# Treasury Management Annual Report 2023/24

Telford & Wrekin Council

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# Treasury Management Annual Report 2023/24

## Purpose

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

During 2023/24 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year,
- a mid-year, (minimum), treasury update report, and
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, the Council has received updates on treasury management indicators and prudential indicator as part of the regular financial monitoring.

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

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was provided on 26 July 2023 and 31 January 2024 (the presentation slides relating to the latter being re-circulated to Committee members prior to this meeting) in order to support members' scrutiny role.

# Executive Summary

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

| Prudential and treasury indicators | 31.3.23 Actual (£'000) | 2023/24 Original (£'000) | 31.3.24 Actual (£'000) |
|---|---|---|---|
| Capital Expenditure | | | |
| • Total | 75,702 | 180,958 | 83,485 |
| Capital Financing Requirement: | | | |
| • Total | 521,398 | 649,408 | 555,727 |
| • Less Other Long-Term Liabilities | (47,888) | (44,547) | (44,547) |
| • Loans CFR | 473,510 | 604,861 | 511,180 |
| Gross borrowing | | | |
| • External Debt | 347,221 | 440,200 | 371,324 |
| Treasury Investments | | | |
| • Longer than 1 year | 0 | 0 | 0 |
| • Under 1 year | 38,499 | 15,000 | 17,868 |
| • Total | 38,499 | 15,000 | 17,868 |
| Net borrowing | | | |
| • Total | 308,722 | 425,200 | 353,456 |

Other prudential and treasury indicators are to be found in the main body of this report. The Interim Director of Finance, People and IDT also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

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

By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view The CPI measure of inflation stood at 3.2% in March 2024 and subsequently hit the Bank of England's 2% target in May 2024.

It should be noted that borrowing can only be undertaken to fund capital investment and not to support the revenue budget which supports the delivery of most Council services.

The capital investment generates assets for the Council and the total value of assets held, excluding Infrastructure Assets, at 31 March 2024 was £645.0 some £273.7m greater than debt outstanding. In addition, the Council also holds over £235m of Infrastructure Assets.

# Introduction and Background

This report summarises the following:-

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

# 1. The Council's Capital Expenditure and Financing

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

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

| Capital Expenditure (£'000) | 31.3.23 Actual | 2023/24 Original | 31.3.24 Actual |
|---|---|---|---|
| General Fund Service | 60,211 | 110,158 | 67,374 |
| Housing Investment Programme (NuPlace Ltd) | 10,920 | 28,075 | 9,073 |
| Property Investment Portfolio | 4,571 | 42,725 | 7,038 |
| Solar Farm | 0 | 0 | 0 |
| **Capital Programme Expenditure** | **75,702** | **180,958** | **83,485** |
| Financed in year from Government Grants, Capital Receipts, Revenue Contribution & External sources | 50,449 | 55,115 | 45,118 |
| **Unfinanced capital expenditure (Borrowing)** | **25,253** | **125,843** | **38,367** |

# 2. The Council's Overall Borrowing Need

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

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury team

organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

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

The Council's 2023/24 MRP Policy, (as required by Department for Levelling Up Housing and Communities (DLUHC) Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 on 2 March 2023.

The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which technically increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

| CFR (£'000): *General Fund* | 31.3.23 Actual | 2023/24 Original | 31.3.24 Actual |
|---|---|---|---|
| General Funded Service | 395,020 | 453,137 | 416,316 |
| Housing Investment Programme (NuPlace Ltd) | 61,997 | 92,129 | 71,070 |
| Property Investment Portfolio | 59,870 | 100,342 | 64,541 |
| Solar Farm | 3,800 | 3,800 | 3,800 |
| **Closing balance** | **520,687** | **649,408** | **555,727** |
| Less Other Long Term Liabilities | (47,888) | (44,547) | (44,547) |
| **Loans CFR** | **472,799** | **604,861** | **511,180** |

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

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would allow for some flexibility to borrow in advance of the Councils immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

| | 31.3.23 Actual (£'000) | 2023/24 Original (£'000) | 31.3.24 Actual (£'000) |
|---|---|---|---|
| Gross borrowing position (external debt) | 347,221 | 440,200 | 371,324 |
| Loans CFR | 472,799 | 604,861 | 511,180 |
| (Under) / over funding of CFR | (125,578) | (164,661) | (139,856) |

