Regulatory Committee:	Audit & Governance Committee
Date:	25th July 2024
Chair:	Cllr John Bloxsom
Presenting Officer:	Paul Blacker
Item Type:	For information
Purpose of Report:	Each year the Council produces an Annual Report covering its Treasury Management activities for the previous year. The Annual Report is submitted to the Audit and Governance Committee in accordance with best practice as outlined in CIPFA's Code of Practice on Treasury Management.
Recommendations or Actions Sought:	To consider the Treasury Management Annual Report 2023/24
Background Documents:	2023/24 Treasury Management Strategy
Forthcoming Decisions:	To flag those items that get referred on to Council for determination.
Appendices:	Appendix A, Economic Update Appendix B, Loan Maturity Profile Appendix C, Credit Score Analysis Appendix D, Compliance Statement - Prudential indicators
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REPORT

1. Background

1.1 Gloucestershire County Council's (GCC's) treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management (the Code), which requires local authorities to produce annually a Treasury Management Strategy Statement (TMSS), and an Annual Report. The Prudential Code includes a requirement for GCC to produce a Capital Strategy, which covers capital expenditure and financing, treasury management and non-treasury investments.

1.2 The TMSS and Capital Strategy are agreed annually by full Council as part of the budget setting process. Reviewing the TMSS as well as a Mid-Year Report and the Annual Report is delegated to the Audit and Governance Committee. This reporting includes the requirement in the 2021 Code, mandatory from 1st April 2023, of reporting quarterly on prudential indicators. Prudential indicators are now incorporated in GCC's budget monitoring reports to Cabinet, and are included at Appendix D. Non treasury related indicators are included for completeness.

1.3 GCC has invested substantial sums of money during the year 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 are therefore central to GCC's treasury management strategy.

2. Economic Background

2.1 Treasury Management activities at GCC are driven by the prevailing economic conditions. A summary of these conditions over the financial year, provided by our Treasury Management advisors, is attached at Appendix A.

2.2 In summary, inflation fell back during the year from a high of 8.7% to 3.4% by the last quarter of the year. 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 where it has remained for the rest of the financial year.

2.3 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 2023 they started declining again before falling sharply in December 2023 as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024.

3. Borrowing and Debt Management

3.1 During 2023/24 GCC has continued to borrow funds for specific capital schemes, and this year the total required was £24.5 million – as reported in the financial outturn report to Cabinet in June 2024. As per previous years, this borrowing was held internally because prevailing borrowing rates exceed those that could be gained from investing funds. The funding can however be externalised at any time should the need arise. The rest of the capital programme new schemes are funded in from grants, revenue contributions, capital receipts or contributions.

3.2 Externalising debt is expensive at the current time. Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields, which are long term fixed income debt security issued by the UK Government, 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 “sticky” inflation at times and downward pressure from falling inflation and a struggling economy at other times.

3.3 On 28th March 2024, the PWLB certainty rates for maturity loans were 4.84% for 10-year loans, 5.28% for 20-year loans and 5.11% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

3.4 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 have fallen back to more normal market levels during April 2024.

3.5 Due to this higher cost of borrowing and the high cash balances held by GCC it still makes sense to borrow internally. Therefore no new long term external loans were taken out in 2023/24, although one temporary 6-month loan for £10 million was taken in October 2023 for liquidity purposes.

3.6 During the year £8.0 million of PWLB debt matured and was paid off and not replaced. In addition, an opportunity arose to repay early two fixed market loans with Barclays which totalled £8.0 million – these were also paid off and not replaced. These loans were originally Lender Option Borrow Option loans (LOBO’s), whereby the lender can decide at pre-determined intervals to adjust the rate on the loan, these options were removed by Barclays and the rate fixed several years ago. Due to the rapidly rising interest rate environment, negotiations took place with Barclays and an early settlement was agreed, with the loans being repaid in full in June 2023.

