Agenda item 12

Cabinet – 17 July 2024

Treasury Management Annual Report 2023/24

Portfolio:	Councillor Statham, Portfolio Holder for Finance
Related portfolios:	N/A
Service:	Finance
Wards:	All
Key decision:	No
Forward plan:	Yes

1. Aim

1.1 The council is required through regulations issued under the Local Government Act 2003 to produce a year end position statement reviewing treasury management activities and prudential and treasury indicator performance. The Annual Treasury Management Report at Appendix A provides Cabinet with these details, and 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 The council is required to note the Annual Treasury Management Report is presented to provide assurance that Treasury Management performance is in line with budgeted expectations and within the above regulations and Codes that the authority is required to comply with.

2. Summary

2.1 This report sets out the council's 2023/24 year end position for treasury management activities (Appendix A).

2.2 The council achieved an average interest rate across all investments of 4.83% compared to a budget of 4.54% during 2023/24 which in monetary terms this equates to an overachievement against budget of £1.685m. At the point of budget setting the Bank of England base rate was 3.00% following a period of successive interest rate increases (7 increases in 11 months). Interest rate forecasts were suggesting further gradual rises in short, medium and longer term interest rates to a peak of 4.50% in June 2023. However, by May 2023 it had become clear that inflation was sticking and further rate hikes were necessary. From December 2022 to November 2023 the Bank of England increased base rate 8 times, from 3.00% to a peak of 5.25%. The increase in rate had a direct impact on investment returns as we were able to place funds in short-term deposits at very good rates compared to budget, ensuring a significant underspend on investment income.

2.3 In such a high interest rate environment the borrowing strategy during 2023/24 has been to delay approved long-term borrowing until needed to minimise interest costs, £15.000m from a budgeted borrowing amount of £40.843m has been borrowed during the year to support capital programme expenditure, this has been managed through careful cashflow forecasting and planning.

2.4 Capital expenditure for 2023/24 was £91.230m of which £22.722m will be funded from approved borrowing (Table 2, Appendix A).

2.5 The actual debt position for the Council as at 31 March 2024 is £248.899m, which is within both the operational and authorised limits for external debt approved by Council on 23/02/23. Borrowing overall decreased by £16.692m since 2022/23, new borrowing of £15.000m was undertaken and there have been long term Public Works Loan Board (PWLB) maturities of £30.000m, the balance of £1.692m relates to historical other local authority debt movements. The Council is showing an under borrowed position of £148.740m compared to the Capital Financing Requirement (CFR), this represents additional external borrowing the council could choose to take if required. This is currently financed by internal borrowing (utilising cash reserves rather than taking external borrowing).

3. Recommendations

3.1 To note and forward to Council, for consideration and noting (in line with the requirements of the Treasury Management Code of Practice (2021)), the Annual Treasury Management Report 2023/24 including prudential and local indicators (Appendix A).

4. Report detail - know

Context

4.1 The Annual Treasury Management Report at Appendix A provides Cabinet with a summary of the year end position for 2023/24 and prudential and treasury indicator performance, and 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).

The following key points of interest have been extracted from the report:

- The annual report meets the requirement of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

- Capital expenditure was £91.230m of which £22.722m will be funded from approved borrowing (Table 2, Appendix A).

- The Bank of England base rate increased from 3.00% to 5.25% between December 2022 and August 2023, which enabled the Council to benefit from improved investment returns.

- The authority has continued to identify appropriate new areas of investment opportunity, reviewed counterparties and limits to reduce exposure to counterparty risk. Together these actions have led to an overachievement of investment income of £1.685m compared to budget for the 2023/24 financial year.

- To note within the local indicators (Table 11) that the net borrowing cost as a percentage of net council tax requirement of 2.31% (3a) and the net borrowing cost as percentage of tax revenue of 1.55% (3b) are both within their target upper limits of 20% and 12.50% respectively.

Council Corporate Plan priorities

4.2 Sound financial management of the council's cash balances supports the delivery of council priorities within council's available resources.

Risk management

4.3 Treasury management activity takes place within a robust risk management environment, which enables the council to effectively maximise investment income and minimise interest payments without undue or inappropriate exposure to financial risk. It is recognised that the management of risk is as important as maximisation of performance and it is essential that the council has the right balance of risk and reward when making investment decisions. This is supported by treasury management policies which seek to manage the risk of adverse fluctuations in interest rates and safeguard the financial interests of the council.