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2023/24 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream. See Appendix A for comparators.

| | 2023/24 |
|---|---|
| Maximum gross borrowing position during the year | 372.5m |
| Authorised limit (Borrowing) | 565.0m |
| Operational boundary (Borrowing) | 545.0m |
| Financing costs as a proportion of net revenue stream | 6.66% |

# 3. Treasury Position at 31 March 2024

The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2023/24 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

| **DEBT PORTFOLIO** | 31.3.23 Principal (£'000) | Interest Rate % | 31.3.24 Principal (£'000) | Interest Rate % | Movement in Principal (£'000) |
|---|---|---|---|---|---|
| Fixed rate funding: | | | | | |
| - PWLB | 210,884 | 2.52% | 244,549 | 2.65% | 33,665 |
| - Municipal Loans | 308 | 2.10% | 246 | 2.1% | (62) |
| - Market | 40,000 | 4.17% | 40,000 | 4.17% | 0.0 |
| Variable rate funding: | | | | | |

| - Temporary | 96,029 | 1.91% | 86,529 | 4.68% | (9,500) |
|---|---|---|---|---|---|
| **Total debt** | **347,221** | **2.65%** | **371,324** | **3.39%** | **24,103** |
| **Loans CFR** | **472,799** | | **511,180** | | **38,381** |
| **Over / (under) borrowing** | **(125,578)** | | **(139,856)** | | **(14,278)** |
| **Total investments** | **38,499** | **2.10%** | **17,868** | | **(20,631)** |
| **Net debt** | **308,722** | | **353,456** | | **44,734** |

The maturity structure of the debt portfolio was as follows:

| | 31.3.23 Actual | | 2023/24 original limits % | | 31.3.24 Actual | |
|---|---|---|---|---|---|---|
| | (£'000) | % | Lower | Upper | (£'000) | % |
| Under 12 months | 107,208 | 30.9 | 0.0 | 70.0 | 134,829 | 36.3 |
| 12 months and within 24 months | 21,705 | 6.3 | 0.0 | 30.0 | 18,119 | 4.9 |
| 24 months and within 5 years | 33,196 | 9.6 | 0.0 | 50.0 | 35,053 | 9.4 |
| 5 years and within 10 years | 45,679 | 13.2 | 0.0 | 75.0 | 48,802 | 13.1 |
| 10 years and within 30 years | 34,433 | 9.9 | 0.0 | 75.0 | 34,521 | 9.3 |
| 30 years and above* | 105,000 | 30.1 | 25.0 | 100.0 | 100,000 | 27.0 |
| **Total Borrowing** | **347,221** | **100.0** | | | **371,324** | **100.0** |

** this includes £25m Lenders Option Borrowers Options (LOBO) loans that are potentially callable at certain points before the maturity date.*

| **INVESTMENT PORTFOLIO** | 31.3.23 Actual (£'000) | 31.3.23 Actual Split % | 31.3.24 Actual (£'000) | 31.3.24 Actual Split % |
|---|---|---|---|---|
| **Treasury investments** | | | | |
| Banks | 4,419 | 11.4 | 3,188 | 17.8 |
| DMADF (H M Treasury) | 29,100 | 75.6 | 9,700 | 54.3 |
| Money Market Funds | 4,980 | 12.9 | 4,980 | 27.9 |
| **Total managed in house** | **38,499** | **100.0** | **17,868** | **100.0** |
| **Total managed externally** | 0 | | 0 | |
| **Total Treasury Investments** | **38,499** | **100.0** | **17,868** | **100.0** |

The maturity structure of the investment portfolio was as follows:

| | 31.3.23 | 2023/24 | 31.3.24 |
|---|---|---|---|

| | Actual £000 | Budget £000 | Actual £000 |
|---|---|---|---|
| Investments | | | |
| Longer than 1 year | 0 | 0 | 0 |
| Up to 1 year | 38,499 | 15,000 | 17,868 |
| **Total** | **38,499** | **15,000** | **17,868** |

# 4. 2023/24 Treasury Strategy

**4.1 2023/24 Borrowing Strategy**

In 2023/24 the level of Council borrowing was below its underlying need to borrow (the Capital Financing Requirement (CFR)). This was due to positive cash flow arising from Council's reserves and balances being available to support the treasury position.

