# Crawley Borough Council

## Report to Overview and Scrutiny Commission
**23 July 2024**

## Report to Cabinet
**24 July 2024**

## Treasury Management Outturn 2023-2024

Report of the Head of Corporate Finance – FIN/659

---

### 1. Purpose

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. 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).

1.2 During 2023/24 the minimum reporting requirements were that the Cabinet and Full Council should receive the following:

- an Annual Treasury Strategy in advance of the year (FIN/608 and FIN/608A)
- a mid-year treasury update report (FIN/637)
- an annual review following the end of the year describing the activity compared to the Strategy (this report)

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

1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview and Scrutiny Commission before they were reported to Cabinet and Full Council.

### 2. Recommendations

2.1 To the Overview and Scrutiny Commission:

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

2.2 To the Cabinet:

The Cabinet is recommended to:

a) Approve the actual 2023/24 Prudential and Treasury Indicators as set out in the report;

b) Note the Annual Treasury Management Report for 2023/24.

c) Note that the authorised limit for external borrowing set by the Council was exceeded for a short period during Q4 of 2023/24 and is now back within the set limit set by the Council.

The Cabinet is recommended to request Full Council to:

d) Approve of the increase in the 2024/25 Operational boundary and Authorised Limits contained within section 5.4 of the report.

## 3. Reasons for the Recommendations

3.1 The Council's financial regulations, in accordance with the CIPFA Code of Practice for Treasury Management, requires an annual review following the end of the year describing the activity compared to the Strategy. This report complies with these requirements.

## 4. The Council's Capital Expenditure and Financing

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

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

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

| **General Fund** £'000 | 2022/23 Actual | 2023/24 Budget | 2023/24 Actual |
|---|---|---|---|
| **Capital expenditure** | **11,739** | **30,009** | **14,550** |
| **Non-financial investments** | **0** | **0** | **0** |
| Financed in year | 11,695 | 24,333 | 14,550 |
| **Unfinanced capital expenditure** | **44** | **5,676** | **0** |

| **HRA** £'000 | 2022/23 Actual | 2023/24 Budget | 2023/24 Actual |
|---|---|---|---|
| **Capital expenditure** | **19,871** | **40,385** | **26,065** |
| Financed in year | 11,173 | 34,385 | 26,065 |
| **Unfinanced capital expenditure** | **8,698** | **6,000** | **0** |

## 5. The Council's Overall Borrowing Need

5.1 On 31st March 2024, the Council had net borrowing of £165.620m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below.

| £'000 | 2022/23 Actual | 2023/24 Actual | 2024/25 budget | 2025/26 budget |
|---|---|---|---|---|
| CFR General Fund | 18,029 | 18,017 | 23,621 | 23,049 |
| CFR HRA | 249,325 | 237,325 | 230,689 | 217,689 |
| **Total CFR** | **267,354** | **255,342** | **254,310** | **240,738** |
| External borrowing | 249,325 | 268,425 | 224,325 | 211,325 |
| **Under / (over) borrowing** | **18,029** | **(13,083)** | **29,985** | **29,413** |
| Less: Usable reserves | 86,245 | 71,246 | 57,424 | 45,777 |
| Less: Working capital | 11,780 | 31,559 | 20,000 | 20,000 |
| **Net borrowing** | **151,300** | **165,620** | **146,901** | **145,548** |

5.2 The Council pursues a strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

5.3 **The authorised limit and operational boundary** - the Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.
The table below demonstrates that during 2023/24 the Council breached the authorised limit for a short period but ended the year with gross borrowing back within its authorised limit. The reason for exceeding the limit set by the Council was a dip in short term cash flow which was met through short term loans from other local authorities. Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

| £'000 | 2023/24 |
|---|---|
| Maximum gross borrowing position during the year | 303,425 |
| Debt at 31 March | 268,425 |
| Authorised limit | 270,325 |
| Operational boundary | 260,325 |
| Average gross borrowing position | 258,937 |

5.4 The Operational Boundary and Authorised Limit for 2024/25 have been reviewed with the assistance of the Council's treasury advisors and the Council is requested to approve the following revised Operational Boundary and Authorised Limit to avoid any future breaches:

| **Operational boundary £'000** | **2024/25 Estimate** | **2025/26 Estimate** |
|---|---|---|
| Debt | 254,310 | 240,738 |
| Other long term liabilities | 19 | 13 |
| Total | 254,329 | 240,751 |
| **Authorised limit £'000** | **2024/25 Estimate** | **2025/26 Estimate** |
| Debt | 274,310 | 260,738 |
| Other long term liabilities | 19 | 13 |
| Total | 274,329 | 260,751 |