Financial implications

4.5 Treasury management activity forms part of the council's financial framework and supports delivery of the medium term financial strategy. The review of treasury management performance and activity is reviewed through both the annual treasury management report and the mid-year performance review report.

Legal implications

4.6 The council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the council should comply with the CIPFA Code of Practice for Treasury Management. The council adopted the original treasury management code in 1992 and further revisions to the Code in 2002, 2010, 2017 and 2021.

Procurement Implications/Social Value

4.7 None directly relating to this report.

Property implications

4.8 None directly relating to this report.

Health and wellbeing implications

4.9 None directly relating to this report.

Staffing implications

4.10 None directly relating to this report.

Reducing Inequalities

4.11 None directly relating to this report.

Climate Change

4.12 None directly relating to this report.

Consultation

4.13 The report has been approved by the finance treasury management panel, an internal governance arrangement comprising the Director of Finance and Assurance (S151 Officer) and Head of Finance (Deputy S151).

5. Decide

5.1 In line with the Treasury Management Code of Practice (2021) there are a number of reports that are required to be produced and reported publicly each year. The Annual Treasury Management Report forms one of these requirements and as such is being reported to Cabinet for noting and forwarding onto Council for consideration.

6. Respond

6.1 This report is not seeking approval of a decision, in line with the Treasury Management Code of Practice (2021) it is required to be reported for noting and forwarding to Council for consideration.

7. Review

7.1 In line with Treasury Management Code of Practice (2021) this is a backward looking document looking at performance over the previous.

Background papers

Various financial working papers.

Corporate budget plan and treasury management and investment strategy 2023/24 – Council 23/02/23.

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08.07.2024	08.07.2024

Appendix A

Annual Treasury Management Report 2023/24

Walsall Council
June 2024

Annual Treasury Management Report 2023/24

Purpose

This council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and prudential and treasury indicator performance. This document therefore reports this position for the 2023/24 financial year. 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 following reports were produced:

- an annual treasury strategy in advance of the year (Council 23 February 2023)
- a mid-year (minimum) treasury update report (Cabinet 13 December 2023)
- an annual review of treasury management policies in advance of the year (Council 23 February 2023)
- an annual report following the year describing the activity compared to the strategy (this report to Cabinet)

In addition, this council's treasury management panel has received regular treasury management update reports throughout 2023/24.

The regulatory environment places an onus on members for the review and scrutiny of treasury management policy and activities. This report is 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 also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by Cabinet before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 5 December 2023 in order to support members' scrutiny role.

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:

Table 1 Actual prudential and treasury indicators	2022/23 Actual £m	2023/24 Original £m	2023/24 Revised £m	2023/24 Actual £m
Capital expenditure	96.314	115.270	144.290	91.230
Capital Financing Requirement:				
Including PFI and finance leases	390.185			399.974
Excluding PFI and finance leases	387.252			397.639
External Borrowing	265.592			248.899
Investments	140.771			86.446
Net borrowing	**124.821**			**162.453**

Other prudential and treasury indicators are to be found in the main body of this report. The Director of Finance and Assurance (S151 Officer) confirms that borrowing was only undertaken for capital purposes or to support required in year cash-flow requirements and the statutory borrowing limit was not breached.

Following a period of high and rising inflation the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.50% each time. From December 2021 to August 2023 Bank Rate has increased from 0.25% to 5.25%, and this has had a direct impact on investment returns. Counterparty risk has been continually reviewed throughout the financial year to ensure credit ratings exceed the minimum requirements set in Treasury Management policies, and cash was invested primarily in at-call and short-term accounts to ensure the council was taking account of a rising interest rate environment.

The original capital expenditure target of £115.270m for 2023/24 is based on the figure for the 2023/24 capital programme reported in the budget report presented to full Council on the 23 February 2023, and was revised within the financial year to a £144.290m. The actual spend for 2023/24 is lower than the target due to slippage, and amendments to the original capital programme agreed during the year, of which spend will now be incurred in 2024/25.

1. Introduction and background

To set the context of the treasury management environment it is first necessary to provide a review of the economy and interest rates.

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. As at 5th April 2024 the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months 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.