3.7 As a result of the borrowing and debt management activity described in the paragraphs above the Capital Financing Requirement (CFR) ie the total capital spend that has not yet been financed by capital receipts, capital grants or contributions from revenue income - increased from £466.004 million to £478.239 million. The opening and closing external borrowing portfolio (including the on-balance sheet PFI and Waste liabilities) is summarised below:

	Balance on 31/3/2023	Debt Maturing	Debt Prematurely Repaid	New Borrowing	Balance on 31/3/2024	Avg Rate
	£m	£m	£m	£m	£m	%
Fixed rate loans – PWLB	198.728	8.000	0.000	0.000	190.728	4.60
Variable rate loans – PWLB	0.000	0.000	0.000	0.000	0.000	0.00
Fixed rate loans – LOBO	33.050	0.000	0.000	0.000	33.050	4.23
Fixed rate loans – Market	8.000	0.000	8.000	10.000	10.000	5.40
TOTAL BORROWING	**239.778**	**8.000**	**8.000**	**10.000**	**233.778**	**4.46**
Other Long Term Liabilities	149.087	3.752	0.000	0.000	145.335	
TOTAL EXTERNAL DEBT	**388.865**	**11.752**	**8.000**	**10.000**	**379.113**	
Internal Borrowing	77.139	2.512		24.500	99.126	
Total Borrowing Requirement	**466.004**				**478.239**	
Increase/ (Decrease) in Borrowing £m				**12.236**		

Notes to Table

- **Fixed Rate Loans, LOBOs and Market:** GCC holds £33.05m of LOBO loans with Dexia Bank, where the lender has the option to propose an increase in the interest rate at set dates, following which GCC has the option to either accept the new rate or to repay the loan at no additional cost. As market interest rates rose, there was increased probability of call options on the LOBOs being exercised by lenders. All of these LOBOs had options during the year, however no options were exercised by the lender. The £8m market loans were repaid in June 2023, and a £10m short term loan was taken out in October 2023 to cover liquidity requirements. This was repaid in full in April 2024.
- **Public Works Loans Board (PWLB)**: The continuing rise in gilt yields since early 2022 resulted in some of GCC's PWLB loans being in or close to a discount position if repaid early. However, as the prepaid loans would need to be replaced by new loans at higher interest rates, this isn't a cost-effective option.
- **Other Long Term Liabilities**: These liabilities are associated with GCC's PFI schemes and waste service concessions. Under current accounting regulations GCC must show these liabilities as part of the total debt of GCC. The schemes include a Fire Joint Training Centre, four Fire Stations, a Community Life Skills Centre and the Waste facility at Javelin Park.

3.8 The average cost of GCC's existing borrowing portfolio during 2023/24 was 4.46%.

3.9 This borrowing rate is marginally higher than the rate of return achieved on investments during the year (4.42%). Despite the rapid rise in interest rates during the year to a high of 5.25%, and the whole of our historic borrowing portfolio falling below this rate, the majority of GCC's investment balances are in fixed instruments so cannot react quickly to the changing interest rate environment. This offers more security to the rate of return during periods of falling interest rates but means that there can be a lag in achieving improved rates of return during periods of increasing interest rates.

3.10 The table below reconciles the opening and closing total borrowing position during 2023/24:

	£m
Opening CFR	**466.004**
Plus New Borrowing	24.500
PFI and Lease Liabilities	(3.752)
Less MRP	(8.513)
Total	**478.239**
Closing CFR	**478.239**
External Debt	233.778
Other long term liabilities	145.335
Internal Debt	99.126
Total Debt	**478.239**

3.11 The minimum revenue provision (MRP) shown above of £8.513 million is a statutory minimum amount by which GCC must reduce debt. It is charged to the revenue account each year and set aside towards repaying both internal and external borrowing.

3.12 The internal debt of £99.126 million results from existing internal debt, the additional borrowing requirement of £24.500 million during 2023/24 and a temporary in year timing mismatch between MRP set aside in 2023/24 to repay maturing debt and actual debt maturing in year. A graph of the maturity profile of our external loans is shown in Appendix B.

4. Investment Activity

4.1 The Code defines treasury management investments as those investments which arise from GCC'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.

