



Public Document Pack

James Ellis
Head of Legal and Democratic Services

MEETING : EXECUTIVE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : TUESDAY 19 NOVEMBER 2024
TIME : 7.00 PM

MEMBERS OF THE EXECUTIVE

- | | |
|------------------------------|---|
| Councillor Ben Crystall | - Leader of the Council |
| Councillor Mione H Goldspink | - Executive Member for Neighbourhoods |
| Councillor Carl Brittain | - Executive Member for Financial Sustainability |
| Councillor Alex Daar | - Executive Member for Communities |
| Councillor Joseph Dumont | - Executive Member for Corporate Services |
| Councillor Vicky Glover-Ward | - Executive Member for Planning and Growth |
| Councillor Sarah Hopewell | - Executive Member for Wellbeing |
| Councillor Tim Hoskin | - Executive Member for Environmental Sustainability |
| Councillor Chris Wilson | - Executive Member for Resident Engagement |

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<https://www.youtube.com/user/EastHertsDistrict>

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A Member, present at a meeting of the Authority, or any committee, sub-committee, joint committee or joint sub-committee of the Authority, with a Disclosable Pecuniary Interest (DPI) in any matter to be considered or being considered at a meeting:

- must not participate in any discussion of the matter at the meeting;
- must not participate in any vote taken on the matter at the meeting;
- must disclose the interest to the meeting, whether registered or not, subject to the provisions of section 32 of the Localism Act 2011;
- if the interest is not registered and is not the subject of a pending notification, must notify the Monitoring Officer of the interest within 28 days;
- must leave the room while any discussion or voting takes place.

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AGENDA

1. Apologies

To receive any apologies for absence.

2. Leader's Announcements

To receive any announcements from the Leader of the Council.

3. Minutes - 1 October 2024 (Pages 6 - 13)

To approve as a correct record the Minutes of the meeting held on 1 October 2024.

4. Declarations of Interest

To receive any Member(s) declaration(s) of interest.

5. Annual Treasury Management Review 2023/24 (Pages 14 - 29)

6. Urgent Business

To consider such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration and is not likely to involve the disclosure of exempt information.

Agenda Item 3

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MINUTES OF A MEETING OF THE
EXECUTIVE HELD IN THE COUNCIL
CHAMBER, WALLFIELDS, HERTFORD ON
TUESDAY 1 OCTOBER 2024, AT 7.00 PM

PRESENT: Councillor B Crystall (Leader)
Councillors B Crystall, C Brittain, A Daar,
J Dumont, V Glover-Ward, S Hopewell,
T Hoskin and C Wilson.

ALSO PRESENT:

Councillors D Andrews, B Deering, Y Estop,
D Jacobs and G McAndrew.

OFFICERS IN ATTENDANCE:

James Ellis	- Head of Legal and Democratic Services and Monitoring Officer
Jonathan Geall	- Head of Housing and Health
Steven Linnett	- Head of Strategic Finance and Property
Peter Mannings	- Committee Support Officer
Helen Standen	- Interim Chief Executive
Alison Street	- Financial Planning Manager

163 APOLOGIES

Apologies for absence were received from Councillor Goldspink.

164 LEADER'S ANNOUNCEMENTS

The Leader reminded Members and Officers to use the microphones as the meeting was being webcasted.

165 DECLARATIONS OF INTEREST

There were no declarations of interest.

166 MINUTES - 3 SEPTEMBER 2024

Councillor Glover-Ward proposed, and Councillor Wilson seconded a motion that the Minutes of the meeting held on 3 September 2024 be approved as a correct record and signed by the Leader. On being put to the meeting and a vote taken, the motion was declared CARRIED.

RESOLVED – that the Minutes of the meeting held on 3 September 2024 be approved as a correct record and signed by the Leader.

Councillor McAndrew referred to page 12 of the minutes and a request he made for the meeting to go into part 2. He said that appendix e regarding variances year on year in respect of bad debts, had not been attached to the papers. He asked if the document was now in the public domain.

The Leader asked if appendix e could be circulated.