2. The Council's Capital Expenditure and Financing 2023/24

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. The amount to be funded from borrowing for 2023/24 will be £22.722m. It shows a variance to budget due to slippage on some capital projects.

Table 2	**2022/23 Actual £m**	**2023/24 Original £m**	**2023/24 Actual £m**
Total capital expenditure	**96.314**	**115.270**	**91.230**
Resourced by:			
• Capital receipts	3.314	1.500	1.936
• Capital grants	61.697	48.410	64.334
• Capital Reserves and Revenue	2.779	0.020	2.238
• Approved Borrowing	28.521	65.340	22.722
	96.314	**115.270**	**91.230**

3. 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 debt position. The CFR results from the capital activity of the council and which resources have been used to pay for the capital spend. It represents the 2023/24 capital expenditure funded by borrowing (see table 2), 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 service organises the council's cash position to ensure 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 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 total CFR can be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision (VRP).

The Council's 2023/24 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 on 23 February 2023.

The council's CFR for the year 2023/24 is shown below in Table 3, and represents a key prudential indicator (PrI4). It includes Private Finance Initiative (PFI) and leasing schemes from the balance sheet which increase the council's borrowing need – although no borrowing is normally required against these schemes as a borrowing facility is included in the contract (if applicable). It shows that in 2023/24 the council's CFR has increased by £9.791m from £390.185m to £399.976m.

Table 3 CFR (£m)	31 March 2023 Actual £m	31 March 2024 Actual £m
Opening balance	**374.499**	**390.185**
Add capital expenditure funded from approved borrowing (as above)	28.475	22.722
Less MRP	(12.789)	(12.931)
Closing balance	**390.185**	**399.976**

The borrowing activity is constrained by prudential indicators for net 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 the council's external borrowing, net of investments, must only be for a capital purpose, or to fund expected in year cash-flow requirements. This essentially means that the council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR. Table 4 below highlights the council's net borrowing position of £162.453m against the CFR excluding PFIs and Finance leases (excluded because the debt liability for these are not in the net borrowing position of the council) of £397.639m. The council has complied with this prudential indicator.

Table 4 Gross borrowing and the CFR (£m)	31 March 2023 Actual £m	31 March 2024 Actual £m
Gross Borrowing	**268.273**	**250.771**
Net borrowing position	**124.821**	**162.453**
CFR – excluding PFIs and Finance Leases	**387.252**	**397.639**
Long term Assets	**657.389**	**679.072**
Net Borrowing % of Long term Assets	**18.99%**	**23.92%**

Another measure of prudency is the proportion of net borrowing to long term assets. Table 4 shows that the net borrowing position of the council as at 31 March 2024 is £162.453m which represents 23.92% of the value of the council's long term assets which are valued on the council's balance sheet at that date.

Other key Prudential Indicators are shown in Table 5 below:

Table 5 Prudential and Borrowing Limits	31 March 2023 Actual £m	31 March 2024 Actual £m
1. Authorised limit	474.376	465.410
2. Maximum gross borrowing in year	328.971	268.273
3. Operational boundary	431.251	423.100
4. Average gross borrowing	300.331	259.522
5. Financing costs as proportion of net revenue stream	4.05%	4.88%

1. **The authorised limit** - the authorised limit is the "affordable borrowing limit" set by the council as required by section 3 of the Local Government Act 2003. The council does not have the power to borrow above this level without the prior approval of full Council. Table 5 demonstrates that during 2023/24 the council's maximum gross borrowing was within its authorised limit.

2. **Maximum Gross borrowing** – is the peak level of borrowing in year.

3. **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 is acceptable subject to the authorised limit not being breached. In 2023/24 the council's average borrowing position was less than the operational boundary.

4. **Average Gross Borrowing** – is an estimate of the borrowing level in the year (see Table 7 for analysis of Borrowing).

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. Net revenue stream is defined as Net Council Tax Requirement plus Standard Spending Assessment (previously Formula Grant).

4. Prudential Indicators

The following tables show performance against statutorily required prudential and local indicators.