This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2024 and 2025 as inflation concerns are dampened. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks *(please adapt this outline to what you actually did in the year):*

- 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 a relapse into recession or of risks of deflation), then long term borrowings 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 initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

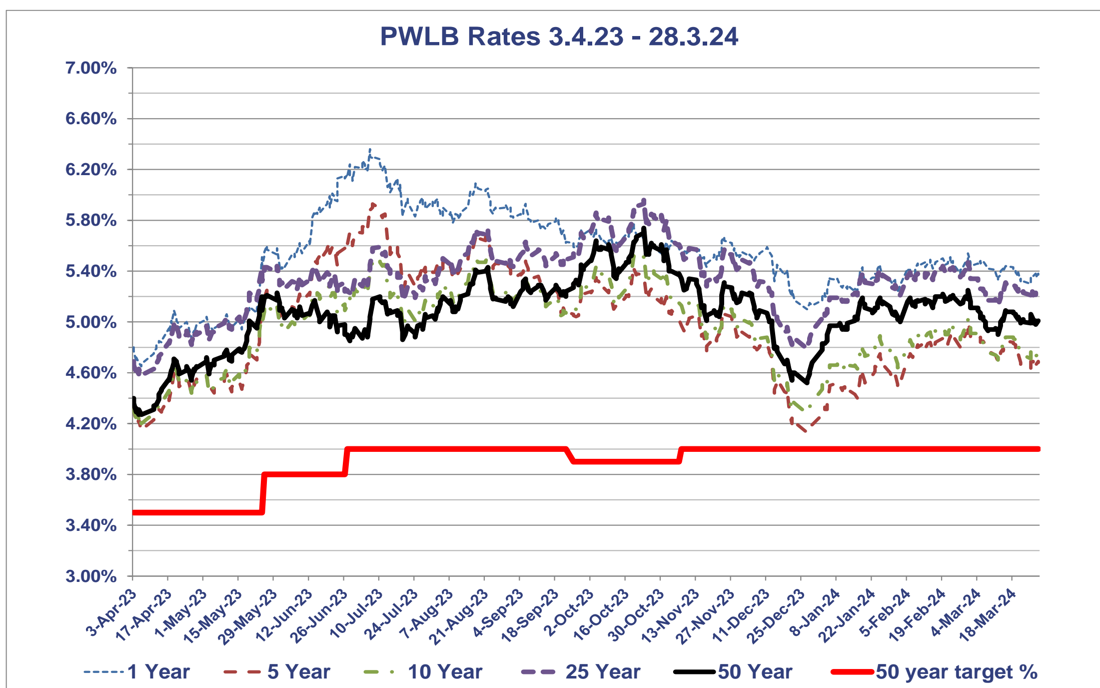
Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

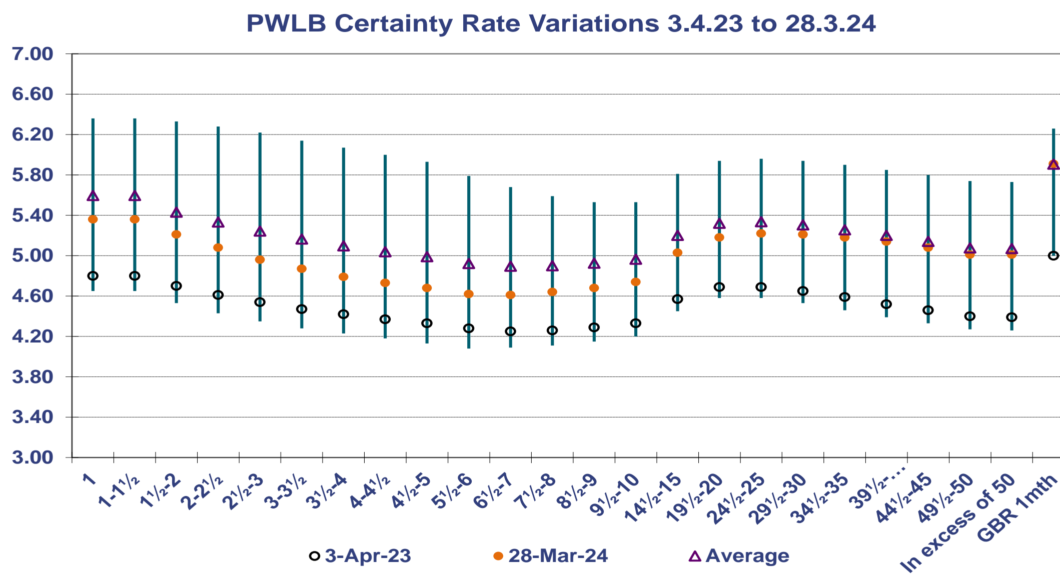
By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view The CPI measure of inflation stood at 3.2% in March 2024 and subsequently hit the Bank of England's 2% target in May 2024 and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.

