year to 31 March is shown in Table 4.

2.5.11 The Council's investments have no defined maturity date, but are available for withdrawal after a notice period, but their performance and continued suitability in meeting the Councils medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

Statutory Override

2.5.12 In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for 2 years until 31 March 2025, but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Council will discuss with Arlingclose the implications for the investment strategy and what the future implications will be for the investment strategy and what action may need to be taken. Any future Treasury Management Strategies will be revised accordingly.

2.6 Treasury Team Performance

2.6.1 The Treasury Team measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in Table 5 below.

Table 5 – Treasury Team Performance

	Budgeted Performance Rates / Benchmark SONIA Return %	Benchmark SONIA Return % Plus 5%	Actual Return %
Budgeted Annual Investment Rates	4.40%		4.98%
Overnight SONIA	4.96%	5.21%	5.10%

2.6.2 The budgeted investment rate of 4.40% above included within the annual strategy for 2023/24 was based on the average rate over the full financial year as expectations were for a number of interest rate rises to take place during 2023/24. The actual rate achieved in the 2023/24 exceeds this budgeted rate.

2.6.3 Previously the benchmark return was measured on the London Interbank Bid Rate (LIBID) which was a forward-looking interest rate. The Bank of England replaced LIBID with SONIA in December 2021. SONIA is calculated differently to LIBID in that it is a backward looking rate, based on actual results. The benchmark of SONIA plus 5% has not been achieved however the actual rate achieved for overnight investments over the year is higher than the average

SONIA rate over the period.

2.6.4 The Director of Finance reports that all treasury management activities undertaken during the year complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Table 6 below.

Consultations

2.6.5 In December DLUHC published two consultations: a "final" consultation on proposed changes to regulations and statutory guidance on MRP closing on 16th February and a "call for views" on capital measures to improve sector stability and efficiency closing on 31st January.

2.6.6 Draft regulations and draft statutory guidance are included in the MRP consultation. The proposals remain broadly the same as those in June 2022 – to limit the scope for authorities to (a) make no MRP on parts of the capital financing requirement (CFR) and (b) to use capital receipts in lieu of a revenue charge for MRP.

2.6.7 In its call for views on capital measures, Government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage 'invest-to-save' activity and to manage budget pressures without seeking exceptional financial support. Whilst Government has identified some options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward.

2.6.8 Oldham Council officers have responded to the consultation with it's views and impact any changes will have.

Table 6 - Investment Limits

Investment Limit	Maximum during 2023/24 £'000	Actual Position at 31 December 2023 £'000	Maximum Allowable in 2023/24 £'000	Compliance Yes/No
Any single organisation, except the UK Government	10,000	-	30,000	Yes
Any group of organisations under the same ownership	10,000	-	20,000	Yes
Any group of pooled funds under the same management	13,617	13,354	15,000	Yes
Unsecured investments with building societies	-	-	20,000	Yes
Money Market Funds	71,330	10,040	80,000	Yes
Strategic Pooled Funds	13,617	13,354	15,000	Yes

2.6.8 Compliance with the Operational Boundary and Authorised Limit for external debt is demonstrated in Table 7 below.

Table 7 – Operational Boundary and Authorised Limit

Borrowing /Limits	Actual Position at 31 March 2024 £'000	2023/24 Operational Boundary £'000	2023/24 Authorised Limit £'000	Compliance Yes/No
Borrowing	180,110	297,500	312,000	Yes
PFI and Finance Leases	193,890	194,750	197,250	Yes
Total Gross Borrowing / Limit	**375,000**	**492,250**	**509,750**	Yes

2.6.9 The Operational Boundary represents the expected borrowing position for the Council for the year and was set at £508.500m.

2.6.10 The Authorised Limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003 and for 2023/24 was set at £533.500m. Once this has been set, the Council does not have the power to borrow above this level although it can be revised if required.

2.6.11 Since the Operational Boundary is a management tool for in-year monitoring it is not significant if the Operational Boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. No breaches have occurred, and it is not anticipated that there will be any breaches in 2023/24.