167 BUDGET 2025-26 AND MEDIUM-TERM FINANCIAL PLAN (MTFP) 2025-2035 PREPARATION

The Executive Member for Financial Sustainability presented the report. He said that the report set out the savings requirements for the Medium-Term Financial Plan (MTFP) for 2025 to 2035, the assumptions included in the 2025 to 2026 budget and the risks and uncertainties facing the council in setting the budget and the timetable for the budget setting process.

The Executive Member said that the 2024 to 2034 MTFP approved at council on 28 February 2024, had included a

savings target of £5.6m for 2025/26 and £4.2m of savings had been agreed, with a further £1.4m to be identified.

The Executive Member for Financial Sustainability said that subsequently, the quarter 1 forecast had identified further ongoing budget pressures of £0.55m, taking the additional savings requirement for 2025 to 2026 to almost £2m. He said that a number of assumptions had been made regarding council tax increases, government support and inflation.

The Executive Member for Financial Sustainability said that 3 models had been created, the base case, the optimistic case, and the pessimistic case. He said that the proposal was that the base case was the model to be used for the budget setting process, as this reflected the outcomes that were most likely at the moment.

The Executive Member for Financial Sustainability said that the details of these assumptions were set out in the report, and the Executive was referred to Appendix A for the base case MTFP, and to Appendix B for the outcome for the optimistic case.

The Executive Member for Financial Sustainability referred to many uncertainties ahead and these were outlined in the report. He expected clarity on a number of these to emerge in the course of the next 3 months, and he said that there was much work to do to bring the council finances back to a sustainable level. He said that realistic assumptions had been made about finding internal solutions due to no firm indications of support from the new government.

Councillor Brittain proposed that the recommendations in the report be supported. Councillor Dumont seconded the proposal.

Councillor McAndrew referred to a number of high-profile projects that had greatly benefited residents. He said that with much of the groundwork already established, the

time had come to consider a shared chief executive officer (CEO) rather than filling the position with a full-time appointment. He said that there were opportunities for significant savings, especially given the current financial constraints.

Councillor McAndrew mentioned aged debtors and referred to the £2m that needed to be found in respect of the 2025/26 budget. He said that 40 to 50% of £1.8m was a substantial amount of money and would this be realised and ensure that the budget deficit was reduced accordingly.

The Executive Member for Financial Sustainability said that there were plans to reduce aged debtors. He said that this would be a one-off saving which would be incorporated into the savings proposals for 2025/26.

Councillor Estop asked about the £50k regarding the reduced grounds maintenance specification. She said that she had also been advised by parks officers that the £50k budget for the renewal of playground equipment would not be continuing for the 60 playgrounds. She asked if these two amounts were separate or just the one amount.

The Executive Member for Financial Sustainability confirmed that these 2 figures were separate and the £50k for grounds maintenance was for the contract to maintain the grounds and was not for new equipment.

Councillor Deering said that the figure for debt write off was a big figure. He asked what were the debts that might comprise the approximate 50% write off and who would make that decision. He asked about the criteria for determining whether any debt should be written off.

The Executive Member for Financial Sustainability said that the Head of Strategic Finance and Property would make the decisions in respect of the debt which was to be written off. The Head of Legal and Democratic Services confirmed the constitution rules in part 9 allowed the

Head of Strategic Finance and Property to write off irrecoverable debts up to a limit £50k in any one case. Any irrecoverable debts in excess of this amount would have to be referred to the Executive.

There was a general discussion about debt timelines as well as the last change to the constitution around the level of debt that could be written off by Officers.

The Executive Member for Communities said that it would be interesting to know the debt level as an amount at the point when the Executive came into administration in May 2023. The Executive Member for Environmental Sustainability agreed that publishing a time profile of the debt and how this debt was being handled subsequently would be helpful in terms of clarity.

The motion to support the recommendations having been proposed and seconded was put to the meeting and upon a vote being taken, was declared CARRIED.

RESOLVED – that (A) the Executive agreed, as guidance to officers, that the budget proposals should be based on the base case presented in paragraph 1.4; with a Council Tax increase of 2.98%, contract inflation of 2.5%, no inflation in any other goods and services budgets and that the provision for the national pay award will be 3%; and

(B) the revised savings requirements of £2m in 2025/26, rising to £2.5m in 2027/28, be noted.

