Report to Audit Committee

Meeting Date	17 September 2024
Key Decision	No
Public/Private	Public
Portfolio	Cllr Barbara Cannon, Executive Member - Financial Planning & Assets
Directorate	Resources
Lead Officer	Catherine Bell, Chief Finance Officer

Treasury Management Annual Review 2023-24

Summary:

The purpose of this report is to inform members of the Council's treasury management activities during 2023-24, the effects of treasury management decisions and transactions executed in the past year and of compliance with the Council's approved Treasury Management Strategy Statement and Treasury Management Policy.

Recommendations:

Members are recommended to note the contents of this report.

Reason for Recommendation:

The reason for this recommendation is to ensure members are informed of the Council's treasury management activities during the financial year ending 31 March 2024 and are provided with information relevant to assessing:

- the performance of the treasury management function
- compliance with the policies and practices set out in the Council's Treasury Management Strategy Statement and Annual Investment Strategy for 2023-24
- performance against the treasury and prudential indicators required by CIPFAs Prudential and Treasury Management Codes & accompanying sector guidance.

Tracking

Audit Committee:	17 September 2024
Scrutiny:	N/A
Council:	27 September 2024

1. Introduction and Background

1.1 In carrying out its functions under Part 1 of the Local Government Act 2003 (Capital Finance etc.) including its borrowing and investing activities, the Council is required by statutory provision and regulation to 'have regard to' the requirements of the CIPFA Code of Practice on Treasury Management (the Treasury Management Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). This report satisfies that obligation and the associated reporting requirements of CIPFAs Treasury Management and Prudential Codes.

1.2 During 2023-24 the minimum reporting requirements - set out in the Council's Treasury Management Strategy Statement (TMSS) and Investment Strategy - were that Full Council should receive:

- before the start of the year, an annual report on the strategy and plan to be pursued in the coming year (responsibility for finalisation of the 2023-24 TMSS was delegated to the Chief Finance Officer (CFO) at the meeting of the Shadow Authority held on 1 March 2023)
- a mid-year review (Council 16 January 2024)
- after the year-end, an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Council's treasury management policy statement (this report).

1.3 The regulatory environment places responsibility on members for the review and scrutiny of the Council's treasury management policies and activities. This report is important in that respect, as it provides:

- details of the Council's treasury activities during the financial year and its overall treasury position at 31 March 2024
- evidence of compliance with the treasury policies previously approved by members.

1.4 To enable the Audit Committee to fulfil its responsibilities for ensuring effective scrutiny of the Council's treasury management arrangements, the Council's Treasury Management Practices require treasury management reports - including the mid-year report - to be submitted to the Audit Committee prior to consideration by Full Council.

Scope

1.5 This report, has been prepared in accordance with CIPFA's Code of Practice on Treasury Management (2021 edition) and covers:

- i). Economic background (section 2)
- ii). Overall treasury position at 31 March 2024 (section 3)
- iii). Borrowing requirement (section 4)
- iv). PWLB borrowing rates (section 5)
- v). Borrowing strategy for 2023-24 (section 6)
- vi). Borrowing activity during 2023-24 (section 7)
- vii). Investment rates (section 8)
- viii). Investment strategy for 2023-24 (section 9)
- ix). Investment outturn for 2023-24 (section 10)
- x). Prudential and Treasury Indicators (section 11 and Appendix A).

2. Economic Background

UK GDP

2.1 GDP was largely stagnant from early 2022 to the end of 2023 as restrictive monetary policy, persistent inflation and low productivity weighed on activity. Following a technical recession in the second half of 2023, the UK economy has shown tentative signs of renewed momentum in the first half of 2024. The impact from past external shocks has abated and there has been some progress in moderating risks of persistence in inflation. Whilst recent GDP growth has been stronger than expected, the restrictive stance of monetary policy continues to weigh on activity in the real economy, leading to a looser labour market and bearing down on inflationary pressures.

2.2 Following growth of 0.2% quarter on quarter (q/q) in Quarter 1(Q1) of 2023 growth stagnated in Q2 (0% q/q) (+0.2% y/y) revised down from an initial estimate of a 0.2% expansion, putting the UK at risk of a recession. This was followed by a contraction of -0.1% in Q3 (+0.2% y/y) compared to initial estimates of a flat (no growth) reading.

2.3 The UK's economy shrank by -0.3% in the final quarter (Q4) of 2023 (-0 2% y/y), thereby entering a technical recession for the first time since the aftermath of the COVID-19 outbreak in the first half of 2020, as high inflation, record borrowing costs and weak external demand weighed on demand and activity.

2.4 Following consecutive falls in the previous two calendar quarters, UK GDP growth picked up quite sharply at the start of 2024 with GDP growth of 0.7% in

2024 Q1 (Jan to March) compared to the previous three-month period (+0.3% compared with the same quarter a year ago). This marked the strongest period of GDP growth since the immediate recovery from the pandemic in 2021 and early 2022. The pickup in growth was driven primarily by the market sector and was broad-based across the expenditure components. In output terms, services grew by 0.8% on the quarter with widespread growth across the sector. Elsewhere the production sector grew by 0.6% while the construction sector fell by 0.6%

2.5 Despite the pick-up in activity underlying momentum appears weaker than recent headline GDP growth. Following the rebound in Q1, UK GDP rose by 0.6% in Q2 2024 compared with the previous quarter. However growth is expected to fall back in the second half of 2024 with the Bank of England forecasting growth of 0.4% in 2024 Q3 and to 0.2% in Q4.

2.6 In their March 2024 Economic and Fiscal Outlook, the Office for Budget Responsibility's (OBR) GDP growth forecast was 0.8% in 2024 and 1.9% in 2025. In the Treasury's August 2024 survey of independent forecasts average growth was forecast at 1.1% for 2024 and 1.3% for 2025.

Inflation

2.7 Sharp rises in inflation during 2021 and 2022 saw CPI inflation peak at a 41 year high of 11.1% in October 2022 before easing back to 10.1 % in March 2023. Since then, CPI inflation fell during 2023 and 2024 through a combination of statistical effects, falling energy prices, and other factors such as the easing of global cost pressures. Overall headline CPI inflation fell by 6.9 percentage points over the course of 2023-24. However, despite this fall inflation remained well above the Bank of England's 2% target throughout 2023-24, underpinned by the continued persistence of services inflation supported by strong pay growth.

2.8 The rise in inflation during 2021 and 2022 reflected, for the most part, the direct impact of large increases in global energy and other tradable goods prices, though services inflation also increased. The rise in global energy prices was exacerbated by the economic impact of Russia's invasion of Ukraine. It also contributed significantly to rises in the wholesale price of many agricultural and other tradeable commodities.

2.9 However, even before the war, consumer prices were being pushed upwards by various global factors including the pattern of economic recovery from the worst of the pandemic, the rotation of consumer spending towards goods and away from services, and by supply constraints in certain sectors. Inflation was initially believed to be temporary. However, this succession of global shocks contributed to inflationary pressures in the UK being more persistent than expected.

2.10 While global factors were the original drivers of high inflation not all of the excess inflation can be attributed to global events. Domestic factors, including a tight labour market and the pricing strategy of firms also contributed to the rise in inflation. Core services CPI inflation, which excludes volatile items such as food and energy, also rose significantly driven by the tight labour market and strong nominal pay growth.

2.11 In March 2024 headline CPI inflation had fallen to 3.2% down from 3.4% in February. Whilst this was above the market expectation of 3.1% it nonetheless represented the lowest rate since September 2021, primarily driven by a slowdown in food inflation (4.0% vs 5.0% in February). Additionally, prices rose at a slower pace for restaurants and hotels (5.8% vs 6.0%), recreation and culture (5.3% vs 5.4%), while the cost of housing continued to decline (-1.6% vs -1.7%). Transport prices, on the other hand, rebounded by 0.1% after four consecutive months of decrease, partly due to a softer decline in the cost of motor fuels.

2.12 The RPI measure of inflation fell from 13.5% in March 2023 to 4.3% in March 2024.

2.13 The biggest monthly fall in inflation during 2023-24 came in October when CPI slowed from the 6.7% recorded in both September and August to 4.6%. This reduction reflected a large fall in the housing, electricity, gas and other fuels category which contributed 1.6 percentage points out of the overall monthly fall. This fall was due in part to the reduction in energy prices following Ofgem's decision to lower the cap on household bills. It also reflected the base effects of the sharp increase in energy prices in October 2022 dropping out of the annual comparison.

2.14 After peaking at 7.1% in May 2023 (its highest level since 19992) the annual core inflation rate, which excludes volatile items such as energy and food, dropped to 4.2% in March 2024, the lowest rate since December 2021 and also slightly beat the market consensus of 4.1%.

2.15 Services inflation meanwhile was 6.0% in March 2024 down from 6.6% in March 2023 and a peak of 7.4% in May and July of 2023 – the highest rate since 1992.

2.16 Services prices are seen as less exposed to global factors and more dependent on domestic costs. Inflation in services is also considered to be more persistent than inflation in goods. Services CPI inflation is therefore a key indicator of domestic inflationary pressures and inflation persistence. Driven by a combination of high energy costs and labour costs, services inflation remains significantly higher than its pre-pandemic level (circa 2.5%) and is expected to remain elevated in the near-term.

2.17 Following the year end headline CPI inflation eased further, slowing to 2.3% in April and reaching the Bank of England 2% target in May and June before ticking up to 2.2% in June. The decline since the start of the year has primarily reflected lower goods price inflation, alongside a small fall in services price inflation. Core CPI inflation, which excludes energy, food, beverages and tobacco, has fallen by a similar margin, from 5.1% in January to 3.5% in June.

2.18 Forecasts contained in the Bank of England's August Monetary Policy Report indicate CPI inflation is expected to increase to around 2¾% in the second half of 2024 as declines in energy prices last year fall out of the annual comparison, revealing more clearly the prevailing persistence of domestic inflationary pressures. CPI inflation is then expected to fall back again, to 1.7% in two years' time and to 1.5% in three years. However, there continues to be upside risks to the near-term inflation outlook mainly in the form of a very tight labour market putting upward pressure on wages, and from geopolitical factors emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine, although developments in the Middle East have had a limited impact on oil prices so far.

2.19 Services CPI inflation declined to 5.7% in June 2024 and is expected to continue to ease only gradually over the course of this year, as wage growth weakens further.

Labour Market

2.20 Whilst the labour market remained tight by historical standards, 2023-24 saw a loosening in labour market conditions against a backdrop of monetary tightening and subdued economic activity. Employment and vacancies both declined during the year, whilst unemployment rose. However pay growth, another key indicator of domestic inflationary pressures and inflation persistence, has been slower to adjust. The tight labour market lead to nominal wage growth reaching a record high (since 2000) in summer 2023, before growth eased back over the second half of the year as labour market conditions softened and inflation expectations fell.