2.7 Treasury Management Prudential Indicators

2.5.12 As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

Liability Benchmark

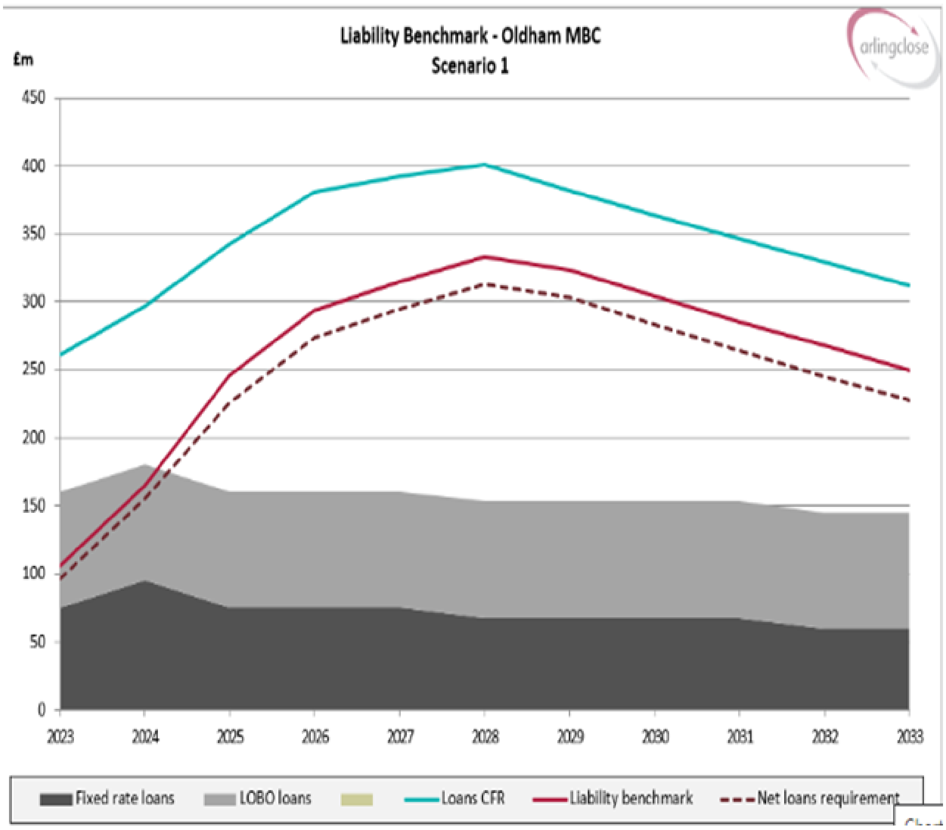
2.5.13 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing that the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10.000m, the level required to manage day-to-day cash flow. This is increasing in 24/25 to £20.000m.

Table 8 - Liability Benchmark

Liability Benchmark Measurement	31 March 2023 Actual £'000	31 March 2024 Actual £'000	31 March 2025 Forecast £'000	31 March 2026 Forecast £'000
Loans CFR	261,384	296,775	334,491	371,000
Less: Balance sheet resources	171,168	150,694	105,186	95,186
Net loans requirement	**90,216**	**146,081**	**229,305**	**275,814**
Plus: Liquidity allowance	10,000	10,000	20,000	20,000
Liability benchmark	**100,216**	**156,081**	**249,305**	**295,814**
Existing /forecast borrowing	**160,996**	**180,110**	**229,305**	**275,814**

2.5.14 As demonstrated by the liability benchmark in the table above, the Council expects to be a long-term borrower to finance the expected capital spend. There could be timing differences between when the Council externally borrows compared to when the expenditure is required due to the nature of capital works, but new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

2.5.15 Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing. Minimum Revenue Provision on new capital expenditure is forecast based on a 25 year asset life. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing



2.5.16 Table 9 below sets out the maturity structure of borrowing at the end of 2023/24 compared to the upper and lower limits set in the Treasury Management Strategy for 2023/24.