168 CAPITAL RECEIPTS PROGRAMME – AUTHORITY TO DISPOSE OF ASSETS BY SALE

The Executive Member for Financial Sustainability submitted a report that would give Officers the authority to sell a number of assets to reduce council borrowing. He said that the budget of 2024/25 had identified a number of assets that could be sold to reduce council borrowing.

The Executive Member said that he would like to amend recommendation A to read as follows:

‘That the sale by auction of the properties listed in paragraphs 1.3.1, 1.3.2, 1.3.3 and 1.3.5, be approved’. He said that the reason for the amendment was to allow a little more time for discussion around the items listed in paragraphs 1.3.4 and 1.3.6 as these assets both had existing tenants and a delay was not a significant issue in terms of costs.

The Executive Member for Financial Sustainability said the delay would enable further discussion in respect of these sites. He said that the remaining sites were all parcels with no existing use and could therefore continue to be sold at auction.

Councillor Brittain proposed that the amended recommendation be supported. Councillor Daar seconded the proposal.

Councillor Deering said that Charringtons House was not on the list and asked about the current situation in relation to Charringtons House.

The Executive Member for Financial Sustainability said that Charringtons House was not on the list as this building was part of the Old River Lane (ORL) scheme and this scheme was already designated for sale. The assets in this report were additional items for sale and Charringtons House was part of the ORL scheme and was not an individual asset.

Councillor Deering asked whether Charringtons House was going to be disposed of. The Executive Member for Financial Sustainability confirmed that Charringtons House would be disposed of when the development agreement was signed.

Councillor Jacobs said he had attended a meeting of the

Bishop’s Stortford Town Council Finance and Policy Committee and the Committee had discussed an aspiration to acquire the Thorley Community Centre from East Hertfordshire District Council. He asked if this issue could be taken away and looked at. The Executive Member for Financial Sustainability said that this matter could be looked into.

Councillor Estop said that she welcomed the amendment to take Elizabeth Road (Havers Parade) out of the proposed sale of assets for capital receipts. She said that further discussions were very welcome, and she and Councillor Jacobs were not against the sale in principle. She said the way the sale was handled was very important in terms in respect to the tenants and the boundary of the land. She referred in particular to the green space and the footpath.

The Executive Member for Planning and Growth said that Thorley Community Centre was discussed at a Bishop’s Stortford partnership meeting and the Interim Chief Executive had this matter on her to do list. After being put to the meeting and a vote taken, the motion for the amendment was declared CARRIED.

Councillor Brittain proposed and Councillor Daar seconded, the substantive recommendation and, upon a vote being taken, the motion was declared CARRIED.

RESOLVED – that the sale by auction of the properties listed in paragraphs 1.3.1, 1.3.2, 1.3.3 and 1.3.5, be approved.

169 URGENT BUSINESS

There was no urgent business.

The meeting closed at 7.32 pm

Chairman

Date

Agenda Item 5

East Herts Council Report

Executive

Date of meeting: Tuesday 19 November 2024

Report by: Councillor Carl Brittain – Executive Member for Financial Sustainability

Report title: Annual Treasury Management Review 2023/24

Ward(s) affected: (All Wards);

Summary

- The report contains the Council's Annual Treasury Management Review for 2023/24.

RECOMMENDATION FOR EXECUTIVE:

A. That Members examine and comment on the Annual Treasury Management Review and Prudential Indicators for 2023/24.

1.0 Proposal(s)

1.1 That Members examine and comment on the Annual Treasury Management Review and Prudential Indicators for 2023/24 (**Appendix A**).

2.0 Background

2.1 Treasury management is defined as: 'The management of the Council's investments and cash flows, its banking arrangements, money market and capital transactions; the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council's risk management policy for treasury management.

2.2 This activity was supported by the council's appointed independent advisors – Arlingclose.

2.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

2.4 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).

3.0 Reason(s)

3.1 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.