**High / Low / Average PWLB Rates for 2023/24**

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

**PWLB Rates 2023/24**




PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level

of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

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

Gilt yields have generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.
At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.
Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **HRA Borrowing rate** is gilt plus 40 40bps (G+40bps)

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

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

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

**4.2 2023/24 Treasury Investment Strategy**

Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

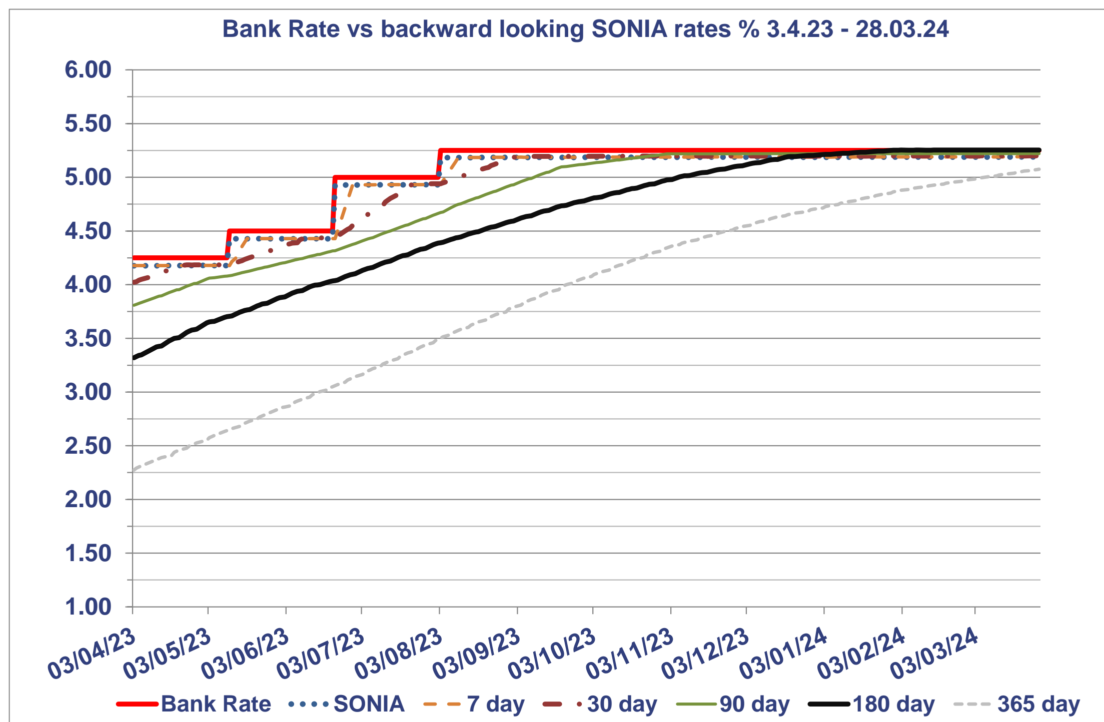
Starting April at 4.25%, the Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. At the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in late summer / early autumn.