2.21 The UK Employment Rate was estimated at 74.5% in Q1 (January to March) 2024 down from 75% recorded in the quarter ending December 2023. It was also lower than the 75.3% in the corresponding January to March period of

2023; and the peak of 75.5% recorded in the three months to May 2023. Payrolled employees in the UK fell by 5,000 (0.0%) between February and March 2024, but rose by 288,000 (1.0%) between March 2023 and March 2024. However, coupled increases in economic inactivity rate (see below) the employment rate in Q1 2024 remains below the pre-pandemic level of 76.3% leaving the UK as the only G7 country where this is the case.

2.22 The unemployment rate for the three months to March 2024 was estimated at 4.3% up slightly from 3.8% in the three months to December 2023 and 0.3 percentage points above the 4% recorded for the corresponding three month period in 2023. Although the unemployment rate has risen over recent months, it still remains low in a historical context.

2.23 Whilst the rise in unemployment has been relatively muted, the impact of monetary policy tightening has been felt much more acutely on vacancies.

2.24 In Q1 of 2024 (January to March) the number of vacancies fell to 919,000; a fall of 51,000 on the previous quarter (October to December) and a reduction of 201,000 on the same quarter last year. Although vacancies were still 123,000 higher than the pre-pandemic quarter (January to March 2020), they have been falling every quarter since April to June 2022, suggesting on-going loosening of labour market conditions**.**

2.25 The ONS vacancies to unemployment ratio, a key measure of labour market tightness, has been falling since August 2022, reflecting both a steady fall in the number of vacancies and rising unemployment. In mid-2022, the number of vacancies was higher than the number of unemployed people (with a peak ratio of 1.1). In the period July to September 2023, that number had shifted to around 1.5 unemployed people for every vacancy (a ratio of around 0.7). In the quarter ending March 2024 the ration has moved down to around 0.6 with around 1.6 unemployed people for every vacancy.

2.26 One of the key reasons why the labour market has tightened since the pandemic is because of a marked increase in the number of people inactive in the labour market. Underpinning this increase in inactivity has been the rise in long-term sickness which remains at historically high levels. The economic inactivity rate - those without a job and not actively searching for one - for people aged 16 to 64 years was estimated at 22.1% in January to March 2024. This was up from the 21.9% recorded in the quarters ending December and September 2023 and 0.6 percentage points higher than the 21.5% for the corresponding July to September period last year.

2.27 Whilst participation rates had previously shown signs of recovery from earlier depressed levels the uptick in the inactivity rate during 2023-24 means at the end of March the level of inactivity remains 1.6 percentage points higher than before the pandemic. The number of economically inactive people in January to March 2024 was 832,000 above pre-pandemic levels (December 2019 to February 2020) and 302,000 higher than that of the corresponding three month period in 2023.

2.28 Despite the cooling in labour market conditions during 2023-24 wage growth, whilst easing during the second half of the year, has remained strong. Regular pay in the UK, which excludes bonus payment, went up 6% year-on-year in the three months to March 2024, down from 6.2% in the three months to December, 7.8% in the quarter ending September and 6.9% recorded in the corresponding January to March period of 2023.

2.29 Average weekly earnings including bonuses in the UK increased 5.9% year-on-year in the three months to March 2024. This compares with 5.8% in the three months to December, 8.0% in the quarter ending September and 6.3% recorded in the corresponding January to March period of 2023. Annual average total pay growth in the three months to March 2024 was 6.2% in the public sector and 6.1% in the private sector.

2.30 High inflation since 2021 has meant that despite strong growth in nominal wages, real wages fell during 2022-23 and the first three month of 2023-24 before shifting into positive territory throughout the remainder of 2023-24. Adjusted for inflation, average real terms wage growth including bonuses in the three months to March 2024 was 2.4% up from 1.6% in the three months to December. For regular pay excluding bonuses the growth rate was also 2.4% up from 1.9% in the quarter ending December 2023.

2.31 Looking ahead pay growth is expected to slow further during 2024 as the labour market continues to loosen.

Bank Rate

2.32 The UK Bank Rate started 2023-24 at 4.25%. Subsequent increases during the first half of 2023-24 saw the rate rise to 4.5% in May, 5.00% in June and to a 15-year high of 5.25% in August as the Bank of England continued with its efforts to combat ongoing inflationary pressures. The rate was subsequently maintained at 5.25% through to March 2024. By the end of the financial year, the market was pricing in a first cut in the Bank Rate in either June or August 2024.

2.33 The Bank of England sprung no surprises in their March meeting, leaving the Bank Rate at 5.25% for the fifth time in a row as policymakers awaited clearer signals indicating that the country's persistent inflationary pressures had subsided. Whilst the decision was not unanimous the revised voting pattern took on a more "dovish" tilt, with the two members who previously voted for a hike, relenting and shifting their view to "no change". One member advocated for a 25 basis point decrease. Despite no MPC members voting to raise interest rates, the Bank nevertheless 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”, it also noted that key indicators of inflation persistence remain elevated and policy will be “restrictive for sufficiently long” and “restrictive for an extended period”.

2.34 Since the end of the financial year the Bank of England kept rates unchanged at 5.25% at its May and June meetings before kick-starting a loosening cycle at its August meeting by cutting the bank rate by 25 basis points to 5.00%. Despite this cut the accompanying guidance and forecasts suggest the Bank will proceed cautiously in loosening monetary policy further until officials are more certain that inflation will remain subdued.

2.35 The decision was noted as “finely balanced”, with four members of the Monetary Policy Council opting to hold borrowing costs unchanged as the slowdown in UK inflation countered higher services price growth and lingering risks that second-round effects can erase the central bank's progress. Still, the Committee noted that it expects headline inflation to fall and inflation expectations to converge toward the target. Additionally, the MPC stated that restrictive policy is due to slack the GDP to below potential and continue softening the labour market, warranting a less restrictive policy.

US

2.36 Despite the markets willing the Federal Open Market Committee (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.

2.37 In addition, the US Federal Reserve will want to shrink its swollen $16 trillion balance sheet at some point. Just because the US dollar 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%.

2.38 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. The questions remaining is how many and when?

Eurozone

2.39 Although the Euro-zone inflation rate has fallen to 2.4%, the European Central Bank (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 flat-lined in 2023), a June rate cut from the current 4% looks probable.

3 Overall Treasury Position at 31 March 2024

3.1 The Council's treasury position at the beginning and end of 2023-24 was as follows:

Table 1: Overall treasury position

	1.4.23 Principal £'000	Rate/ Return[1] %	Av. Life Years	31.3.24 Principal £'000	Rate/ Return[1] %	Av. Life Years
PWLB loans	244,207	3.67	25	237,323	3.62	25
LOBO loans	16,000	5.25	19.5	16,000	5.25	18.5
Other borrowing	98	0.56	< 1	98	0.70	< 1
Total debt	**260,305**	**3.77**	-	**253,421**	3.72	-
Short-term investments	88,154		< 1	115,609	4.84	< 1
Long-term investments[2]	3.001		-	3,001	5.16	-
Total investments	**91,155**	-	-	**118,610**	**4.85**	-

[1] weighted average rate on borrowing/investments at 31 March (for illustrative purposes only)

[2] Not including 'policy investments' falling outside of the Council's Treasury Management and Investment Strategies

3.2 The Council's treasury management debt and investment position is organised 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 introduction and through officer activity detailed in the Council's Treasury Management Practices.

3.3 Items included in table 1 comprise borrowing and investments in financial instruments held for treasury management purposes (i.e. investments arising from the Council's cash flows or risk management activity and which ultimately represent balances that need to be invested until the cash is required for use in the course of business). Excluded from table 1 are:

- 'service/policy investments' in financial assets such as loans supporting service outcomes and investments in subsidiaries and joint ventures made for commercial or service purposes, (rather than for treasury management purposes); this includes the Authority's investment (loan notes) in Allerdale Investment Partnership LLP
- commercial investments in non-financial assets (for example, investment property) taken or held primarily for financial return and not linked to treasury management activity or directly part of delivering services.

4.0 The Borrowing Requirement

4.1 The Council's underlying need to borrow to finance capital expenditure is measured by the Capital Financing Requirement (CFR). The CFR represents the historic cost of capital expenditure that has yet to be financed by setting aside resources (grants, contributions, capital receipts and revenue financing).

4.2 Capital expenditure that is not financed when incurred, through the application of capital grants, contributions, capital receipts or a direct charge to revenue will increase the capital financing requirement. It will also give rise to a requirement to make an annual charge to the general fund, known as the minimum revenue provision (MRP). Charging the minimum revenue provision or a voluntary revenue provision (in addition to the MRP) against the general fund will reduce the CFR.

4.3 The Council's Treasury Management Strategy Statement for 2023-24 included an expected net increase in the Authority's CFR of £61.659m during 2023-24 and a closing CFR at 31 March 2023 of £514.010m. This increase was based on the 2023-24 capital budget approved by the Shadow Authority on 1 March 2023. In the Mid-year Treasury update the estimated increase in the CFR during 2023-24 was revised upwards to £80.464m to reflect the impact of the draft 2022-23 capital outturn positions of sovereign councils. Following the mid-year update further in year revisions were made to the 2023-24 capital programme. This lead to a further revision to the estimated closing CFR balance at 31 March 2024 from £513.720m (mid-year estimate) to £465.016m.

4.4 The £48.994m reduction in the estimated closing CFR balance (£514.010m v £465.016m) and £29.899m change in the expected net increase in the CFR during 2023-24 (£61.659m v £31.760m) reflects:

- the 2022-23 capital outturn position; this reduced the opening CFR at 1 April 2023 by £19.095m
- approved budget carry forwards incorporated into the 2023-24 capital budget. This added £18.305m in unfinanced capital expenditure to the expected increase in the CFR in 2023-24
- £0.438m reduction to the MRP (increase in CFR) to reflect the 2022-23 capital outturn position and other minor revisions to the MRP estimates provided by sovereign councils, less
- reprofiling adjustments of £47.652m moving capital expenditure funded from borrowing from 2023-24 to 2024-25 (£32.383m) and 2025-26 (£15.269m)
- £0.990m adjustment related to the removal of DFG budget of £1,091m funded from borrowing from the capital programme and replacing the use of unrealised capital receipts with borrowing (£0.101m).

4.5 At 31 March 2024, the Council's capital financing requirement was £439.209m compared to £433.256m at 1 April 2023. The increase of £5.953m over the course of 2023-24 reflecting:

- an increase of £19.319m relating to unfinanced capital expenditure incurred during the year
- a reduction of £13.366m resulting from amounts set aside from revenue (the minimum revenue provision), calculated in accordance with the approved MRP Policy Statement for 2023-24.