4.0 Options

4.1 Members can suggest amendments or additions to the Annual Treasury Management Review 2023/24.

5.0 Risks

5.1 Risk management is embedded in treasury management operations through the adoption of the CIPFA Treasury Management Code. Credit ratings, other market intelligence and counterparty limits assist to assess and mitigate risk.

6.0 Implications/Consultations

6.1 None.

Community Safety

No

Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

Yes

The costs of treasury operations, debt management expenses and investment income are included in the 2023/24 Budget Outturn.

Health and Safety

No

Human Resources

No

Human Rights

No

Legal

The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 Edition and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Council also has to 'have regard' to the MHCLG's Guidance on Local Government Investments 3rd Edition effective for financial periods commencing on or after 1st April 2018, and to CIPFA's Treasury Management in the Public Services: Code of Practice 2017 Edition and Guidance Notes for Local Authorities 2018 Edition.

Specific Wards

No

7.0 Background papers, appendices and other relevant material

7.1 Appendix A – Annual Treasury Management Review 2023-24

Contact Member

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Treasury Management 2023-24 Annual Report

Treasury Management Outturn Report 2023/24

Introduction

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This report includes the requirement in the 2021 Code, mandatory from 1st April 2023, of reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal revenue and capital monitoring report.

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

External Context

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.

Local Context

On 31st March 2024, the Authority had net investments of £10.7 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 balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m	31.3.24 Actual £m
General Fund CFR	40.1	60.5
Less: *Other debt liabilities	-	-
External borrowing	31.5	50.0
Internal borrowing	8.6	10.5
Less: Balance sheet resources	(23.6)	(21.2)
Net Investments	15.0	10.7

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

The treasury management position at 31st March and the change during the year is shown in Table 2 below:

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	31.3.24 Balance £m	31.3.24 Rate %
Long-term borrowing				
- PWLB	(1.5)	-	(1.5)	8.875
- LOBOs	-	-	-	-
- Other	-	-	-	-
Short-term borrowing	(30.0)	(18.5)	(48.5)	4.35 - 6.9*
Total borrowing	(31.5)	(18.5)	(50.0)	
Long-term investments	19.5	(1.7)	17.8	3.20 - 3.61
Short-term investments	6.5	(6.5)	-	-
Cash and cash equivalents	8.9	3.7	12.6	5.14 - 5.20
Total investments	34.9	(4.5)	30.4	
Net investments / (borrowing)	3.4	(13.0)	(19.6)	

*Various short term loan rates, depending on loan start date.

Borrowing has increased due to major project spend. Short term investments have moved to call accounts, as interest returns are favourable and helps funds remain liquid.

Borrowing

CIPFA’s 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

The Authority has not invested in assets primarily for financial return or that are not primarily related to the functions of the Authority. It has no plans to do so in future.

Borrowing Strategy and Activity

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

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.

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.

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.

At 31st March 2024 the Authority held £40m of loans, an increase of £8.5m compared to 31st March 2023, as part of its strategy for funding previous and current years’ capital programmes. Outstanding loans on 31st March are summarised in Table 3A below.

Table 3: Borrowing Position

	31.3.23 Balance £m	Net Movement £m	31.3.24 Balance £m	31.3.24 Weighted Average Rate %	31.4.24 Weighted Average Maturity (years)
Public Works Loan Board (long-term)	1.5	-	1.5	8.875	32
Public Works Loan Board (short-term)	-	15.0	15.0	5.37	-
Local authorities (short-term)	30.0	(5.0)	33.5	4.92	-
Total borrowing	31.5	10.0	50.0		

The Authority's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the Authority's short-term loans at 31st March 2024 of £40m was 5.59%, this compares with 2.26% on £30m loans 12 months ago.

The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short-term borrowing was maintained.

Treasury Investment Activity

The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority'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.

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's short term investment balances ranged between £11m and £20m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	31.3.24 Balance £m	31.3.24 Income Return %	31.3.24 Weighted Average Maturity days
Banks & building societies	8	(1)	7	4.75	Call
Money Market Funds	3	3	6	5.24	Call
Other Pooled Funds:					
• Property funds	19.6	(1.9)	17.7		N/A
Total investments	30.6	0.1	30.7		

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

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

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.