5.5 **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.

| £'000 | **2022/23 Actual** | **2023/24 Actual** | **2024/25 Budget** | **2025/26 Budget** |
|---|---|---|---|---|
| Total net income from service and commercial investments | 69,566 | 76,541 | 76,358 | 76,358 |
| Proportion of net revenue stream | 3.6% | 1.4% | 1.8% | 2.4% |
| Financing costs | 7,460 | 3,277 | 2,909 | 3,903 |
| Financing costs as a proportion of net revenue stream | 10.7% | 4.3% | 3.8% | 5.1% |

## 6. Treasury Position as at 31 March 2024

6.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

6.2 **Security**
The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| **Credit risk indicator** | Actual 31 March 2024 | 2023/24 Target | Complied? |
|---|---|---|---|
| Portfolio average credit rating | A+ | A | ✓ |

6.3 **Liquidity**

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

| **Liquidity risk indicator** | Actual 31 March 2024 | 2023/24 Target | Complied? |
|---|---|---|---|
| Total cash available within 1 week | £20.2m | £3m | ✓ |

6.4 **Interest Rate Exposures**

This indicator is set to control the Council's exposure to interest rate risk. Bank Rate rose by 1.00% from 4.25% on 1st April 2023 to 5.25% by 31st March 2024. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

| **Interest rate risk indicator** | Actual 31 March 2024 | 2023/24 Target | Complied? |
|---|---|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | £0.432m | £1.2m | ✓ |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £(0.432)m | £(1.2)m | ✓ |

For context, the changes in interest rates during the year were:

| | 31/3/23 | 31/3/24 |
|---|---|---|
| Bank Rate | 4.25% | 5.25% |
| 1-year PWLB certainty rate, maturity loans | 4.78% | 5.36% |
| 5-year PWLB certainty rate, maturity loans | 4.31% | 4.68% |
| 10-year PWLB certainty rate, maturity loans | 4.33% | 4.74% |
| 20-year PWLB certainty rate, maturity loans | 4.70% | 5.18% |
| 50-year PWLB certainty rate, maturity loans | 4.41% | 5.01% |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

6.5 **Maturity Structure of Borrowing**

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

| | 31 March 2023 Actual £000 | 2023/24 Original Limits | 31 March 2024 Actual £000 | Complied? |
|---|---|---|---|---|
| Under 12 months | 12,000 (5%) | 20% | 44100 (16%) | ✓ |
| 12 months and within 24 months | 13,000 (5%) | 20% | 13000 (5%) | ✓ |
| 24 months and within 5 years | 44,000 (18%) | 30% | 48000 (18%) | ✓ |

| | | | | |
|---|---|---|---|---|
| 5 years and within 10 years | 98,000 (39%) | 50% | 96000 (36%) | ✓ |
| 10 years and within 20 years | 82,325 (33%) | 40% | 67325 (25%) | ✓ |
| 20 years and within 30 years | 0 (0%) | 10% | 0 (0%) | ✓ |
| 30 years and within 40 years | 0 (0%) | 10% | 0 (0%) | ✓ |
| 40 years and within 50 years | 0 (0%) | 10% | 0 (0%) | ✓ |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.6 **Principal sums invested for periods longer than a year**

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities greater than one year beyond the period end were:

| | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|
| Actual principal invested beyond year end | £8m | £3m | £0m |
| Limit on principal invested beyond year end | £20m | £20m | £20m |
| Complied? | ✓ | ✓ | ✓ |