Table 2: Capital Financing Requirement

	2023-24 Approved Estimate £000	20233-24 Mid- year Estimate £000	2023-24 Current (final) Estimate £000	31.3.22 Actual £000
CFR at 1 April	452,351	433,256	433,256	433,256
CFR at 31 March	514,010	513,720	465,016	439,209
Movement in Year	61,659	80,464	31,760	5,953

4.6 The variance of £25.807m between the actual and updated (final) estimate of the CFR at 31 March 2024 comprises:

- £22.071m relating to the unfinanced portion of proposed 2023-24 capital budget carry forwards (i.e. the amount funded from borrowing) of £51.810m

- £3.736m reduction in unfunded capital expenditure included in the reported net underspend (after budget carry-forwards) of £5.191m.

4.7 Proposed capital budget carry-forwards of £51.810m were submitted as part of the 2023-24 Draft Revenue and Capital Outturn Report for consideration by the Council's Executive at its meeting on 17 September 2024. These carry-forwards relate to the re-profiling of previously approved budget expenditure, from 2023-24 to 2024-25. £22.071m of the total proposed budget carry forward is funded from borrowing. Further details of relating to the outturn position can be found in the 2023-24 Draft Revenue and Capital Outturn Report.

4.8 Details of actual borrowing transactions undertaken in 2023-24 are summarised in section 7 of this report.

5 Public Works Loan Board (PWLB) Borrowing Rates in 2023-24

5.1 Table 3 shows the PWLB borrowing rate forecasts, provided by the Council's Treasury advisors (Link Asset Services) and included in the TMSS and Mid-year update report. Forecasts included in the TMSS were issued on 23 December 2022 while the mid-year forecasts were issued on 7 November 2023 following publication of the Bank of England's quarterly Monetary Policy Report in November and the decisions and forward guidance issued by the Banks Monetary Policy Committee (MPC) at its meeting on 1 November 2023.

5.2 Borrowing rates shown in table 3 are based on the PWLB Certainty Rate (standard new loan rate minus 20 basis points) which has been accessible to most authorities since 2012. The forecasts included in the TMSS expected an overall longer-run trend of falling gilt yields and PWLB rates over the forecast period as inflation started to fall through 2023. The TMSS also acknowledged that, in the short-term, geo-political events, sovereign debt issues, emerging market developments and sharp changes in investor sentiment could contribute to short-term volatility in financial markets and borrowing rates.

Table 3: Forecast interest rates (certainty rates[1])

Quarter ending	Bank Rate %		PWLB Borrowing Rates[1]							
			5 year %		10 year %		25 year %		50 year %	
	TMSS	Mid-Yr	TMSS	Mid-Yr	TMSS	Mid-Yr	TMSS	Mid-Yr	TMSS	Mid-Yr
Dec-22	3.50	-	4.20	-	4.30	-	4.60	-	4.30	-
Mar-23	4.25	-	4.20	-	4.40	-	4.60	-	4.30	-
Jun-23	4.50	-	4.20	-	4.40	-	4.60	-	4.30	-
Sep-23	4.50	-	4.10	-	4.30		4.50		4.20	
Dec-23	4.50	5.25	4.00	5.00	4.10	5.10	4.40	5.50	4.10	5.30
Mar-24	4.00	5.25	3.90	4.90	4.00	5.00	4.20	5.30	3.90	5.10
Jun-24	3.75	5.25	3.80	4.80	3.90	4.80	4.10	5.10	3.80	4.90
Sep-24	3.50	5.00	3.60	4.70	3.80	4.70	4.00	4.90	3.70	4.70
Dec-24	-	4.50	-	4.40	-	4.40	-	4.70	-	4.50
Mar-25	-	4.00	-	4.20	-	4.20	-	4.50	-	4.30
Jun-25	-	3.50	-	4.00	-	4.00	-	4.30	-	4.10
Sep-25	-	3.25	-	3.80	-	3.80	-	4.20	-	4.00
Dec-25	-	3.00	-	3.70	-	3.70	-	4.10	-	3.90
Mar-26	-	3.00	-	3.60	-	3.70	-	4.10	-	3.90
Jun-26	-	3.00	-	3.50	-	3.60	-	4.00	-	3.80
Sep-26	-	3.00	-	3.50	-	3.60	-	4.00	-	3.80
Dec-26	-	3.00	-	3.50	-	3.50	-	4.00	-	3.80

[1]Certainty rates are calculated by subtracting 0.2% from the standard new loan rates.

5.3 Since 26 November 2020, principal local authorities have been required to submit to DLUHC a high level summary of their capital expenditure and borrowing plans as a condition of accessing the PWLB. The required submission of these plans, prior to any application for borrowing, means the Certainty Rate is now the default rate that principal local authorities borrow at.

5.4 Graph 1, along with the graph in Appendix 2, shows for a selection of maturity periods, the movements in PWLB certainty rates during 2023-24. Table 4 meanwhile summarises, for a selection of maturity periods, the high and low points for PWLB certainty rates during the period alongside the average rates, spreads and individual rates at the start and the end of the period.

Graph 1: PWLB borrowing rates 2023-24

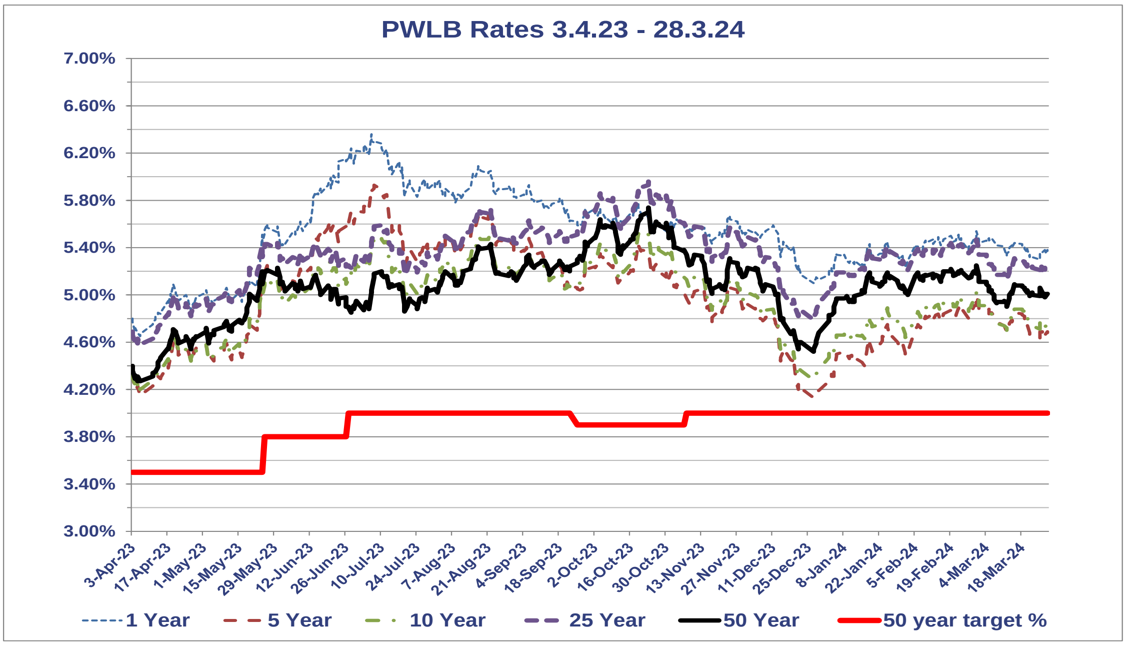


Table 4: PWLB certainty rates – 2023-24

	1-Year %	4½- 5 Years %	9½-10 Years %	24½- 25 Years %	49½ - 50 Years %
At 3.4.23	4.80	4.33	4.33	4.69	4.40
Low	4.65	4.13	4.20	4.58	4.27
Date	6/4/2023	27/12/2023	6/4/2023	6/4/2023	6/4/2023
High	6.36	5.93	5.53	5.96	5.74
Date	6/7/2023	7/7/2023	23/10/2023	23/10/2023	23/10/2023
At 28.3.23	5.36	4.68	4.74	5.22	5.01
Period average	5.54	4.99	4.97	5.34	5.08
Spread	1.71	1.80	1.33	1.38	1.47

Movement in PWLB certainty rates April to September 2023

5.5 PWLB rates are offered at a fixed margin above the Government’s cost of borrowing, as measured by gilt (UK Government bonds) yields. The main influences on gilt yields are the bank rate, inflation expectations and movements in US treasury yields.

5.6 Gilt yields and therefore PWLB rates have risen dramatically since early 2022 as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post pandemic, and rising commodity and food prices following Russia’s invasion of Ukraine.

5.7 The upward trend in gilt yields continued during 2023-24 with gilt yields and PWLB rates on a generally rising trend throughout the first half of 2023-24.

Across the curve rates rose by between 88 and 102 basis points during the period April to September 2023. Much of this increase occurred in Q1 with rates increasing by between 54 and 150 basis points. Q2 saw a fall in rates on maturities of up to 10 years while longer dated maturities continued to rise, albeit at a slower pace than in the April to June period. This trend partly reflected expectations around the path of policy rates. However, evidence suggests it may also reflect a rise in term-premia associated with the risks of holding government bonds of longer duration.

5.8 Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, the first half of the financial year also saw significant volatility in gilt yields (and hence PWLB rates) with a spread of between 114 and 187 basis points across the curve.

5.9 July saw short-dated rates peak at their most expensive. Rising from a low of 4.65% on 6 April, the one-year rate spiked to 6.36% on 6 July. The five-year rate meanwhile rose from 4.14% on 6 April to 5.93% on 7 July. Although, in due course, short-dated rate expectations fell the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5 April but rose to 5.45% on 28 September.

5.10 At 29 September 2023, the 50 year PWLB certainty rate for new loans closed at 5.41% (30.9.22: 4.18%), up from 4.40% at the beginning of the financial year. The 25-year rate ended the period at 5.66%. This compares with a rate of 4.69% at the beginning of April 2023 and 4.78% at the end of September 2022. The forecast rates for 50 and 25-year maturities at September 2022 included in the TMSS were 4.2% and 4.5% respectively.

Movement in PWLB certainty rates October 2023 to March 2024

5.11 The volatility in gilt yields (and therefore PWLB rates) experienced during the first six months of 2023-24 continued over the second half of the year with rates varying by between 67and 133 basis points across the curve.

5.12 After peaking in early July rates at the short end of the curve (up to 10 years) were on a generally declining trend between July and December. Rates fell more sharply in December as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024. However a reiteration of the hawkish ‘higher for longer’narrative by central banks in December saw expectations of a near term cut in interest rates pushed back. This saw rates increase in January and February before falling again during March to leave rates, for maturities of up to 10 years, on average around 49 basis points below the position at the end of September and 41 basis points above their opening position in April 2023.

5.13 At the longer end of the curve rate further rises saw rates peak in October before retracting in November and December. Increases during January and February were partially offset by falls in March to leave rates for maturities of over 10 years down by between 39 and 51basis points over the second half of 2023-24. This contrasts with the increases of between 92 and 102 basis points recorded during the first half year.