Externally Managed Pooled Funds: Property Funds

£20m of the Authority's investments is invested in property funds and has been for a number of years, producing a much higher than market rate return. Short-term security and liquidity are

lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These returns have reduced since COVID and redemptions have been frozen. These funds generated an average total loss of (£0.951m), comprising a £0.949m **actual** income return which is used to support services in year, and (£1.9m) of **unrealised** capital loss.

Capital gains or losses are not realised until the funds are redeemed. Due to the number of redemption requests one of the property funds (Lothbury) voted to terminate on 31st March 2024. The assets from the fund are being sold off and unit holders will receive the return of their funds throughout 2024-25, as and when sale receipts are received. There is a risk the funds returned maybe lower than the original principal investment, but any shortfall will be covered by our interest equalisation reserve.

The interest equalisation reserve was set up specifically, for this purpose, to mitigate any risk from property fund losses. Interest received in excess of budget since investing in these funds has been added to a reserve to offset any potential losses in principal in the future.

The second fund Hermes is still performing in way of investment returns and the unit price has started to increase in value again.

2023/24 was characterised by significant volatility in bond markets. Adjusting to central banks' intention of keeping policy rates unchanged amid persistently higher core inflation, tight labour markets and resilient growth, global bond yields rose (i.e. bond prices fell), the August-October 2023 period being a particularly weak one for bond markets with falling prices negatively impacting credit market sentiment and bond fund performance as well as weighing on multi-asset fund returns. November and December saw a turnaround with a significant fall in US and global bond yields (i.e. bond prices rising), the catalyst being a signal from the US Federal Reserve that it was prepared to cut rates in 2024. The 10-year UK gilt yield, which had increased nearly 1.25% since the beginning of the financial year fell back to 3.44% by the end of December, close to its 1st April level. Thereafter, the first quarter of 2024 proved more difficult for government bonds as stubborn inflation led fixed income markets to question if the expectation of the number of rate cuts over 2024 and the accompanying fall in yields had been overdone.

Strong demand for credit resulted in the tightening of credit spreads which was supportive of high yield corporate bonds and emerging market debt.

By contrast, shrugging off geopolitical concerns, global equities were buoyed by healthy corporate earnings, resilient economic data and moderating inflation and the view central banks had reached the peak of their rate tightening cycles. A number of indices, including the S&P 500 and Nasdaq, posted record highs driven by AI exuberance. The performance of the S&P 500 was primarily driven by its top seven tech-related mega-cap growth stocks (these securities do not heavily feature in equity income funds). After an initial period of caution due to the likelihood of recession, the UK economy fared better than anticipated with a shallow recession, falling inflation and improved consumer confidence providing support for UK equities, with stocks trading at attractive valuations relative to their global peers. The FTSE All-Share was one of the top performing stock markets in September and December 2023. The total return on the FTSE All Share index for the 12 months ending March 2024 was 8.2%, FTSE 100 was 8.1% and MSCI All World was 25.7%.

The market background for commercial property improved marginally in 2023 and was more stable, in contrast to the very challenging backdrop of 2022. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from hybrid working practices.

Income returns from the property funds still exceeded the budget, averaging 3.20% and 3.61%. A reduction in income had been forecast due to the current economic climate, however returns were higher than expected. The Authority had budgeted £700k income from these investments in 2023/24. Income received up to 31st March was £720k, whilst a further £229k has been declared and was received in April and May 2024 .

Because these funds have no defined maturity date, but are available for withdrawal after an agreed redemption period, their performance and continued suitability in meeting the Authority'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 and with the expectation that over a three- to five-year period total returns should exceed cash interest rates.

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 Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority 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 includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority also held £4.9m of such investments in Millstream Property Investments Limited broken down as follows:

- shareholding in subsidiaries £1.6m
- loans to subsidiaries £3.3m

These investments generated £0.141m of investment income for the Authority, from the commercial loan, representing a rate of return of 4.73%.

Consultations

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

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

In its call for views on capital measures, government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage ‘invest-to-save’ activity and to manage budget pressures without seeking exceptional financial support.

Whilst Government has identified some options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward.