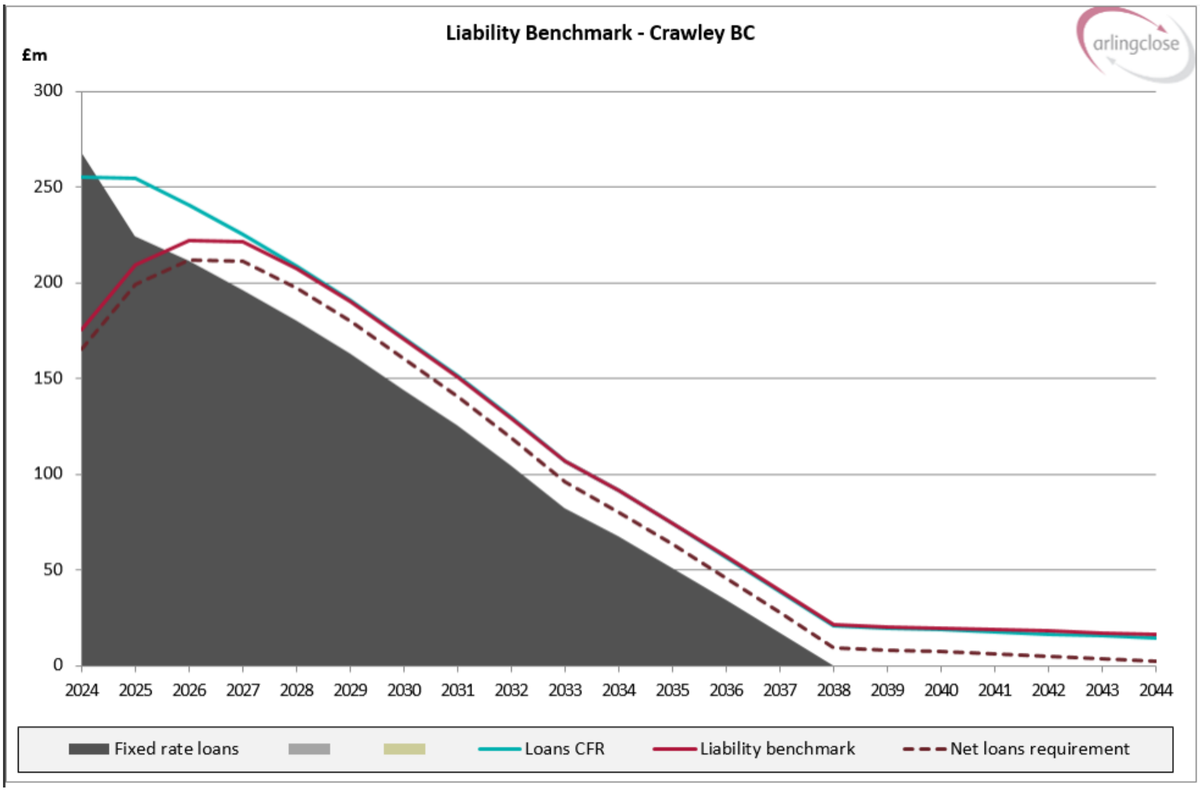
6.7 The treasury management position at 31st March 2024 and the change during the year is shown in the table below.

| Treasury Management Summary | 31.3.23 Balance £000 | Movement £000 | 31.3.24 Balance £000 | 31.3.24 Rate % |
|---|---|---|---|---|
| Long-term borrowing | 237,325 | (13,000) | 224,325 | 3.3 |
| Short-term borrowing | 12,000 | 32,100 | 44,100 | 2.8 |
| **Total borrowing** | **249,325** | **19,100** | **268,425** | **3.2** |
| Long-term investments | 5,000 | 2,600 | 7,600 | 5.38 |
| Short-term investments | 68,296 | 11,704 | 80,000 | 4.56 |
| Cash and cash equivalents | 24,729 | (9,524) | 15,205 | 4.27 |
| **Total investments** | **98,025** | **4,780** | **102,805** | **4.59** |
| **Net borrowing** | **151,300** | **14,320** | **165,620** | |

6.8 **Liability benchmark:** This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £3m required to manage day-to-day cash flow.

| £'000 | 31 March 2023 | 31 March 2024 | 31 March 2025 | 31 March 2026 |
|---|---|---|---|---|
| Long-term borrowing | **Actual** | **Actual** | **Forecast** | **Forecast** |
| Loans CFR | 267,354 | 255,342 | 254,310 | 240,738 |
| Less: Balance sheet resources & working capital | 98,025 | 102,805 | 77,424 | 65,777 |
| **Net Loans Requirement** | **169,329** | **152,537** | **176,886** | **174,961** |
| Plus: Liquidity allowance | 10,000 | 10,000 | 10,000 | 10,000 |
| **Liability Benchmark** | **179,329** | **162,537** | **186,886** | **184,961** |
| **Existing borrowing** | **249,325** | **268,425** | **224,325** | **211,325** |

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £21m a year, minimum revenue provision on new capital expenditure based on a 40 year asset life and income, expenditure and reserves all increasing by inflation of 5.45% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.