4.2 GCC has held significant invested funds during the year, representing income received in advance of expenditure plus balances and reserves. During 2023/24 GCC's investment balances have varied – the average balance was £275.5 million. This generated interest of £12.2m which is equivalent to 4.42%. Interest rates have been volatile during the year and increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024. As we have a predominately fixed investment profile and limited short term surplus cash, we have not been able to take immediate advantage of the new rates.

4.3 The table below summarises investment activity during the year to 31st March 2024;

Total number of fixed rate deposits made	28
Daily invested range in fixed rate	£1.5m to £5.0m
Total number of MMF / Call deposits	40
Daily invested range	£3.0m to £30.0m
Total value of deposits made (fixed and MMF/Call)	*£778.6m
Periods	Overnight to 2 years

*Note that this figure excludes the Current Account investments shown in the table at 4.5

4.4 All investments made during the year complied with GCC's agreed TMSS, Prudential Indicators, Treasury Management Practices and prescribed limits as approved by the County Council in February 2023. All maturing investments were repaid to GCC in full and in a timely manner.

4.5 The opening and closing investment balances (principal positions) are summarised in the table below;

Investments	Balance on 31/03/2023 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2024 £m	Avg Rate (%)
Short term Investments (call accounts, deposits)					
- Current Account	8.5	1058.2	-1054.2	12.5	4.9
- Banks and Building Societies with ratings of A- or higher	16.5	5.0	-21.5	0.0	0.0
- Banks and Building Societies Secured	0.0	5.0	0.0	5.0	4.6
- Local Authorities	110.0	118.5	-130.0	98.5	5.2
Long term Investments					
- Strategic Funds	95.0	0.0	0.0	95.0	4.9
- Local Authorities	5.0	5.0	-5.0	5.0	4.7
Money Market Funds	35.4	645.1	-660.5	20.0	4.8
TOTAL INVESTMENTS	**312.3**			**236.1**	
Increase/ (Decrease) in Investments £m				-76.3	

4.6 GCC has invested in one secured instrument during 2023/24. A secured bank deposit is similar in many ways to the familiar unsecured bank deposit, with flexibility on start date and maturity date and negotiated interest rate, however the difference is in the additional security, which substantially lowers credit risk. The secured deposit used in this instance is very similar to a reverse repurchase (repo) trade. In summary collateral is put aside to cover in full the invested balance. Then, in the unlikely event of default on the secured deposit, the collateral will be sold, and the proceeds returned, thereby protecting GCC cash in full.

4.7 High quality collateral such as government bonds is very likely to increase in value after a bank failure ensuring that the full amount owing is returned. This process would complete within one week of default.

4.8 GCC is invested in a number of long dated strategic funds, and the principal value of these is £95m as shown in the table above, however the market value as at the end of March 2024 was less totalling £90m. These funds have volatile capital values and held predominantly for income generation through dividends. These investments are therefore treated as long term investments. Following a recent report to this committee, officers are keeping these funds under review and may consider maturing those with fossil fuel exposures, as capital values recover.

4.9 There is a statutory override in place for these strategic funds, where there is an accounting adjustment for changes in capital value to ensure that it does not impact on the revenue outturn for authorities. The override has been extended until 31st March 2025, but after this it is uncertain whether it will continue. In order to manage the risk of the statutory override not being extended a provision of £6 million was built into the General Reserve that was approved by Council in February 2024.

4.10 GCC also has four £5 million Rolling Credit Facilities (RCF) with the following Housing Associations:

- Sovereign Network Housing
- Southern Housing
- Yorkshire Housing
- Moat Housing

4.11 A RCF is a facility whereby the lender agrees to lend at an agreed rate for a defined period should the borrower require the funds. Whilst funds are not drawn down a non utilisation fee applies. These RCFs provide a quarterly return from the non utilisation fee, adding to our investment returns. Should they be drawn down, the interest rate is at a fixed rate, and runs as per agreed terms. Currently none of the RCFs are drawn down.

Investment Objectives

4.12 Both the CIPFA Code and government guidance require GCC 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.

1) Security

GCC'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.