Compliance

The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 5 below.

Table 5: Investment Limits

	2023/24 Maximum £ limit	2023/24 Max Maturity	31.3.24 Actual £m	2023/24 Max % of Total Investments	Complied?
DMADF - UK Government	Unlimited	6 months (max. is set by the DMO*)	-	100%	Yes
UK Gilts	Unlimited	5 years	-	100%	Yes
UK Treasury Bills	Unlimited	364 days	-	100%	Yes
Bonds issued by multilateral development banks	£10m with any one banking group/institution	5 years	-	40%	Yes
Money Market Funds CNAV	£10m with any one fund	Liquid	-	100%	Yes
Money Market Funds LNAV	£10m with any one fund	Liquid	5.6	95%	Yes
Money Market Funds VNAV	£10m with any one fund	Liquid	-	95%	Yes
Ultra-Short Dated Bond Funds with a credit score of 1.25	£10m with any one banking group/institution	Liquid	-	100%	Yes
Ultra-Short Dated Bond Funds with a credit score of 1.5	£10m with any one banking group/institution	Liquid	-	100%	Yes
Local Authorities	Unlimited	5 Years	-	100%	Yes
Term Deposits with Banks and Building Societies	£10m with any one banking group/institution	100 days - 12 months depending on credit rating	7.0	100%	Yes
CDs or Corporate Bonds with Banks and Building Societies	£10m with any one banking group/institution	100 days - 12 months depending on credit rating	-	100%	Yes
Gilt Funds	£10m with any one banking group/institution	As per Credit Criteria	-	100%	Yes

Structured deposits	£10m with any one banking group/institution	As per Credit Criteria	-	100%	Yes
Certificates of deposit issued by banks and building societies	£10m with any one banking group/institution	As per Credit Criteria	-	100%	Yes
Corporate bonds	£10m with any one banking group/institution	5 Years	-	50%	Yes
Floating rate notes	£10m with any one banking group/institution	5 Years	-	50%	Yes
Property Funds	£10m at fund entry per fund	Term is not fixed	17.7	Maximum of 2 funds at any one time	Yes

*DMO - is the Debt Management Office of HM Treasury

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	2023/24 Maximum £m	31.3.24 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied?
Borrowing	58.5	50.0	80.0	180.0	Yes
PFI and Finance Leases	-	-	10.0	10.0	Yes
Total debt	58.5	50.0	90.0	190.0	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt did not breach the operational boundary for the year 1st April 2023 to 31st March 2024.

Treasury Management Prudential Indicators

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

1. 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 £10m required to manage day-to-day cash flow.

	31.3.23 Actual	31.3.24 Actual
Loans CFR	40.1	60.5
Less: Balance sheet resources	(23.6)	(21.2)
Net loans requirement	16.5	39.3
Plus: Liquidity allowance	10.0	10.0
Liability benchmark	16.5	49.3
Existing borrowing	31.5	50.0

Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

The Authorities actual borrowing is above the liability benchmark due to our long-term investment in property funds not being liquid, so not immediately available to offset borrowing. The cost of this additional borrowing is partially offset by the investment return from these funds. One of these funds terminated in 2024/25, assets are currently being sold and funds being distributed back to unitholders, these distributions are being used to reduce short-term borrowing.

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

	Upper Limit	Lower Limit	31.3.24 Actual	Complied?
Under 12 months	100%	0%	97.0%	Yes
12 months and within 24 months	100%	0%	0%	Yes
24 months and within 5 years	30%	0%	0%	Yes
5 years and within 10 years	30%	0%	0%	Yes
10 years and above	35%	0%	3.0%	Yes

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. The authority opted to remain with short term borrowing (below 12 months), for its new borrowing and refinancing. Although this does expose the authority to further interest rate increases, any increases are unlikely to be long term and it allows for the authority to lock in lower rates, on the longer term, when interest rates fall.

3. Long-term Treasury Management Investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£30m	£30m	£30m
Actual principal invested beyond year end	£20m	-	-
Complied?	Yes	-	-

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators:

The changes in interest rates during the year were:

	<u>31/3/23</u>	<u>31/3/24</u>
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%