5.14 At 31 March 2024, the 50-year PWLB certainty rate (gilt plus 80bp) for new loans stood at 5.01% (fixed) compared to 5.41% at 30 September 2023. Meanwhile, the 25-year rate ended the year at 5.22%, down from 5.66% at 30 September 2023.This compares with updated forecasts included in the Mid-year report for 50 and 25-year maturities at the end of 2023-24 of 5.10% and 5.30% respectively.

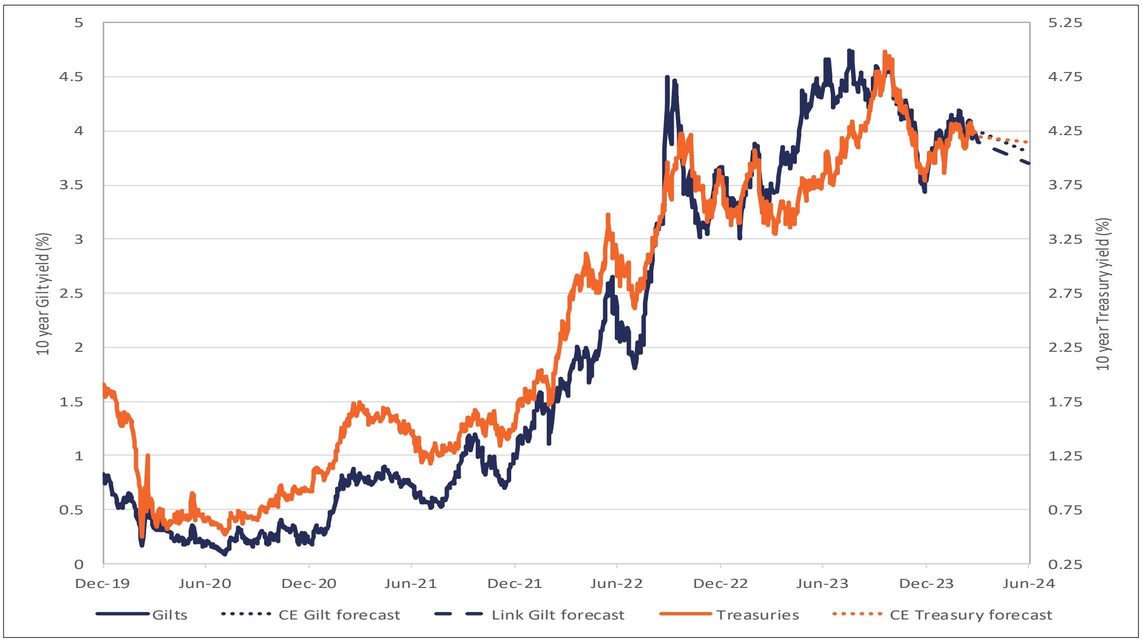
5.15 Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations and the real equilibrium rate for central rates has fallen considerably due to high levels of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years.

5.16 In recent years this resulted in many bond yields up to 10 years turning negative in the Eurozone 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 fell below shorter-term yields. In the past, this has been a precursor of a recession.

5.17 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 Federal Open Market Committee, European Central Bank and the 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.

5.18 As the US financial markets are by far, the biggest financial markets in the world, any upward trend in US treasury yields will invariably impact and influence financial markets in other countries. Although UK gilt yields and US treasury yields do not always move in unison, since 2011 there has on average been a 75% correlation between movements in 10-year US treasury yields and 10-year UK gilt yields. The graph below shows actual movements in both 10 year yields.

Graph 2: UK gilt yields v. US treasury yields



5.19 Looking ahead, there is likely to be a further fall in gilt yields and PWLB rates across the whole curve over the next one to two years as the Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target. In general 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 has also embarked on a process of Quantitative Tightening with the Bank's original £895bn stock of gilt and corporate bonds being 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.

6. Borrowing Strategy for 2023-24

6.1 In recent years, the sovereign Councils have maintained under-borrowed positions.This means the capital borrowing need (the Capital Financing Requirement - CFR), has not been fully funded with loan debt. By utilising cash supporting the Councils' reserves and favourable in-year cash flows, they have been able to avoid the need to borrow up to the level of the CFR. At 1 April 2023 the Authority inherited an underborrowed position of £77.014m. This equated to approximately 23% of the borrowing element of the Council's underlying borrowing requirement (CFR) of £337.720m. The underborrowing position at 1 April 2023 was underpinned by underborrowing of £40.787m relating to Cumbria County Council and £28.956m related to Carlisle City Council.

6.2 The under-borrowed positions maintained by sovereign Councils allowed them to minimise borrowing costs and reduce treasury risk by reducing external investment balances.The borrowing strategy adopted in 2023-24, was for the Council to continue with this policy of using cash balances for internal borrowing to the extent permitted by its liquidity requirements and the effective management of its interest rate exposures.

6.3 This approach was supported by interest rate forecasts which were for PWLB rates to remain at relatively elevated levels in the near term before falling back over the forecast period as inflationary pressures weakened through 2023.

6.4 Although temporary borrowing rates were expected to remain elevated for some time, overall better value was generally accessible at the shorter end of the yield curve. Over the course of 2023-24 borrowing over shorter periods (up to two years) was therefore expected to provide the best option whilst the market continues to wait for inflation, and therein gilt yields and PWLB rates, to drop back later in 2024.

6.5. In managing interest rate exposures, interest rates were closely monitored throughout the year and a pragmatic strategy adopted based upon the following principles:

- if it had been felt that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper rise in long and short term rates than expected (e.g. due to a greater than expected increase in global economic activity or a sudden increase in inflation risks), then the portfolio position would have been re-appraised with the most likely action being to draw down fixed rate funding whilst interest rates were lower than they were projected to be in the next few years.

7 Borrowing Activity in 2023-24

7.1 A summary of borrowing transactions undertaken during 2023-24 is included in the following table (table 5).

Table 5: External borrowing activity during 2023-24

	01 Apr 2023 £'000	New Borrowing £'000	Borrowing Repaid £'000	31 March 2024 £'000
Long-term				
PWLB – fixed rates	244,207	0	(6,884)	237,323
LOBO loans	16,000	0	0	16,000
Short-term				
Local Bonds	31	0	0	31
Trust Funds	67	0	0	67
	260,305	**0**	**(6,884)**	**253,421**

7.2 Loan debt of £260.305m transferred from sovereign councils to Cumberland Council on 1 April 2023 comprised:

- £227.7m (87% of total borrowing) - transferred from Cumbria CC
- £15.3m (6%) - transferred from Allerdale BC
- £12.4m (5%) - from Carlisle City Council, and
- £5.0m (2%) - from Copeland BC

7.3 The Council did not undertake any new borrowing, premature repayments or rescheduling of existing borrowing during 2023-24. Scheduled loan repayments of £6.884m were made during the year to March 2024.

7.4 The Council's 2023-24 Budget and Treasury Management Strategy Statement anticipated additional PWLB borrowing during 2023-24 of up to £27.53m to fund the Council's capital programme along with a further £40m to meet costs capitalised in accordance with the exceptional financial support (capitalisation direction) expected to be provided by Central Government. It also assumed additional borrowing by Sovereign Councils of up to £51.375m in 2022-23, of which £50.575m was expected to be outstanding at 1 April 2023 and £49.523m at 31 March 2024. However, as noted in the 2022-23 Outturn Report presented Executive on 5 September 2023, no new external borrowing was undertaken by Sovereign Councils during 2022-23.

7.5 As a result of the deferral of borrowing from 2022-23 and reprofiling adjustments made to the Council's 2023-24 capital programme, anticipated (maximum) the external borrowing requirement for 2023-24 was subsequently revised upwards to £116.642m. Predicated on the assumption of maintaining an under borrowing position of £50m, this figure included:

- £93.768m to fund capital expenditure included in the 2023-24 capital programme, including £18.305m relating to budgets carried forward from 2022-23
- £6.884m relating to refinancing of loans maturing/repaid during 2023-24
- £15.990m in respect of unfinanced capital expenditure incurred prior to 1 April 2023.

7.6 Based on the capital expenditure forecasts for 2023-24, completed at the end of quarter 2, the estimated maximum additional external borrowing requirement for 2023-24 was revised to £55.824m to reflect a reduction in forecast capital expenditure funded from borrowing of £60.818m. Based on forecast capital spend at Q3 this figure was later revised down further to £54.574m.

7.7 The actual amount of capital expenditure funded from borrowing in 2022-23 was £19.319m. A variance of £25.807m when compared to the revised (current) budget of £45.126m. £22.071m of the reported variance has been included in the budget carry forwards submitted for approval as part of the 2023-24 Revenue and Capital Outturn Report.

7.8 As noted above, the Council's policy is to use internal borrowing to avoid or postpone the timing of any new borrowing, in circumstances where it considered prudent to do so, having regard to its liquidity requirements and the effective management of interest rate exposures.

7.9 In 2023-24, the reported underspend against the capital budget, coupled with the timing of capital expenditure during the year and other positive in year cash flows enabled the Council to continue with this policy. This has allowed the Council to meet its liquidity requirements by utilising cash from reserves, revenue balances and favourable in year cash flows without the need to borrow externally up to the level of the CFR.

7.10 As a consequence the Council has maintained an under borrowed position throughout 2023-24. At 31 March 2024, the level of under borrowing was £92.147m, compared to £77.015m at 31 March 2023. Further information regarding the movement in the CFR and the level of under borrowing is set out in Appendix A (Prudential indicators).

Composition of the Councils loan portfolio

7.11 At 31 March 2024, PWLB loans accounted 94% by value of the Council's total borrowing. The PWLB loan portfolio consisted of fixed rate:

- maturity loans totalling £219.0m (1 April 2023: £224.7m)
- annuity loans of £1.149m (1 April 2023: £1.261m)
- equal instalment of principal (EIP) loans of £17.174m (1 April 2023: £18.246m).

7.12 Interest rates applying to individual loans within the Council's PWLB loan portfolio range from 1.95% to 9.5%. At 31 March 2024, the weighted average rate of interest payable on the Council's PWLB loan portfolio stood at 3.62% (1 April 2023: 3.67%). For comparative purposes PWLB rates applying to new maturity, annuity and equal instalment of principal (EIP) loans at 31March 2024, for a selection of maturities are shown in table 6. Corresponding rates at 1 April 2023 are shown in table 7.

Table 6: PWLB new loan & premature repayment rates at 31 March 2024

Term	Certainty[1]			Premature repayment[2]		
	EIP %	Annuity %	Maturity %	EIP %	Annuity %	Maturity %
Over 4½ Years not over 5	4.96	4.95	4.68	4.00	3.98	3.72
Over 9½ Years not over 10	4.64	4.63	4.74	3.71	3.70	3.79
Over 24½ Years not over 25	4.91	5.02	5.22	3.97	4.08	4.30
Over 49½ Years not over 50	5.22	5.19	5.01	4.30	4.27	4.09

[1] Certainty rates are calculated by subtracting 0.2% from standard new loan rates.