Table 6 – Prudential Indicators		Actual 2022/23	Target 2023/24	Position 31-Mar-24	Variance to target	
		£m	£m	£m	£m	%
PrI 1	Capital Expenditure	96.314	144.290	90.760	(53.530)	(37%)
PrI 2	Ratio of financing costs to net revenue stream	4.05%	8.86%	4.88%	(3.98%)	(45%)
PrI 3	Estimates of the incremental impact of new capital investment decisions on Council Tax	£43.02	£89.66	£89.66	0.00	0%
PrI 4	Capital Financing Requirement	390.185	433.114	399.976	33.138	7.6%
PrI 5	Authorised Limit for external debt	474.380	465.410	465.410	0.000	0%
PrI 6	Operational Limit for external debt	431.250	423.100	423.100	0.000	0%
Ref	**Prudential Indicator**	**Actual 2022-23 £m**	**Target 2023/24 £m**	**Position 31-Mar-24 £m**		
PrI 7	Gross Borrowing exceeds capital financing requirement	No	No	No		
PrI 8	Authority has adopted CIPFA Code of Practice for Treasury Management	Yes	Yes	Yes		
PrI 9	Total principle sums invested for longer than 365 days must not exceed	5.0	25.0	0.0		
Ref	**Prudential Indicator**	**Upper Limit**	**Lower Limit**	**Actual 2022/23**	**Position 31-Mar-24**	
PrI 10	Fixed Interest Rate Exposure	95%	40%	**98.14%**	**88.03%**	
PrI 11	Variable Interest Rate Exposure	45%	0%	**1.86%**	**11.97%**	
PrI 12	***Maturity Structure of Borrowing:***					
	Under 12 months	25%	0%	**12.84%**	**12.85%**	
	12 months and within 24 months	25%	0%	**12.24%**	**3.95%**	
	24 months and within 5 years	40%	0%	**20.25%**	**24.69%**	
	5 years and within 10 years	50%	5%	**0%**	**0%**	
	10 years and above	85%	30%	**54.67%**	**58.51%**	

PRL 5 (authorised limit for external debt) and **PRL 6** (operational limit for external debt) were approved by Council on the 23 February 2023 and the CIPFA Code of Practice only allows these limits to be changed by Council and therefore the actual limit and the target remain the same. The gross debt position for the Council as at 31 March 2024 is £250.771m.

Key variances are because of the following reasons:-

PRL 1 Total capital expenditure **-** variation of £139.196m
The original £115.270m target for 2023/24 is based on the figure for the 2023/24 capital programme reported in the budget report presented to full Council on the 23 February 2023. This was revised within the financial year to a £144.290m target. The actual spend for 2023/24 is lower than the target due to slippage from 2023/24, and amendments to the original capital programme agreed during the year, of which spend will now be incurred in 2024/25.

PRL 4 Capital Financing Requirement – variation of £33.138m
The Capital Financing Requirement is in line with capital expenditure, with the variation linked to capital slippage as above.

PRL 12 Maturity Structure of Borrowing
For the purpose of the maturity profile indicator the next call date on a LOBO loan is assumed as it is the right of the lender to require repayment. This Prudential Indicator currently shows 0% of borrowing maturities within periods 5-10years when compared to the lower limit of this indicator of 5.00%. This is due to there being no loan repayments due between 2029-2044 as the council utilised internal borrowing for periods of time where cash flow allowed meaning the maturity profile of debt is not evenly spread. This provided a favourable return at that time between external borrowing rates payable and return on investments that would be deliverable. Whilst there are no scheduled maturities the council will continue to use this period to review options to repay any existing borrowing early.

5. Treasury Position at 31 March 2024

The council's debt and investment position is organised by the treasury management team 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 beginning and the end of 2023/24 the council's treasury position was as shown below in **Table 7**:

Table 7 Loans and Investments	Opening Balance £m	Average Rate At 31/03/23 %	Movement in Year £m	Closing Balance £m	Average Rate At 31/03/24 %
PWLB loans	174.365	3.55%	(19.950)	154.415	3.81%
Market Loans	75.000	4.75%	-	75.000	4.75%
Temporary Loans (LT)	-	-	15.000	15.000	4.40%
Total Borrowing over 12 months excluding WMCC debt	**249.365**	**3.91%**	**(4.950)**	**244.415**	**4.13%**
Temporary Loans	10.459	1.63.%	(10.000)	0.459	2.75%
Total borrowing excluding WMCC debt	**259.365**	**3.82%**	**(14.950)**	**244.874**	**4.13%**
WMCC Debt	8.449	5.35%	(2.553)	5.897	5.14%
Gross Borrowing	**268.273**	**3.3.87%**	**(17.503)**	**250.771**	**4.16%**
Waste Disposal	(2.682)	5.35%	0.810	(1.872)	5.14%
Borrowing	**265.592**	**3.85%**	**(16.692)**	**248.899**	**4.15%**
CFR less PFI finance & leases	387.252		10.387	397.639	
Under/(Over) Borrowing	121.660		27.079	148.740	
Debt as % of CFR	**69%**			**63%**	
Call Accounts	47.771	2.05%	(0.674)	48.446	4.92%
Short Term Investments	58.000	1.82%	(50.000)	8.000	4.97%
Long Term Investments	35.000	2.36%	(5.000)	30.000	4.73%
Total Investments	**140.771**	**2.11%**	**(54.325)**	**86.446**	**4.83%**
Net Borrowing Position	**124.821**		**37.633**	**162.453**	

The under borrowing position represents additional external borrowing the council could choose to take if required, however this has currently been financed by internal borrowing (utilising the Council's accumulated cash reserves rather than taking out new external borrowing). This position will continue to be monitored and additional external borrowing may be undertaken if required for cash flow purposes.

6. The Borrowing Strategy for 2023/24 and Economic Context provided by Link Asset Services (the council's external Treasury advisor)

During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure.

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.

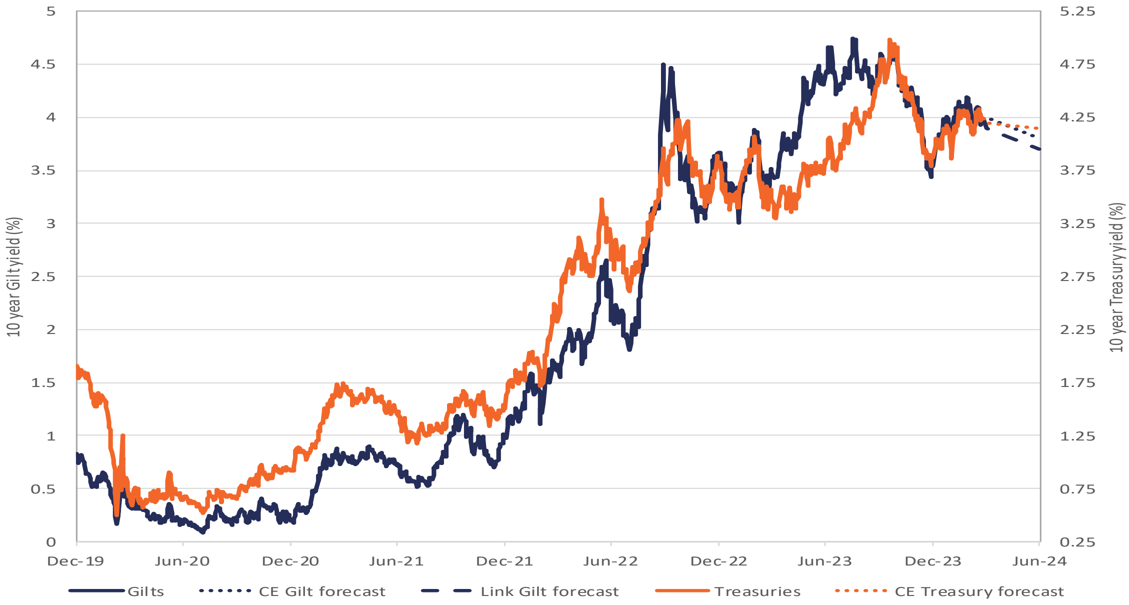
7. Borrowing Outturn commentary for 2023/24 provided by Link Asset Services (the council's external Treasury advisor)

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 (Federal Open Market Committee), ECB (European Central Bank) 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.

Graph of UK gilt yields v. US treasury yields

Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.



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.