## 7. Borrowing Update and Outturn for 2023/24

7.1 The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in the future and so is not impacted by the changes in CIPFA's 2021 Prudential Code.

7.2 At 31st March 2024 the Council held £255.342m of loans, an increase of £19.1m to 31st March 2023, which £237.325m was for the HRA self-financing settlement and £31.1m of short term loans to briefly cover the HRA interest and loan repayment (£16.4m) and the remaining £14.7m for cash flow purposes.

7.3 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

7.4 Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields fell in late 2023, reaching April 2023 lows in December 2023 before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.

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

7.6 The cost of short term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates are expected to fall back to more normal market levels in April 2024.

7.7 A new HRA PWLB rate which is 0.4% below the certainty rate was made available from 15th June 2023. This rate will now be available to June 2025. The discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing and to replace the Council's £13m loans relating to the HRA maturing during this time frame.

7.8 **Loans restructuring:** The continuing rise in gilt yields since early 2022 resulted in some of the Council's PWLB loans being in or close to a discount position if repaid early. However, as the prepaid loans would need to be replaced by new loans at higher interest rates, this isn't a cost-effective option for the Council.

7.9 In keeping with these objectives, no new long term borrowing was undertaken.

## 8. Investment strategy and control of interest rate risk

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

8.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £97.9 and £156.0 million due to timing differences between income and expenditure. The investment position is shown in the table below.

| INVESTMENT PORTFOLIO | Actual 31 March 2023 £000 | Net Movement £000 | Actual 31 March 2024 £000 | 31 March 2024 Income Return % | 31 March 2024 Weighted Average Maturity Days |
|---|---|---|---|---|---|
| **Treasury investments** | | | | | |
| UK Banks | 379 | 2,826 | 3,205 | 2.10% | 2 |
| Government | 11,296 | (11,296) | 0 | 0.00% | 0 |
| Local authorities | 62,000 | 25,600 | 87,600 | 4.63% | 182 |
| Money Market Funds | 14,350 | (12,350) | 2,000 | 5.29% | 2 |
| Cash plus funds | 10,000 | 0 | 10,000 | 4.09% | 4 |
| **TOTAL TREASURY INVESTMENTS** | 98,025 | 4,780 | 102,805 | 4.59% | 137 |

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

8.4 As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments.

8.5 Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Money Market Rates also rose and were between 4.0% and 5.4% by the end of March 2024.

8.6 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in the table below.

| **Investments managed in-house** | Credit Score | Credit Rating | Bail-in Exposure | Weighted Average Maturity (days) | Rate of Return % |
|---|---|---|---|---|---|
| 31.03.2023<br>31.03.2024 | 4.91<br>5.49 | A+<br>A+ | 17%<br>4% | 104<br>137 | 1.72<br>5.00 |
| **Similar Las**<br>**All LAs** | 4.90<br>4.82 | A+<br>A+ | 61%<br>61% | 50<br>9 | 5.07<br>5.10 |

8.7 **Externally Managed Pooled Funds**: £10m of the Council's investments is invested in externally managed strategic pooled cash plus funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of

£0.410m (4.09%), which is used to support services in year, and £0.022m (2.19%) of unrealised capital growth.

8.8 Dividends continued to be received from the Council's cash plus funds, the payout increasing for most funds in the portfolio.

The change in the Council's funds' capital values and income earned over the 12-month period is shown in 8.2.

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

8.9 **Statutory override**: In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31st March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

## 9. Non-Treasury Investments

9.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

9.2 The Council held £40.888m of commercial investments in directly owned properties.

A full list of the Council's commercial investments is in the table below:

| | Purchase Cost £000 | Fair Value as at 31/03/2024 £000 | Income for year 2023/24 £000 | Rate of return % |
|---|---|---|---|---|
| Atlantic House | 4,633 | 3,511 | 312 | 8.87 |
| 49-51 High Street | 1,576 | 951 | 16 | 1.73 |
| Ashdown House | 7,915 | 6,107 | 623 | 10.20 |

| | | | | |
|---|---|---|---|---|
| Others | N/A | 2,599 | 211 | 8.11 |
| **Sub-total** | **14,124** | **13,168** | **1,162** | **8.82** |
| The Create Building | 29,582 | 27,720 | 288 | 1.04 |
| **TOTAL** | **43,706** | **40,888** | **1,450** | **3.55** |

The Create Building was completed last year but currently has two tenants.