[2] Premature repayment rates apply to loans repaid early.

Table 7: PWLB new loan & premature repayment rates at 1 April 2023

Term	Certainty[1]			Premature repayment[2]		
	EIP %	Annuity %	Maturity %	EIP %	Annuity %	Maturity %
Over 4½ Years not over 5	4.54	4.53	4.33	3.55	3.58	3.38
Over 9½ Years not over 10	4.30	4.29	4.33	3.33	3.36	3.39
Over 24½ Years not over 25	4.47	4.56	4.69	3.51	3.62	3.77
Over 49½ Years not over 50	4.69	4.62	4.40	3.74	3.69	3.47

7.13 At 31 March 2024 the Council had two Lender Option Borrower Option (LOBO) loans. The interest rates on these loans are 4.45% and 7.55%.

7.14 The weighted average interest rate at 31 March 2024 on the Council's loan portfolio as a whole was 3.72%.

7.15 At 31 March 2024, the redemption value of the Council's PWLB loans portfolio, calculated using PWLB premature repayment rates, was £220.460m. This compares with a redemption value of £ £245.626m at 1 April 2023. The difference of £16.863m (1 April 2023 £1.419m) between the redemption value and the principal outstanding of £237.323m (1 April 2023: £244.207m) reflects:

- net discounts of £19.611m (i.e. discounts of £24.396m less premia of £4.785m) receivable – as at 31 March 2024 - on the premature repayment of all outstanding loan principal (1 April 2023: £1.462m net discount), plus
- interest accrued from the previous scheduled repayment date of £2.748m (1 April 2023: £2.881m).

7.16 The maturity structure of external borrowing at 31 March 2024 (principal only) is shown in table 8.

Table 8: Maturity profile of external borrowing

	31 March 2024 £000	31 Dec 2023 £000	30 Sept 2023 £'000	30 June 2023 £'000	1 April 2023 £'000
Less than 1 year	15,793	15,792	10,787	10,786	6,982
Between 1 & 2yrs	1,206	1,205	6,201	6,200	15,695
Between 2 & 5yrs	2,979	3,154	3,140	3,315	3,299
Between 5 & 10yrs	36,490	36,505	36,576	21,591	21,661
Between 10 & 20yrs	35,465	19,710	35,710	34,955	50,955
Between 20 & 30yrs	54,250	70,250	54,250	70,250	27,250
Between 30 & 40yrs	57,238	57,350	57,350	57,462	84,463
Between 40 & 50yrs	50,000	50,000	50,000	50,000	50,000
	253,421	**253,966**	**254,014**	**254,559**	**260,305**

7.17 At 31 March 2024, the weighted average time to maturity of the Council's PWLB debt portfolio was approximately 25 years (1 April 2023: 25 years). The two LOBO loans have remaining contractual terms of 18 and 19 years.

7.18 Total interest payable on the Council's long-term borrowings (adjusted to include the amortisation of deferred premia and discounts incurred in prior years) during the year to March 2024 was £9.781m compared to an original budget of £15.648m. The difference of £5.867m reflects the impact of:

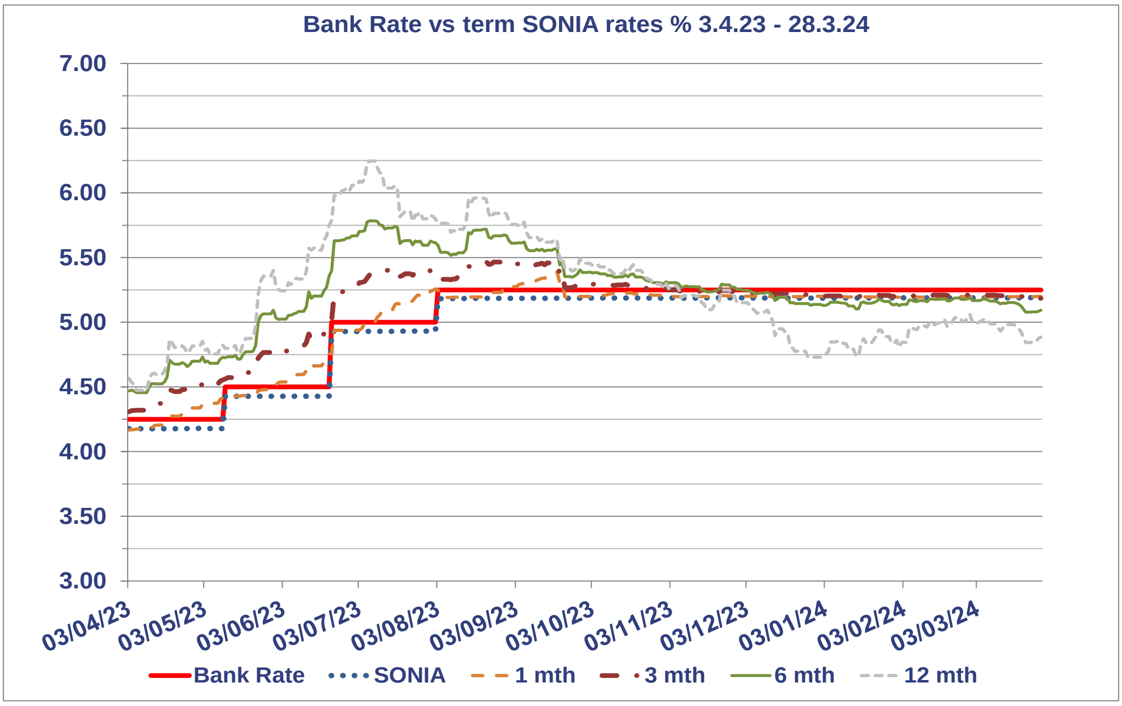
- decisions made by sovereign councils to postpone the drawdown of new external borrowing in 2022-23
- using internal borrowing to fund unfinanced capital expenditure in 2023-24
- maintaining an under-borrowed position throughout 2023-24.

8. Investment Rates in 2023-24

8.1 The upturn in investment rates experienced through 2022-23 continued during the first half of 2023-24, with overnight rates increasing by around 100bps consistent with the 100bps increase in the Bank Rate between April and September 2023. The Sterling Overnight Index Average (SONIA) overnight and one-month term rates (forward- looking rates), which opened the year at around 4.18% and 4.17%, closed the period at 5.19% and 5.20% respectively. Meanwhile the three-month rate rose from 4.30% to 5.29%.

8.2 For longer maturities the April to September period saw six-month and one year rates rise by 92 and 87 basis points to close at 5.39% and 5.45% respectively. The average overnight rate during the period was 4.73%.

Graph 3: Investment Rates-Bank rate and SONIA forward looking rates 2023-24



8.3 With the Bank Rate held at 5.25% from August 2023, the second half of 2023-24 saw little movement in the forward- looking, Sterling Overnight Index Average (SONIA) overnight and one-month term rates with rates remaining stable at 5.19% and 5.20% respectively. Across the year as a whole SONIA and one-month rates averaged 4.96% and 5.01% respectively. Three month rates meanwhile fell by around 11 basis points between October and March to close the year 5.18%.

8.4 For longer maturities the second half of 2023-24 saw a general decline in rates from their peak in July and August. Between October and March the six-month and one year rates fell by 30 and 57 basis points to 5.09% and 4.88%

respectively. Over the year as a whole six-month and one year rates averaged 5.23% and 5.24% respectively.

9.0 Investment strategy

9.1 The Council's investment policy is set having regard to the Ministry of Housing, Communities & Local Government (MHCLG) (formerly the Department for Levelling Up, Housing & Communities (DLUHC)) Guidance on Local Government Investments - third edition (February 2018) and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes ('the Treasury Management Code').

9.2 The primary policy objectives of the Council's treasury investment activity are to ensure:

- first, the security of principal sums invested (i.e. to protect the capital sum invested from loss)
- second, that appropriate levels of liquidity are maintained (i.e. ensuring funds invested are available to meet expenditure when needed).

9.3 The Council will then aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. Yield is only used to determine investment decisions when deciding between two or more investments satisfying security and liquidity objectives.

9.4 The Council's investment policy for 2023-24 was set out in the 2023-24 Treasury Management Strategy Statement and Investment Strategy. The policy outlines the Council's approach to ensuring the security of principal sums invested through its active management of the Council's credit risk exposures. This includes:

- procedures for determining the counterparties with whom investments may be placed, though the use of credit ratings and other sources of information (such as rating outlooks, credit watches and watchlists, credit default swaps, bank share prices etc.) to assess credit and counterparty risk
- the types of investment instruments that may be used
- the limits on amounts invested with any single institution or group of institutions on the Council's list of approved counterparties
- the maximum duration for which investment may be placed depending on the financial standing (creditworthiness) of the counterparty.

9.5 In meeting the policy objectives outline above and, having due regard to Council's forecast liquidity requirements, the emphasis of the Council's investment strategy for 2023-24 was on maintaining a low risk approach by restricting investments to high credit quality counterparties, keeping investment terms short and retaining an upper limit on investment maturities of 12 months on all new investments.

9.6 Economic developments and performance of financial markets during the financial year (including those affecting interest rate forecasts) did not require any changes to be made to the approved Treasury Management and Investment strategies during the course of the year.

9.7 While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of the 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.

10.0 Investment Outturn for 2023-24

10.1 A summary of investment activity during the year ending 31 March 2024 - excluding 'policy investments' falling outside of the Council's Treasury Management and Investment Strategies - is shown in table 5 below. Further analysis of specified investments is included in Appendix 4.

Table 5: Investment activity during 2023-24

	Credit Rating[1]	1-Apr-2023 £'000	Investments Made £'000	Investments Repaid £'000	31 March 2024 £'000
Specified investments					
Call Accounts	A+/A/A-	5,539	335,760	(319,575)	21,724
Fixed Term Accounts	A+/A/A-	45,000	280,000	(315,000)	10,000
Fixed Term Accounts	AA-	17,500	599,350	(582,250)	34,600
Money Market Funds	AAAm	20,115	162,175	(132,905)	49,285
Non specified investments					
CCLA Property Investment Fund	-	3,000	0	0	3,000
Equity Shares	-	1	0	0	1
Total		**91,155**	**1,377,185**	**(1,349,730)**	**118,610**

[1] See Appendix C for comparison of rating scales

10.2 Investment activity during the year complied with the Council's approved treasury strategy and the Council had no liquidity difficulties. In keeping with MHCLSs (DLUHC's) guidance on local authority investments, the Council maintained a sufficient level of liquidity through use of money market funds, call and fixed term deposits.

10.3 Investment balances of £91.155m at 1 April 2023 consisted of the following amounts transferred to Cumberland Council from the legacy authorities:

- Cumbria County Council - £42.500m
- Allerdale Borough Council - £22.365m
- Carlisle City Council - £5.460m
- Copeland Borough Council - £20.830m.