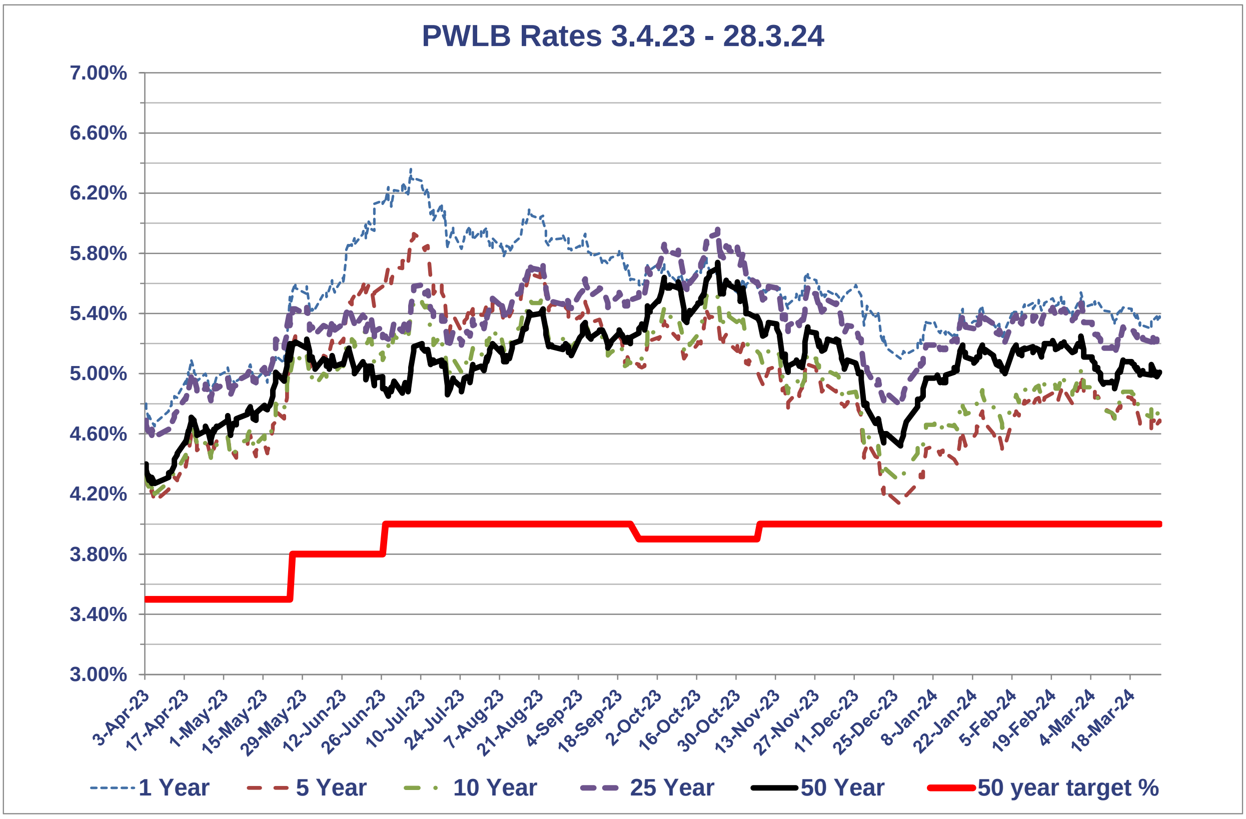
Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100 basis points)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80 basis points)
- Local Infrastructure Rate is gilt plus 60 basis points (G+60 basis points)

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.



8. Investments in 2023/24 and Economic Context commentary provided by Link Asset Services (the council's external Treasury advisor)

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%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024.

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 balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