9.3 The Council also held £71.423m of service investments in

- directly owned property £71.223m
- loan to The Hawth £0.2m

Service investments are not held primarily for financial return and support service objectives of the Council.

## 10. Investment Outturn for 2023/24

10.1 **Investment Policy** – the Council's investment policy is governed by Government guidance, which was been implemented in the annual investment strategy approved by the Council on 1 February 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 supplemented by additional market data such as rating outlooks and credit default swaps.

10.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

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

| Balance Sheet Resources (£'000) | 31 March 2023 | 31 March 2024 |
|---|---|---|
| General Fund Balance | 5,457 | 3,810 |
| HRA Balance | 3,198 | 3,237 |
| Earmarked reserves | 20,056 | 10,920 |
| Major Repairs Reserve | 27,007 | 35,538 |
| Usable capital receipts | 19,831 | 17,741 |
| Working capital | 53,396 | 31,559 |
| **Total** | **128,945** | **102,805** |

10.4 **Investments held by the Council** - the Council maintained an average balance of £119,325,254 of internally managed funds. The internally managed funds earned an average rate of return of 3.84%. See appendix 2 for a list of investments held at 31 March 2024. Revisions of the capital programme in the year (see 4.2) led to higher investment balances than budgeted.

## 11. Implications

11.1 The financial and legal implications are addressed throughout this report. The Council's investments were managed in compliance with the Treasury Management Code and the Prudential Code through the year.

Report author and contact officer: Carey Manger, Finance Business Partner (01293 438021)

## Economic background

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

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

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

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

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

Following this MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in H2 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

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

Following a similarly sharp upward trajectory, the European Central Bank hiked rates to historically high levels over period, pushing its main refinancing rate to 4.5% in September 2023, where it has remained. Economic growth in the region remains weak, with a potential recession on the cards, but inflation remains sticky and above the ECB's target, putting pressure on policymakers on how to balance these factors.

**Financial markets**

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

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

**Credit review**

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

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

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

Moody's, meanwhile, upgraded the long-term ratings of German lenders Helaba, Bayern LB and LBBW on better solvency and capital positions, despite challenges from a slowing German economy and exposure to the commercial real estate sector. Moody's also upgraded or placed on review for an upgrade, Australian banks including ANZ, CBA NAB and Westpac on the back of the introduction of a new bank resolution regime.