10.4 In addition to the transfer of fixed term deposits totalling £42.500m, the Council also received cash of £9.906m related to amounts previously held in call accounts and Money Market Funds by Cumbria County Council.

10.5 During 2023-24 the average level of funds (principal) invested was £162.054m. (H1: £167.367m; H2 £150.740m). Based on a snap-shot of investment balances at the end of each month the weighted average maturity of the investment portfolio (specified investments element only) over the course of the year ranged from 72 days to 1 day.

10.6 A summary of the Authority's investment portfolio at 1 April 2023 and at each month end thereafter is shown in table 6.

Table 6: Summary of Investment Portfolio

	Proportion of portfolio held in:					Yield	Weighted Av. Maturity[1]
	Total Portfolio £	Call Accounts %	Money Market Funds %	Term Deposits %	CCLA & Other %	%	days
1 April 2023	91,154,746	6	22	69	3		
30 April	155,634,745	7	10	81	2	4.16	72
31 May	146,536,745	4	12	82	2	4.33	62
30 June	159,068,541	4	15	79	2	4.44	40
31 July	160,090,241	3	17	78	2	4.83	53
31 August	148,822,541	3	25	70	2	5.06	42
30 September	150,548,515	9	33	56	2	5.04	33
31 October	161,565,515	8	30	60	2	5.17	35
30 November	143,137,515	6	25	67	2	5.26	39
31 December	132,238,546	7	30	61	2	5.25	32
31 January	144,638,546	9	34	55	2	5.12	19
28 February	112,163,546	9	35	53	3	5.06	6
31 March 2024	118,609,582	18	42	38	2	4.85	1

[1] Excluding non-specified investments

10.7 In accordance with the Annual Investment Strategy for 2023-24, all investments made during the year were:

- restricted to approved investment instruments (Money Market funds, call accounts and term deposits) with counterparties holding a minimum ratings across all three of the main credit ratings agencies (Fitch, Moody's and Standard & Poor) of A- (or equivalent) - long-term, and A-1 (or equivalent) - short-term
- for periods not exceeding the maximum permitted durations determined by reference to the relative creditworthiness of the counterparty and subject to a maximum maturity of 365 days (from the date of acquisition).

10.8 With the exception of funds placed with HM Treasury's Debt Management Office (DMO), the maximum amount that may be placed with any institution or group of institutions that are part of the same banking group, is between £10m and £25m depending on the credit score assigned using the creditworthiness service provided by the Council's treasury advisors. For funds placed with the DMO's Account Deposit Facility, there is no upper limit on the amount that may be placed. There were no breaches of the prescribed counterparty limits during 2023-24.

10.9 Total investment income during the year to March 2024 was £7.710m. Based on the daily average investment balances held over the course of the year this equates to an overall investment yield of approximately 4.85%. This compares with the Council's benchmark return (the 7-day backward looking the Sterling Overnight Index Average (SONIA) uncompounded), averaged over the year of 4.96%.

10.11 The investment income figure of £7.710m compares with a budget of £3.883m and a forecast outturn at Q3 of £6.917m. The resulting variance of £3.827m reflects both higher levels of cash balances available for investment and improved yields on investments placed when compared to the assumptions underlying the budget estimate.

10.12 At 31 March 2024 the mid-market and bid values of the Council's holding in the CCLA Local Authorities Property Fund were £3,103,286 and £3,055,228 respectively (31 March 2023: £3,229,313 and £3,179,230). Equity investments were valued at £13,097 (31 March 2023: £12,816). Under existing statutory provisions which run until March 2025, unrealised gains and losses arising from movements in the fair value of pooled investment funds such as the CCLA Property Fund are not charged or credited to the Council's General Fund, but are instead recorded in a separate unusable reserve.

11.0 Prudential Indicators

11.1 The Local Government Act 2003 requires the Council to determine and keep under review, limits on how much money it can afford to borrow by way of loans and other forms of credit (for example finance leases). The process the Council must follow in setting this limit (the ‘Authorised Limit for External Debt’) is set out in the Prudential Code for Capital Finance in Local Authorities, to which the Council is required to ‘have regard to’ under provisions contained in the 2003 Act.

11.2 In addition to the Authorised Limit, CIPFA’s Prudential and Treasury Management Codes and accompanying the sector guidance, include a number of other key treasury management indicators designed to ensure the Council operates its treasury activities within well-defined limits. These include:

- setting an operational boundary for external debt based on the expectations of the most likely maximum external debt for the year
- ensuring that gross debt does not, except in the short term, exceed the Capital Financing Requirement (CFR) - the underlying need to borrow for capital purposes - at the end of the preceding year plus the estimates of any additional CFR for current and the following two financial years
- placing upper limits on the total of principal sums invested for periods of more than 365 days
- placing upper and lower limits on the maturity structure of borrowings.

11.3 The Council’s Authorised Borrowing Limit (the statutory limit on borrowing under the Local Government Act 2003), Operational Boundary (the limit beyond which external debt is not expected to exceed) and other indicators and limits required by CIPFA’s Prudential and Treasury Management Codes, were set out in the Council’s Treasury Management Strategy Statement and Investment Strategy for 2023-24.

11.4 During the financial year to March 2024, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Council’s Prudential and Treasury Indicators are shown in Appendix 1.

12. Alternative options considered

12.1 Not applicable to this decision/report.

13. Conclusion and reasons for recommendations

13.1 Members are asked to note the contents of this report.

13.2 The reason for this recommendation is to ensure members are informed of the Council's treasury management activities during the financial year ending 31 March 2024 and are provided with information relevant to assessing:

- the performance of the treasury management function
- compliance with the policies and practices set out in the Council's Treasury Management Strategy Statement and Annual Investment Strategy for 2023-24
- performance against the treasury and prudential indicators required by CIPFAs Prudential and Treasury Management Codes & accompanying sector guidance.

14. Implications

Contribution to the Cumberland Plan Priorities - Not applicable to this decision/report.

Relevant Risks - The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Risk implications associated with the Council's treasury activity is considered in the main body of the report.

Consultation / Engagement - Not applicable to this decision/report.

Legal - In carrying out capital finance functions under Chapter 1 of Part 1 of the Local Government Act 2003, local authorities are required by statutory provision and regulation to 'have regard to' the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code), and the Prudential Code for Capital Finance in Local Authorities ('the Prudential Code') published by CIPFA. This includes the requirement to have regard to the Prudential Code when determining, under section 3 of the 2003 Act, how much money they can afford to borrow. The Treasury Management and Prudential Codes of Practice also require authorities to monitor and report regularly on performance against:

- the prudential indicators for treasury management, set out in CIPFA's Treasury Management in the Public Services: Guidance Notes for Local Authorities (2021).
- all forward-looking prudential indicators.

Finance - Financial issues and implications are included within the main body of this report.

Information Governance - The CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities require the Council to report regularly on specific aspects of its treasury management activities.

Impact Assessments - Not applicable to this decision/report.

15. Contact details:

Contact Officer: Barry Lennox, Senior Manager - Finance
Email: barry.lennox@cumberland.gov.uk

16. Appendices attached to this report:

Appendix	Title of Appendix
1	Prudential and Treasury Indicators
2	Interest rate movements
3	Credit Ratings
4	Analysis of specified investments

17. Background papers - Annual Treasury Management Strategy Statement 2023-24 (including Annual Investment Strategy 2023-24, Prudential Indicators and Minimum Revenue Provision Policy Statement).

Appendix 1

Prudential and treasury indicators

1. Indicators required by the Prudential Code

1.1 The Prudential Code requires authorities to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans by setting estimates and limits and by publishing actuals for a range of prudential indicators. It also requires them to ensure their treasury management practices are in accordance with good practice.

1.2 The prudential and treasury indicators required by the Prudential Code, Treasury Management Code and accompanying sector guidance are designed to support and record local decision-making. They are not designed to be comparative performance indicators and should not be used for this purpose.

1.3 The Council's performance compared to the limits and estimates set out in the Council's 2023-24 Treasury Management Strategy Statement and 2023-24 Mid-year Treasury Update Report are summarised in the following sections.

1.4 Pending completion of the Council's Statement of Accounts for 2023-24 all outturn information included in the following paragraphs remain provisional and subject to change.

2. Actual capital expenditure

2.1 Table A summarises the Council's original (approved) and current capital expenditure plans for 2023-24 and the actual capital expenditure incurred during 2023-24.

Table A: Capital expenditure 2023-24

	2023/24 Approved £000	2023/24 Current Budget[2] £000	2023/24 Actual to 31.3.24 £000	2023/24 Outturn variance £000
Capital Programme	174,107	176,034	121,313	(54,721)
Capitalisation Direction	40,000	12,850	10,570	(2,280)
Capital Expenditure	**214,107**	**188,884**	**131,883**	**(57,001)**
Financed by:				
Capital receipts	1,079	1,278	2,371	1,093
Capital grants & contributions	135,785	140,290	109,320	(30,970)
Revenue (GF & Earmarked Reserves)	1,780	2,190	873	(1,317)
Total expenditure financed in year	**138,644**	**143,758**	**112,564**	**(31,194)**
Unfinanced capital expenditure:				
Supported borrowing[1]				
Unsupported borrowing	75,463	45,126	19,319	(25,807)
Leasing (credit arrangements)	0	0	0	0
Total financed & unfinanced	**214,107**	**188,884**	**131,883**	**(57,001)**

[1] Following the Spending Review 2010, there have been no new supported borrowing allocations since 2010-11; [2]Updated to reflect the carry forward of budgets from 2022-23 and other in year adjustments.

2.2 Capital expenditure is defined in section 16 of the Local Government Act 2003 and includes:

- all expenditure that falls to be capitalised in accordance with proper practices, together with
- items capitalised in accordance with regulation 25 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended), or by virtue of a capitalisation direction issued under section 16(2) of the 2003 Act.

2.3 The approved prudential indicator for capital expenditure in 2023-24 of £214.107m reflects the capital budget approved by the Shadow Authority on 1 March 2023 of £174.107m plus £40m exceptional financial support (capitalisation direction). The net reduction of £25.223m between this and the current 2023-24 capital budget of budget of £188.884m reflects:

- £73.674m budget carry forward from 2022-23
- net in-year budget adjustments of £48.830m, including the addition of expenditure budgets associated with grant funding awarded after approval of the 2023-24 capital budget and the removal of budgets associated with grants repaid to funding bodies during the current year, less
- reprofiling adjustments of £147.727m approved as part of the 2024-25 budget report

2.4 The variance of £57.001m between the provisional (draft) capital outturn position (£131.883m) and the current 2023-24 capital budget (£188.884m) comprises:

- requested budget carry forwards of £51.810m (including budgets of £22.071m funded from borrowing)
- a net variance (underspend) after accounting for budget carry-forwards of £5.191m (£3.736m funded from borrowing).