The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

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

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

**Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2023/24**



| FINANCIAL YEAR TO QUARTER ENDED 28/03/2024 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Bank Rate | SONIA | 7 day | 30 day | 90 day | 180 day | 365 day |
| High | 5.25 | 5.19 | 5.19 | 5.20 | 5.22 | 5.25 | 5.08 |
| High Date | 03/08/2023 | 28/03/2024 | 28/03/2024 | 26/03/2024 | 25/03/2024 | 22/03/2024 | 28/03/2024 |
| Low | 4.25 | 4.18 | 4.18 | 4.02 | 3.81 | 3.32 | 2.27 |
| Low Date | 03/04/2023 | 04/04/2023 | 11/04/2023 | 03/04/2023 | 03/04/2023 | 03/04/2023 | 03/04/2023 |
| 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 |

# 5. Borrowing Outturn

**Treasury Borrowing** – During the year 6 new PWLB loans were raised
**Borrowing** - loans were drawn to fund the net unfinanced capital expenditure and naturally maturing debt.

The loans drawn were:

| Lender | Date Raised | Principal | Type | Interest Rate | Duration |
|---|---|---|---|---|---|
| PWLB | *21/12/2023 | £5.0m | Fixed interest rate - EIP | 4.37% | 13 years |
| PWLB | 22/02/2024 | £5.0m | Fixed interest rate – Maturity | 5.43% | 1 year |
| PWLB | 12/02/2024 | £5.0m | Fixed interest rate - Maturity | 5.43% | 1.5 years |
| PWLB | 23/02/2024 | £10.0m | Fixed interest rate - EIP | 4.77% | 12 years |
| PWLB | 08/03/2024 | £10.0m | Fixed interest rate – Maturity | 5.47% | 1 year |
| PWLB | 27/03/2024 | £10.0m | Fixed interest rate – Maturity | 5.36% | 1 year |

This compares with a budget assumption of borrowing at an interest rate of 5.75% for 2023/24 and 4.6% 2024/25.
*loans included in 2022/23 Treasury Update Report presented to Audit Committee 24th January 2023.

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

**Early Repayments or Rescheduling**
No loans were repaid early or rescheduled during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

**Debt Performance**
As highlighted in Section 3 the average interest rate for borrowing rose slightly over the course of the year from 2.65% to 3.39% as the cost of replacing temporary loans increased in line with the movements in the base rate.

# 6. Treasury Investment Outturn

**Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 2 March 2023. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies.

In line with the approved Treasury Management Prudential Indicator, the Council can place up to £15.0m with any Counterparty, with the exception of the DMADF which is Government backed and therefore considered to be very secure so no limit is placed on investments. At 31 March 2024 the greatest exposure with a single counterparty was £29.1m (75.6% of the portfolio) with the DMADF.

The Council has operated within the Treasury Limits and Prudential Indicators set, except for the counterparty limit being exceeded on one day in October which was reported to the Committee in the update report brought in January 2024.

The Council is guided by its Treasury advisers in assessing investments.

**Investments held by the Council**

- The Council maintained an average daily balance of £38.438m of internally managed funds.
- The internally managed funds earned an average rate of return of 4.89%
- The comparable performance indicator is the average SONIA rate, which was 4.96%
- The majority of the portfolio is held within the Governments secure Debt Management Office for security, in line with the strategy, which pays slightly lower than market average interest rates.

| Investments (£'000) | 31.3.23 | 31.3.24 |
|---|---|---|
| Cash Investments | 38,499 | 17,868 |

At the 31 March 2024 the Councils total usable reserves were £122.7m, which has supported the overall cash flow position and the level of internal borrowing.

# 7. 2023/24 Overall Outturn

Overall, a net benefit of £1.336m was made against budget for the year. The sound overall position has resulted from a mix of cash flow benefits plus the reprofiling of capital spend into future years.

# 8. Shropshire Council Debt

The Council makes an annual contribution towards Shropshire Council costs on pre disaggregation debt (i.e. pre unitary inception). The contribution in 2023/24 was £1.143m and interest paid averaged 4.1%. The rate of interest paid on this is managed by Shropshire and is considerably higher than the rate payable by Telford & Wrekin Council on its borrowing.

# 9. Leasing

Each year the Council arranges both finance leases and operating leases for assets such as vehicles, computers and equipment. This helps spread the cost over a number of years in line with the anticipated life of the equipment.

During 2023/24 no new leases were arranged.