Table 9 - Maturity Structure of Borrowing

Borrowing Timeframe	Upper Limit	Lower Limit	31 December 2023 Actual	Compliance Yes/No
Under 12 months	40%	0%	38.14%	Yes
12 months and within 24 months	40%	0%	3.44%	Yes
24 months and within 5 years	40%	0%	13.75%	Yes
5 years and within 10 years	40%	0%	3.44%	Yes
10 years to 20 years	50%	0%	3.44%	Yes
20 years to 30 years	50%	0%	3.44%	Yes
30 years to 40 years	50%	0%	3.44%	Yes
40 years to 50 years	50%	0%	3.44%	Yes
50 years to 60 years	50%	0%	30.93%	Yes

2.5.17 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. In the case of LOBO loans, the next option date has been used as the measure to determine if it is potentially repayable.

Long-term Treasury Management Investments

2.5.18 The purpose of the Long-Term Treasury Management indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are set out in the table below.

Table 10- Limit / Actual Investments exceeding one year

Limit /Actual Investments Exceeding One Year	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£50m	£50m	£50m	£50m
Actual principal invested beyond year end	£15m	-	-	-
Compliance – Yes/No?	Yes	N/A	N/A	N/A

2.7.8 Long-term investments with no fixed maturity date include strategic pooled funds. For the Council, this is currently the CCLA Property Fund. Long term investments exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term investments.

3 Options/Alternatives

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Council has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of the report are agreed by Councoil to ensure full compliance with the CIPFA Code of Practice.

5 Consultation

5.1 There has been consultation with the Council's, Treasury Management Advisors, Arlingclose in the production of this report.

5.2 The Treasury Management Outturn report has been presented to the Audit Committee and Cabinet, which were content to commend it to Council for approval.

6 Financial Implications

6.1 All included within the report.

7 Legal Implications

None

8 Equality impact, including implications for Children and Young People

8.1 Not Applicable

9 Key Decision

9.1 Yes

10 Key Decision Reference

18.1 FLC-03-23

11 Background Papers

11.1 The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

File Ref: Background papers are contained with Appendix 1
Officer Name: James Postle

12 Appendix 1 - Prudential and Treasury Indicators

Appendix 1 - Prudential and Treasury Indicators

The following tables shows a summary of the prudential indicators for 2023/24.

Capital Expenditure

Capital Expenditure/Financing	2022/23 £'000	2023/24 £'000
Expenditure		
General Fund services	58,577	81,147
HRA	210	64
Total Capital Expenditure	**58,787**	**81,211**
Financing		
Grants & Contributions	(32,411)	(32,621)
Prudential Borrowing	(16,868)	(40,448)
Revenue	(237)	(1,606)
Capital Receipts	(9,271)	(6,538)
Total Financing	**(58,787)**	**(81,211)**

Capital Financing Requirement (CFR)

Capital Financing Requirement	31 March 2023 Actual £'000	31 March 2024 Actual £'000
General Fund Services	465,723	488,980
Total CFR	**465,723**	**488,980**

Gross Borrowing and the Capital Financing Requirement

Gross Borrowing / CFR	31 March 2023 £'000	31 March 2024 £'000
Gross Borrowing (incl. PFI & leases)	365,335	375,000
Capital Financing Requirement	465,723	488,980

Debt and the Authorised Limit and Operational Boundary

Debt	Debt at 31 March 2024	2023/24 Operational Boundary	2023/24 Authorised Limit	Compliance? Yes/No
	£'000	£'000	£'000	
Borrowing	181,110	297,500	312,500	Yes
PFI and Finance Leases	193,890	194,750	197,250	Yes
Total Debt	**354,748**	**492,250**	**509,750**	

Proportion of Financing Costs to Net Revenue Stream

Financing Cost/Net Revenue Stream	2022/23 £'000	2023/24 £'000
Financing costs (£m)	24,124	19,424
Proportion of net revenue stream	8.81%	6.50%