2.5 Requested budget carry forwards of £51.810m reflect changes to the expected timing of expenditure on individual schemes (rather than the overall amount of expenditure) and associated budget revisions to reflect the re-profiling of expenditure across the financial years. Further details relating to the capital outturn position for 2023-24 are set out in the 2023-24 Revenue and Capital Outturn report considered by the Council’s Executive on 17 September 2024.

3. Actual Capital Financing Requirement (CFR)

3.1 The Capital Financing Requirement (CFR) is a measure of an authority’s underlying need to borrow for capital purposes. It represents the historic cost of capital expenditure that has yet to be financed by setting aside resources (grants, contributions, capital receipts and revenue financing). The CFR also includes items of capital expenditure included in an authority’s balance sheet associated with other long-term liabilities, such as assets held on finance leases and on balance sheet PFI contracts, but excluding the underlying liability. The CFR does not necessarily correspond with an authority’s actual borrowing position which is determined in accordance with an authority’s treasury management strategy and practices.

3.2 Capital expenditure not financed up-front through the application of capital grants, contributions, capital receipts or a direct charge to revenue will increase the Capital Financing Requirement. Charging the minimum revenue provision or a voluntary revenue provision against the general fund will reduce the CFR.

Table B: Capital financing requirement

	2022/23 Actual[1]	2023/24 Approved Estimate	2023/24 Current Estimate[1]	2023/24 Actual to 30.9.22	2023/24 Draft Outturn
	£000	£000	£000	£000	£000
CFR - borrowing	337,320	356,516	337,320	337,320	337,320
CFR - leases & PFI	95,936	95,835	95,936	95,936	95,936
Total CFR at 1 April 2023	**433,256**	**452,351**	**433,256**	**433,256**	**433,256**
CFR at 31 March - Borrowing		420,490	371,375	331,729	345,568
CFR at 31 March - leases & PFI		93,520	93,641	94,914	93,641
Total CFR at 31 March 2024		**514,010**	**465,016**	**426,643**	**439,209**
Movement in CFR		**61,659**	**31,760**	**(6,613)**	**5,953**
Movement represented by:					
Unfinanced expenditure		75,463	45,126	5,418	19,319
Less MRP		(11,477)	(11,071)	(11,009)	(11,071)
Less: MRP- PFI & leases		(2,315)	(2,295)	(1,022)	(2,295)
Other movements		(12)	0	0	0
Movement in CFR		**61,659**	**31,760**	**(6,613)**	**5,953**

[1] estimated based on provisional outturn data

3.3 Over the course of the year to March 2024 the Council's CFR increased by £5.953m as a result of unfinanced capital expenditure of £19.319m less MRP of £13.336m. The unfinanced capital expenditure total of £19.391m was underpinned by borrowing related to the following capital projects, which along with borrowing of £10.570m associated with the Council's application to central government for exceptional financial support (capitalisation direction), accounts for £18.383m of the £19.319m unfinanced capital expenditure:

- £2.258m Corporate Property Planned Maintenance and improvement
- £1.939m Prioritised Capital Maintenance Projects/Schools Maintenance
- £1.066m Community Equipment
- £0.887m Cumbria Care Residential
- £0.438m Sands Centre Development
- £0.346m Area Planning
- £0.325m Maryport Regeneration (HAZ)
- £0.284m Chronically Sick and Disabled Persons Adaptations
- £0.270m Vehicles. Plant & Equipment.

4. Gross debt and the capital financing requirement (CFR)

4.1 A fundamental provision of the Prudential Code and a key indicator of prudence is that, over the medium term, debt will only be for a capital purpose. To ensure this is the case, gross external debt should not, except in the short-term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

4.2 This requirement allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes. Gross debt refers to the sum of borrowing and other long-term liabilities (credit arrangements). Table C compares the Council's gross debt and CFR.

Table C: Gross debt & the CFR

	1.4.23 Actual £000	31.3.24 Approved Budget £000	31.3.24 Current Budget £000	Actual at 30.9.23 £000	31.3.24 Draft Outturn £000
PWLB – existing borrowing	244,207	237,323	237,323	237,916	237,323
Commercial Loans (LOBOs)	16,000	16,000	16,000	16,000	16,000
Other	98	98	98	98	98
Planned new borrowing	0	117,053	68,000	0	0
Other long-term liabilities	95,936	93,520	93,641	94,914	93,641
Total debt at 31 March	**356,241**	**463,994**	**415,062**	**348,928**	**347,062**
Capital Financing Requirement					
CFR - borrowing at 1 April	337,320	356,516	337,320	337,320	337,320
CFR - leases & PFI at 1 April	95,936	95,835	95,936	95,936	95,936
Total CFR at 1 April	**433,256**	**452,351**	**433,256**	**433,256**	**433,256**
Unfinanced capital expenditure		75,463	45,126	5,418	19,319
Less: MRP		(13,792)	(13,366)	(12,031)	(13,366)
Other		(12)	0	0	0
CFR at 31 March		**514,010**	**465,016**	**426,643**	**439,209**
(Under)/Over borrowing	(77,015)	(50,016)	(49,954)	(77,715)	(92,147)

4.3 At 31 March 2024, the Council was under-borrowed against its capital financing requirement by £92.147m. This compares with an inherited under-borrowed position at 1 April 2023 of £77.015m. The increase in the level of underborrowing during 2033-24 of £15.132m is represented by:

- an increase in the CFR of £19.319m as result of unfinanced capital expediture incurred during the period,
- scheduled repayments of external (PWLB) borrowing of £6.884m, and
- PFI repayments (lease liability element) £2.295m.
- less amounts set aside from revenue to finance capital expenditure (the minimum revenue provision) of £13.366m.

4.4 The original(approved) budget included an estimated underborrowing position at 31 March 2024 of £50.016m. This compares with a provisional outturn position of £92.147m. The original budget estimates were predicated on the basis of :

- an opening CFR of £463.994m
- capital expenditure incurred during the year to March 2024 and funded from borrowing being matched by the drawdown of an equivalent amount of external loan debt
- loans maturing during the year (£6.884m) were refinanced in full
- borrowing of £15.990m was undertaken in respect of unfinanced capital expenditure incurred prior to 1 April 2023.

4.5 The difference in the level of underborrowing between the original (approved) budget estimates and the provisional outturn position is £42.131m. This varianece is underpinned by:

- the absence of new borrowing in 2023-24 compared to an original budget of £117.053m, less
- a reduction in the opening CFR balance of £19.196m as a result of budget underspends by sovereign councils in 2022-23
- £56.144m reduction in the actual amount of unfinanced capital expenditure incurred compared to the approved estimate.

5. Authorised limit for external debt

5.1 The Authorised Borrowing Limit represents the statutory limit on borrowing determined under section 3 of the Local Government Act 2003 (Affordable Limit). It imposes an upper limit on the Council's gross external debt (excluding investments), separately identifying borrowing (external loans) from other long-term liabilities (for example finance lease liabilities). Breach of the Affordable Borrowing Limit is prohibited by section 2(1)(a) of the Local Government Act 2003.

5.2 The Authorised Borrowing Limit is set with reference to the Council's capital expenditure plans, capital financing requirement (or underlying borrowing requirement) and the potential need to borrow to meet temporary revenue borrowing requirements, pending the receipt of amounts due to the Council. The Affordable Borrowing Limit also includes headroom over and above the Operational Boundary (see below) to accommodate any unusual or unforeseen cash movements. The indicator separately identifies limits for borrowing and other long-term liabilities.

Table E: Authorised Limit for External Debt

	2022/23 Limit £000	2023/24 Approved Limit £000	30.9.23 Actual debt £000	31.3.24 Actual debt £000	2023/24 Actual (Max) Debt £000
Borrowing		445,000	254,014	253,421	260,305
Other long-term liabilities		106,000	94,915	93,641	95,936
Total		**551,000**	**348,929**	**347,062**	**356,241**

6. Operational boundary for external debt

6.1 The Operational Boundary represents the limit beyond which (gross) external debt is not expected to exceed. It is based on expectations of the maximum external debt of a local authority according to probable events (that is the most likely (prudent) but not worst case scenario) and is consistent with the maximum level of external debt projected by these estimates. The Operational Boundary links directly to the Council’s plans for capital expenditure, estimates of the capital financing requirement and cash flow requirements for the year for all purposes but without the additional headroom included within the Authorised Limit. The indicator separately identifies limits for borrowing and other long-term liabilities.

Table F: Operational boundary for external debt

	2022/23 Limit £000	2023/24 Approved Limit £000	30.9.23 Actual debt £000	31.3.24 Actual debt £000	2023/24 Actual (Max) Debt £000
Borrowing		420,000	254,014	253,421	260,305
Other long-term liabilities		96,000	94,915	93,641	95,936
Total		**516,000**	**348,929**	**347,062**	**356,241**

7. Estimates of the ratio of financing costs to net revenue stream

7.1 This indicator of affordability highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

Table G: Ratio of Financing Costs to Net Revenue Stream

	2022/23 Original %	2022/23 Actual %	2023/24 Approved Estimate %	2023/24 Current Budget %	2023/24 Outturn %
Ratio - borrowing			8.13	7.71	7.21
Ratio - leases			4.29	4.38	4.41
Ratio total			**12.42**	**12.09**	**11.62**

7.2 Financing costs comprise the aggregate of:

- interest charged to the General Fund with respect to borrowing
- interest payable under finance leases and other long-term liabilities
- premiums and discounts from debt restructuring charged or credited to the amount to be met from government grants and local taxpayers
- amounts payable or receivable in respect of financial derivatives
- minimum revenue provision plus any additional voluntary contributions
- any amounts for depreciation/impairment charged to the amount to be met from government grants and local taxpayers.

7.3 Estimates for the net revenue stream are taken from the Council’s estimates of the amounts to be met from government grants and local taxpayers, using the equivalent figures from the Council’s original and revised (current) budgets. Actual figures for the Net Revenue Stream are taken from the Council’s Comprehensive Income and Expenditure Statement for ‘taxation and non-specific grant income and expenditure’. Estimates for the net revenue stream have been calculated net of appropriations made to (or to) reserves in respect of s31 grant receipts related to NNDR (Business Rates) income.

8. Indicators required by the Treasury Management Code

8.1 In addition to the indicators required by the Prudential Code, there are also a number of treasury indicators required by the Treasury Management Code and accompanying sector guidance. These are:

- upper and lower limits to the maturity structure of its borrowing
- upper limits for long-term treasury management investments.

8.2 These treasury management indicators specify ranges (rather than targets) designed to limit the Council’s exposure to interest rate, liquidity and refinancing risks.

9. Upper and lower limits to the maturity structure of borrowing

9.1 This indicator highlights potential exposures to refinancing risk arising from concentrations of debt falling due for refinancing and is designed to facilitate reductions in the Council’s exposure to refinancing at times of volatile or high interest rates.