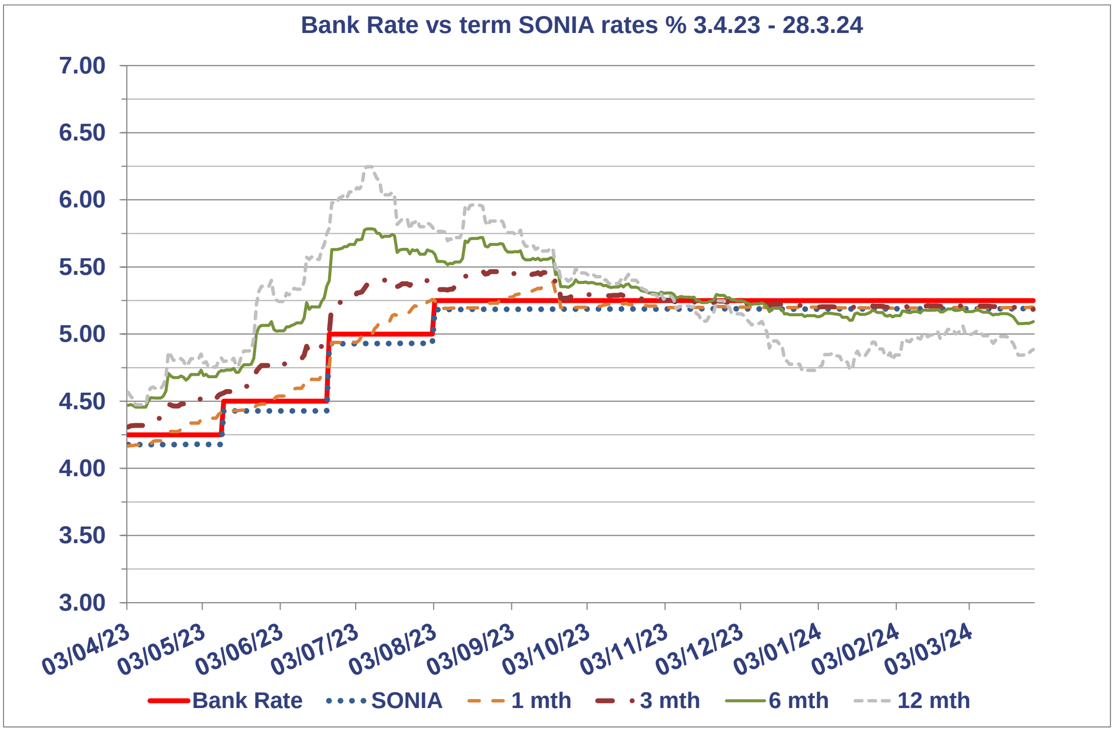


Table 8 within the report details the authority's investments by call, short and long term. The Sterling Over Night Indexed Average (SONIA) rate set out in the graph above (average of 2.24% across the year) is a fair comparator for at-call and the 12 month SONIA rate (average of 3.53% across the year) for short term investments.

Resources – the council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations.

Investment Policy – the council's investment policy is governed by DLUHC investment guidance, which was implemented in the Annual Investment Strategy approved by Council on 23rd February 2023. This policy set out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by an analysis of Common Equity Tier (CET1) levels. The investment activity during the year conformed to the approved Strategy, and the council had no liquidity difficulties.

At the end of 2023/24 Walsall's investment balance was £54.325m lower than that at the start of the year.

Table 8 below shows an age profile of the investments.

Table 8: Changes in Investments during 2023/24	Opening Balance £m	Closing Balance £m	Movement in Year £m
At Call accounts	47.771	48.446	0.675
Between 31 days and 365 days	58.000	8.000	(50.000)
Over 365 days	35.000	30.000	(5.000)
Total	**140.771**	**86.446**	**(54.325)**

Investments held by the council - the council maintained an average balance of £130.016m of internally managed funds. The internally managed funds earned an average rate of return of 4.94%.

Recognising the continuation of the stresses on the world banking system, enhanced priority has continued to be given to security and liquidity. To reduce counterparty risk to the maximum possible extent the investment portfolio was spread across a range of appropriately credit rated / analysed institutions. **Table 9** shows the outturn on investment income in 2023/24.

Total investment income was £6.267m compared to a budget of £4.582m, leading to an underspend position of £1.685m. At the point of budget setting, interest rate forecasts were suggesting further gradual rises in short, medium and longer term interest rates to a peak of 4.50% in June 2023, but by May 2023 it had become clear that inflation was sticking and further rate hikes were necessary. This had a direct impact on investment returns, ensuring a significant underspend on investment income.