# 10. The Economy and Interest Rates

### 10.1 UK Economy

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

| | UK | Eurozone | US |
|---|---|---|---|
| **Bank Rate** | 5.25% | 4% | 5.25%-5.5% |
| **GDP** | -0.3%q/q Q4 (-0.2%y/y) | +0.0%q/q Q4 (0.1%y/y) | 2.0% Q1 Annualised |
| **Inflation** | 3.4%y/y (Feb) | 2.4%y/y (Mar) | 3.2%y/y (Feb) |
| **Unemployment Rate** | 3.9% (Jan) | 6.4% (Feb) | 3.9% (Feb) |

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.

But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle

that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

**10.2 USA Economy.**

Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its swollen $16 trillion balance sheet at some point. Just because the $ is the world's foremost reserve currency (China owns over $1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025…but how many and when?

**10.3 EZ Economy.**

Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June rate cut from the current 4% looks probable.

# Appendix Ai: Prudential and treasury indicators

| 1. PRUDENTIAL INDICATORS | 2022/23 | 2023/24 | 2023/24 |
|---|---|---|---|
| | actual | original | actual |
| | £'000 | £'000 | £'000 |
| Capital Expenditure | 75,702 | 180,958 | 83,485 |
| Ratio of financing costs to net revenue stream | 4.77% | 7.65% | 6.66% |
| Gross borrowing requirement General Fund | | | |
| brought forward 1 April | 282,743 | 314,300 | 347,221 |
| carried forward 31 March | 347,221 | 440,200 | 371,324 |
| in year borrowing requirement | 64,478 | 125,900 | 24,103 |
| Loans CFR | 472,799 | 604,861 | 511,180 |
| Annual change in Loans CFR | 23,539 | 124,798 | 38,381 |

| 2. TREASURY MANAGEMENT INDICATORS | 2022/23 | 2023/24 | 2023/24 |
|---|---|---|---|
| | actual | original | actual |
| | £'000 | £'000 | £'000 |
| Authorised Limit for external debt - | | | |
| borrowing | 495,000 | 565,000 | 565,000 |
| other long term liabilities | 64,000 | 54,000 | 54,000 |
| TOTAL | 559,000 | 619,000 | 619,000 |
| Operational Boundary for external debt - | | | |
| borrowing | 475,000 | 545,000 | 545,000 |
| other long term liabilities | 60,000 | 50,000 | 50,000 |
| TOTAL | 535,000 | 595,000 | 595,000 |
| Actual external debt | 347,221 | 440,200 | 371,324 |

| Maturity structure of fixed rate borrowing during 2023/24 | upper limit | lower limit | 31.03.24 |
|---|---|---|---|
| Under 12 months | 0.0% | 70.0% | 36.3 |
| 12 months and within 24 months | 0.0% | 30.0% | 4.9 |
| 24 months and within 5 years | 0.0% | 50.0% | 9.4 |
| 5 years and within 10 years | 0.0% | 75.0% | 13.1 |
| 10 years and within 30 years | 0.0% | 75.0% | 9.3 |
| 30 years and above | 0.0% | 100.0% | 27.0 |
| **Maturity structure of investments during 2023/24** | upper limit | lower limit | |
| Longer than 1 year | 0.0% | 95.0% | 0.0% |
| Up to 1 year | 0.0% | 100.0% | 100.0% |

| Credit risk indicator | 2022/23 Actual | 2023/24 Target | 2023/24 Actual |
|---|---|---|---|
| Portfolio average credit score | 1.46 | 6 or lower | 1.71 |

*Target – 6 or lower is equivalent to a credit rating of ‘A’ or higher*

## ABBREVIATIONS USED IN THIS REPORT

**CFR:** capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

**CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**CPI:** consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

**DLUHC:** the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

**ECB:** European Central Bank - the central bank for the Eurozone

**EU:** European Union

**EZ:** Eurozone -those countries in the EU which use the euro as their currency

**Fed:** the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

**FOMC:** the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

**GDP:** gross domestic product – a measure of the growth and total size of the economy.

**G7:** the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

**Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

**HRA:** housing revenue account.

**IMF:** International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

**LIBID:** the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). These benchmarks ceased

on 31st December 2021 and have, generally, been replaced by SONIA, the Sterling Overnight Index Average.

**MPC:** the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

**MRP:** minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

**PFI:** Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

**PWLB:** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**QE:** quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to ‘cool’ the economy.

**RPI**: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

**SONIA:** the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

**TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.