9.2 It is calculated as the amount of borrowing maturing in each period as a percentage of total borrowing. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Table H: Lower/upper limits on % of borrowing maturing in each period

	At 1.4.23 Actual %	Lower limit 2023/24 %	Upper limit 2023/24 %	Actual at 30.9.23 %	Actual at 31.3.24 %
Under 12 months	2.68	0	20	4.25	6.23
12 months to 2 years	6.03	0	40	2.44	0.48
2 years to 5 years	1.27	0	40	1.23	1.17
5 years to 10 years	8.32	0	40	14.40	14.40
10 years to 20 years	19.57	0	100	14.06	13.99
20 years to 30 years	10.47	0	100	21.36	21.41
30 years to 40 years	32.45	0	100	22.58	22.59
40 years to 45 years	15.37	0	100	15.74	15.78
46 years to 50 years	3.84	0	100	3.94	3.95

[1]Forecast based on the maturity profile of the existing loan portfolio at 30.9.23

9.3 There is currently a maturity peak between May 2052 and June 2053, with maturity loans of £52m (accounting for around 22% of the existing loan portfolio at 31 March 2024) scheduled to be repaid during this period. This is not however, considered a significant risk as ample rescheduling opportunities are anticipated before the maturity date of these loans.

10. Upper limits for long-term treasury management investments

10.1 A local authority that invests, or plans to invest, for treasury management purposes in fixed interest instruments for periods longer than a year, or in other instruments only appropriate for longer-term investment, is required to set an upper limit for each forward financial year period for the maturing of such investments. Longer-term instruments with no fixed maturity date include pooled bond, equity and property funds (but not money market funds), as well as directly held equities. Investments taken or held for service purposes or commercial purposes should not be included in this indicator.

10.2 The purpose of these limits for principal sums invested for periods longer than 365 days is for the local authority to contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested. The indicator is calculated as follows:

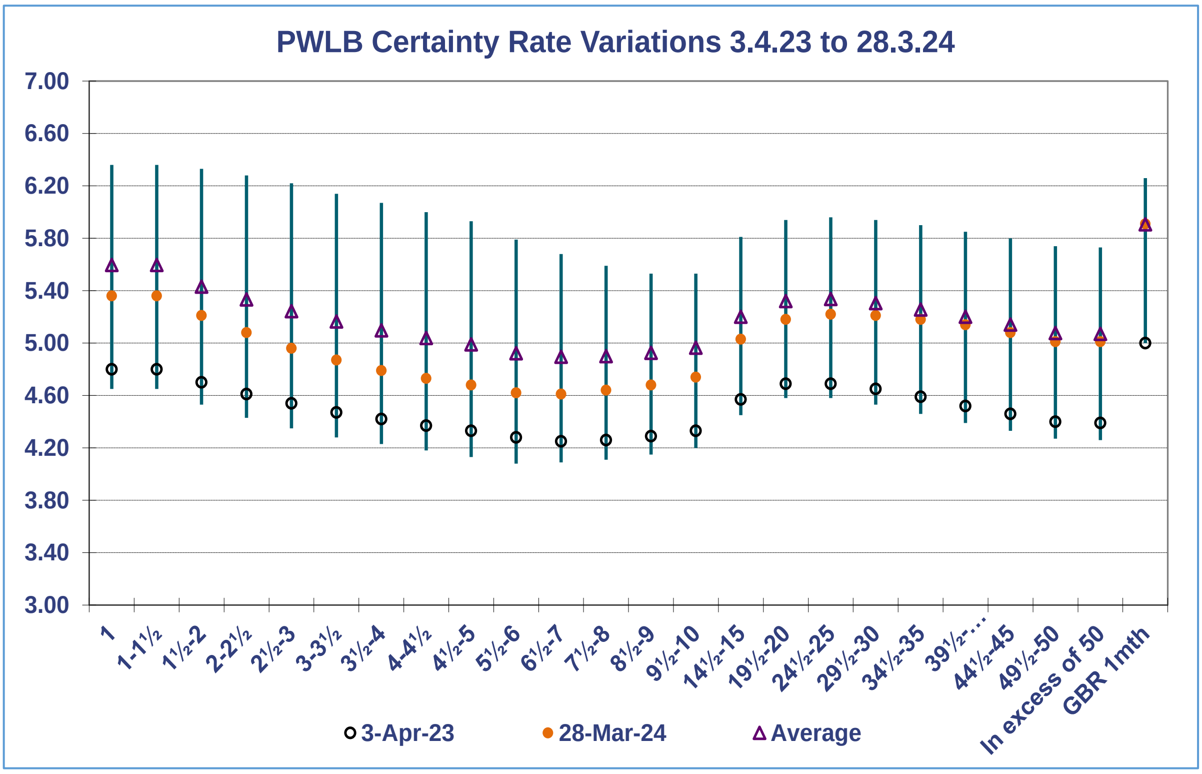
- total principal sum invested to final maturities beyond the period end for years one, two, three, etc.
- total amounts invested in longer-term instruments with no fixed maturity date.

Table J: Upper limits on long-term treasury management investments

	2023/24 Limit £000	At 1.4.23 Actual £000	Actual at 31.3.24 £000
Principal sums invested - fixed maturities	Lower of £20m and 20% of the portfolio at any time during the financial year	£3.001m (3.29%)	£3,001m (2.53%)
Principal sums invested - investments with no fixed maturity date			

Appendix 2

Interest Rate Movements



Money market investment rates 2023-24 (SONIA)

Forward-looking (term) reference rates

	Bank Rate	SONIA	1month	3 month	6 month	1 year
High	5.25%	5.19%	5.39%	5.48%	5.78%	6.24%
High date	3/8/2023	28/3/2023	19/9/2023	30/8/2023	7/7/2023	7/7/2023
Low	4.25%	4.18%	4.17%	4.31%	4.46%	4.47%
Low date	3/4/2023	4/4/2023	3/4/2023	3/4/2023	6/4/2023	6/4/2023
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%

Backward-looking reference rates

	Bank Rate	SONIA	7-day	30 day	90 day	180 day	365day
High	5.25%	5.19%	5.19%	5.20%	5.22%	5.25%	5.08%
High date	3/8/2023	28/3/2024	28/3/2024	26/3/2023	25/3/2024	22/3/2024	28/3/2024
Low	4.25%	4.18%	4.18%	4.02%	3.81%	3.32%	2.27%
Low date	3/4/2023	4/4/2023	11/4/2023	3/4/2023	3/4/2023	3/4/2023	3/4/2023
Average	5.03%	4.96%	4.96%	4.93%	4.84%	4.64%	3.93%
Spread	1.00%	1.01%	1.01%	1.18%	1.41%	1.94%	2.80%

Appendix 3

Credit Ratings

International long-term credit ratings

Fitch	Moody's	Standard & Poor's	Definition
Investment Grade			
AAA	Aaa	AAA	Highest quality/Best quality/Extremely strong
AA	Aa	AA	Very high quality/High quality/Very strong
A	A	A	High quality/Upper medium grade/Strong
BBB	Baa	BBB	Good quality/Medium grade/Adequate
Non-investment/speculative grade			
BB	Ba	BB	Speculative/Lower medium grade/Speculative-less vulnerable
B	B	B	Highly speculative/Low grade/More vulnerable
CCC	Caa	CCC	Poor quality/Currently vulnerable
CC	Ca	CC	High default risk/Highly speculative/Currently highly vulnerable
C	C	C	High default risk/Extremely poor/Imminent default
D		D	In default

Note: Fitch Ratings and Standard and Poor's ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. Moody's append numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa to denote relative status.

International short-term credit ratings

Fitch	Moody's	Standard & Poor's	Definition
Investment Grade			
F1+	Prime-1	A-1+	See Long term ratings AAA to A (Highest Quality/ Superior/Strong ability to repay short-term debt obligations)
F1		A-1	
F2	Prime-2	A-2	See Long term ratings A- to BBB+ (Good/Strong/Satisfactory)
F3	Prime-3	A-3	See Long term ratings BBB to BBB- (Fair/Acceptable/Adequate)
Non-investment/speculative grade			
B	Not Prime	B	Speculative/ Not Prime/ Speculative
C	-	C	High default risk/ - / Vulnerable
D	-	D	Default/ - /Default

Appendix 4

Analysis of Specified Investments

Counterparty	Type	Ratings			Balance at:		
		Short Term	Long Term	Colour	01/04/2023	30/09/2023	31/03/2024
Barclays Bank Plc	Call	A-1	A+	Red	3,079,000	723,000	2,224,000
HSBC UK Bank Plc	Call	A-1	A+	Orange	2,460,000	3,540,000	0
National Westminster Bank Plc	Call	A-1	A+	Blue	0	9,000,000	19,500,000
					5,539,000	**13,263,000**	**21,724,000**
National Westminster Bank Plc	Fixed Term	A-1	A+	Blue	5,000,000	5,000,000	0
SMBC Bank International Plc	Fixed Term	A-1	A-	Red	5,000,000	15,000,000	10,000,000
National Bank of Canada	Fixed Term	A-1	A	Orange	5,000,000	15,000,000	0
Standard Chartered Bank	Fixed Term	A-1	A+	Red	5,000,000	15,000,000	0
Lloyds Bank Corporate Markets Plc (NRFB)	Fixed Term	A-1	A	Red	5,000,000	5,000,000	0
Australia and New Zealand Banking Group Ltd	Fixed Term	F-1	A+	Orange	5,000,000	5,000,000	0
Goldman Sachs International Bank	Fixed Term	A-1	A+	Red	5,000,000	15,000,000	0
Landesbank Hessen-Thueringen Girozentrale (Helaba)	Fixed Term	P-1	A+	Red	5,000,000	0	0
Bayerische Landesbank	Fixed Term	P-1	A-	Red	5,000,000	0	0
					45,000.000	**75,000,000**	**10,000.000**
DMO	Fixed Term	A-1	AA-	Yellow	0	10,000,000	34,600,000
Aberdeen City Council	Fixed Term	A1+	AA-	Yellow	2,500,000	0	0
Oversea Chinese Banking Corporation Ltd	Fixed Term	P-1	AA-	Orange	5,000,000	0	0
Dorset County Council	Fixed Term	A1+	AA-	Yellow	5,000,000	0	0
East Dunbartonshire Council	Fixed Term	A1+	AA-	Yellow	5,000,000	0	0
					17,500,000	**10,000,000**	**34,600,000**
Aberdeen Standard Investments	MMF	AAAm	AAAm	Yellow	4,714,000	20,000,000	20,000,000
Deutsche	MMF	AAAm	AAAm	Yellow	4,000,000	4,000,000	4,000,000
Federated Investors	MMF	AAAm	AAAm	Yellow	4,000,000	20,000,000	20,000,000
Goldman Sachs	MMF	AAAm	AAAm	Yellow	3,401,000	1,285,000	1,285,000
Invesco	MMF	AAAm	AAAm	Yellow	4,000,000	4,000,000	4,000,000
					20,115,000	**49,285,000**	**49,285,000**