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

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

## Detailed holdings at 31 March 2024

**APPENDIX 2**

| Counter Party | Deal Ref | Issue | Maturity | Days to Mature | Interest Rate | Nominal (£m) | Total (£m) | Limit (£m) | Rating |
|---|---|---|---|---|---|---|---|---|---|
| **UK BANKS** | | | | | | | | | |
| Lloyds Bank plc | 20 | | 01/04/2024 | 1 | 2.100% | | | 0.095 | |
| | 2811 | | 01/04/2024 | 1 | 5.140% | 3.110 | 3.205 | 10.000 | A+ |
| **LOCAL AUTHORITIES** | | | | | | | | | |
| Basildon Borough Council | 2843 | 19/03/2024 | 18/03/2025 | 352 | 5.900% | 2.000 | 2.000 | 15.000 | A+ |
| Birmingham City Council | 2756 | 28/04/2023 | 26/04/2024 | 26 | 3.500% | 5.000 | 5.000 | 15.000 | A+ |
| Broxbourne Borough Council | 2801 | 18/08/2023 | 16/08/2024 | 138 | 4.750% | 3.000 | 3.000 | 15.000 | A+ |
| Cornwall Council | 2804 | 11/10/2023 | 09/10/2024 | 192 | 4.800% | 5.000 | 5.000 | 15.000 | A+ |
| Derbyshire County Council | 2742 | 11/05/2023 | 10/05/2024 | 40 | 1.500% | 3.000 | | | |
| | 2743 | 31/05/2023 | 30/05/2024 | 60 | 1.500% | 2.000 | 5.000 | 15.000 | A+ |
| Eastbourne Borough Council | 2837 | 19/02/2024 | 19/11/2024 | 233 | 5.750% | 5.000 | 5.000 | 15.000 | A+ |
| Gloucester City Council | 2798 | 30/06/2023 | 28/06/2024 | 89 | 4.700% | 5.000 | 5.000 | 15.000 | A+ |
| Kent Police and Crime Commissioner | 2827 | 22/01/2024 | 22/07/2024 | 113 | 5.500% | 2.000 | 2.000 | 15.000 | A+ |
| Kirklees Metropolitan Council | 2698 | 01/04/2022 | 02/04/2024 | 2 | 0.500% | 5.000 | 5.000 | 15.000 | A+ |
| Lancashire CC | 2797 | 01/12/2023 | 29/11/2024 | 243 | 4.750% | 3.000 | 3.000 | 15.000 | A+ |
| London Borough of Waltham Forest | 2831 | 23/11/2023 | 23/08/2024 | 145 | 5.600% | 5.000 | 5.000 | 15.000 | A+ |
| Moray Council | 2799 | 08/09/2023 | 06/09/2024 | 159 | 4.750% | 3.000 | | | |
| | 2829 | 16/02/2024 | 14/02/2025 | 320 | 5.600% | 2.000 | 5.000 | 15.000 | A+ |
| Oadby and Wigston Council | 2836 | 28/03/2024 | 30/09/2024 | 183 | 5.600% | 3.000 | 3.000 | 15.000 | A+ |
| Rushmoor Borough Council | 2813 | 17/07/2023 | 15/07/2024 | 106 | 5.850% | 2.000 | | | |
| | 2828 | 16/02/2024 | 14/02/2025 | 320 | 5.600% | 3.000 | 5.000 | 15.000 | A+ |
| Sevenoaks District Council | 65 | 12/06/2023 | 12/06/2026 | 803 | 4.850% | 2.600 | 2.600 | 15.000 | A+ |
| Spelthorne Borough Council | 2848 | 28/03/2024 | 11/04/2024 | 11 | 7.500% | 5.000 | 5.000 | 15.000 | A+ |
| City of Stoke on Trent | 2832 | 15/01/2024 | 13/01/2025 | 288 | 5.750% | 2.000 | 2.000 | 15.000 | A+ |
| Surrey Heath Borough Council | 2802 | 15/12/2023 | 16/09/2024 | 169 | 4.800% | 3.000 | 3.000 | 15.000 | A+ |
| Uttlesford District Council | 2738 | 07/06/2023 | 06/06/2024 | 67 | 2.250% | 5.000 | 5.000 | 15.000 | A+ |
| Wakefield Metropolitan District Cou | 66 | 27/10/2023 | 27/10/2025 | 575 | 5.650% | 5.000 | 5.000 | 15.000 | A+ |
| West Berkshire Council | 2833 | 19/12/2023 | 19/04/2024 | 19 | 5.800% | 2.000 | 2.000 | 15.000 | A+ |
| West Lindsey District Council | 2803 | 21/09/2023 | 19/09/2024 | 172 | 5.000% | 5.000 | 5.000 | 15.000 | A+ |
| **MONEY MARKET FUNDS** | | | | | | | | | |
| Federated Prime Rate Cash Man | 1 | | 01/04/2024 | 1 | 5.286% | 2.000 | 2.000 | 6.000 | AAA |
| **Strategic Funds** | | | | | | | | | |
| Royal London | 2714 | | 01/04/2024 | 1 | 3.615% | 10.000 | 10.000 | 10.000 | A+ |
| | | | | **155** | | **102.805** | | | |

## Detailed holdings at 31 March 2024

**APPENDIX 2**

| Counter Party | Deal Ref | Issue | Maturity | Days to Mature | Interest Rate | Nominal (£m) | Total (£m) | Limit (£m) | Rating |
|---|---|---|---|---|---|---|---|---|---|
| **INVESTMENT PROPERTIES** | | | | | | | | | |
| Ashdown House | | | | | | 6.107 | | | |
| 49-51 High Street | | | | | | 0.951 | | | |
| Atlantic House | | | | | | 3.512 | | | |
| The Create Building | | | | | | 27.719 | | | |
| Others | | | | | | 2.599 | | | |
| | | | | | | -------------- | | | |
| | | | | | | 40.888 | | | |
| | | | | | | -------------- | | | |
| | | | | | | **143.693** | | | |
| | | | | | | ------------- | | | |