Table 9 Investments Interest – Gross Income	2023/24 Approved Cash Limit £m	Outturn at 31 March 2024 £m	Over /(under) achieved cash limit £m	% Target Rate	% Average Rate achieved
Call Account investments	0.625	3.056	2.431	2.50%	4.92%
Short Term Investments	2.288	1.647	(0.641)	3.75%	4.97%
Long Term Investments	0.600	0.224	(0.376)	4.00%	5.00%
Property Fund	1.069	1.340	0.271	3.56%	4.47%
Total	**4.582**	**6.267**	**1.685**	**0.91%**	**4.94%**

9. Performance Measurement

One of the key requirements in the CIPFA Code of Practice on Treasury Management is the formal introduction of performance measurements relating to investments, debt and capital financing activities. **Table 10** below shows that Walsall has consistently achieved a higher average return on it's investments and has reduced it's average rate it pays for its borrowing. The figures for 2011/12 to 2014/15 are derived from the the CIPFA treasury management benchmarking club. For 2015/16 onwards, as a number of authorities no longer participate in this benchmarking exercise, the figures set out are based on a review of reports issued by the authorities statistical neighbours. Comparative figures for 2023/24 are not yet available.

Table 10 Comparison of Walsall with other councils Average Interest Rates	Walsall Rate Received %	Comparator Average Rate Received %	Walsall Rate Paid %	Comparator Average Rate Paid %
2013/14	1.29	0.85	4.51	4.26
2014/15	1.09	0.77	4.61	4.14
2015/16	1.08	0.76	4.54	4.18
2016/17	0.86	0.76	3.99	4.34
2017/18	1.32	0.73	3.42	4.06
2018/19	1.37	1.10	3.83	4.15
2019/20	1.50	1.00	3.34	4.05
2020/21	0.59	0.24	3.42	3.70
2021/22	0.38	0.16	3.63	4.02
2022/23	2.11	1.95	3.87	3.95
2023/24	4.83		4.16	

Council approved the following local performance indicators, the majority of which were complied with during the year, **Table 11** provides the indicators for March 2024.

Table 11 - Local Indicators		Actual 2022/23	Target 2023/24	Position 31-Mar-24	Variance to target	
		£m	£m	£m	value	%
L1	Full compliance with Prudential Code.	YES	YES	YES	N/A	N/A
L2	Average length of debt. (Years)	17.13	Lower Limit 15 Years, Upper Limit 25 Years	17.74	N/A	N/A
L3a	Net borrowing costs as % of net council tax requirement.	10.64%	20.00%	2.31%	(17.69%)	(88.43%)
3b	Net borrowing costs as % of Tax Revenue.	7.21%	12.50%	1.55%	(10.95%)	(87.63%)
L4	Net actual debt vs. operational debt.	61.42%	85.00%	58.61%	(26.39%)	(31.04%)

L5	Average interest rate of external debt outstanding excluding OLA.	3.82%	4.21%	4.13%	0.08%	2.02%
L6	Average interest rate of external debt outstanding including OLA.	3.87%	4.33%	4.16%	0.17%	3.82%
L7	Gearing effect of 1% increase in interest rate.	3.81%	5.00%	4.20%	(0.80%)	(16.00%)
L8	Average interest rate received on STI vs. At Call rate	(11.22%)	35.00%	1.02%	(33.98%)	(97.10%)
L9	Average interest rate received:					
L9a	At Call investments.	2.05%	2.50%	4.92%	2.42%	96.80%
L9b	Short Term Investments.	1.82%	3.75%	4.97%	1.22%	32.53%
L9c	Long Term Investments.	0.83%	4.00%	5.00%	1.00%	25.00%
L9d	Property Fund Investments	3.89%	3.56%	4.47%	0.91%	25.56%
L10	Average interest rate on all ST investments (ST and At Call).	1.89%	3.39%	4.94%	1.55%	45.86%
L11a	Average rate on all investments (excluding property fund)	1.81%	3.48%	4.94%	1.46%	42.04%
L11b	Average Rate on all investments (including property fund)	2.11%	4.54%	4.83%	0.29%	6.47%
L12	% daily bank balances within target range.	99%	99%	99%	0.00%	0.00%

Key variances are because of the following reasons:-

L8 – Average rate achieved on Short Term Interest vs At Call Rate – The target is to achieve a 35% better rate on short term investments vs the current At Call rate (i.e. do nothing other than leave all cash in overnight At Call accounts). Improvements in At Call rates due to bank rate increases meant that the difference between At Call and Short Term rates was increased, as short term rates were locked in whereas At Call rates increased immediately.

10. The Economy and Interest Rates commentary provided by Link (the council's external Treasury advisor)

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 Monetary Policy Committee (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 Gross Domestic Product (GDP) growth of -0.3% while year on year 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 Financial Times Stock Exchange (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.