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

GCC receives regular correspondence from its Treasury Advisors on credit risk, which is taken into account before transactions are made. GCC used long term credit criteria during 2023/24, with minimum long-term counterparty credit rating determined for the 2023/24 treasury strategy being A-.

GCC's counterparty credit quality has been maintained over the year as demonstrated by the Credit Score Analysis summarised below. The table in Appendix C explains the credit score. Our rate of return increased over the year as interest rates went up and we were able to lock into higher rates. Bank duration reduced during the year due to an inverted yield curve, resulting in shorter term investments offering better value only longer dated ones. Bail-in exposure is volatile and driven by the use of a bank call facility with balances ranging from zero to £15m.

	Credit Score	Credit Rating	Bail-in Exposure	Average Maturity (days)	Rate of Return %
31.03.2023	4.93	A+	32%	119	3.55%
30.06.2023	4.84	A+	17%	206	3.98%
30.09.2023	4.85	A+	23%	166	4.39%
31.12.2023	5.41	A+	13%	133	4.46%
31.03.2024	5.32	A+	27%	95	5.04%
Similar LAs	**4.67**	**A+**	**53%**	**2708**	**4.67%**

The Rate of Return shown in the table above is a quarterly position, so not directly comparable to the annual rate of return, achieved by GCC over the year.

Risk is further reduced by ensuring a good mix of duration of deposits and mix of counterparties. The table below shows a comparison between years. Although the proportion in strategic funds in percentage terms has increased, there is no change to the amount invested in this category. As investment balances have reduced this category now forms a larger portion of the portfolio.

Investments by type of institution		
	At 31/3/23 %	**At 31/3/24 %**
UK Banks	5.5	**2.1**
Non UK Banks	5.5	**0**
Other Local Authorities	40.6	**43.9**
Call / Current Accounts*	2.8	**5.3**
Stable Net Asset Money Market Funds (MMF's)**	13.0	**8.5**
Strategic Funds	32.6	**40.2**
Total	100	**100**

* A bank account with instant access to funds held on deposit.

** The principle invested remains at its invested value and achieves a return on investment.

2) ***Liquidity***: In keeping with the Department for Levelling Up Housing and Communities (DLUHC's) Guidance on Investments, GCC maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and call / current accounts.

Average Length of investments		
	At 31/3/23 %	**At 31/3/24 %**
Less than 1 month (including Call)	15.8	**13.8**
Between 1 to 3 months	20.2	**22.7**
Between 3 to 6 months	14.8	**12.7**
Between 6 to 12 months	14.8	**8.5**
Over 12 months	34.4	**42.3**
Total	100	**100**

3) ***Yield***: GCC sought to optimise returns commensurate with its objectives of security and liquidity. Short term money market rates picked up significantly during the year, and shorter dated deposits became more attractive than longer term. GCC's cash balances have reduced substantially over the year. At the peak balances were £329m, and the lowest balance recorded was £212m. The reducing balance has meant that there has been less opportunity to lock into higher yields than previously.

£95 million of GCC's investments are invested in externally managed strategic pooled (bond, equity, multi-asset, Real Estate Investment Trust (REIT) and property) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. Following a few years of volatility, economic conditions are now improving resulting in capital recovery. Despite this the fund income returns have remained stable, providing a good return for GCC.

5. Other Non-Treasury Holdings and Activity

5.1 The definition of investments in the Code covers all the financial assets of GCC as well as other non-financial assets which GCC 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).

5.2 Investment Guidance issued by the DLUHC also broadens the definition of investments to include all such assets held partially or wholly for financial return.

5.3 GCC does not currently hold funds meeting this definition.

6. Compliance Report

6.1 All treasury management activities undertaken during 2023/24 complied fully with the Code and GCC's approved Treasury Management Strategy set in February 2023 - (which can be accessed here).

6.2 The revised Code introduced a new requirement for quarterly monitoring of prudential indicators and GCC adopted this as part of the Cabinet budget monitoring process. This report provides members with a summary report of the treasury management activity during 2023/24. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. Full details can be found in Appendix D.

7. Investment Training

7.1 Training was undertaken for members in January 2024. This was provided by our Treasury Management advisors, Arlingclose. Officers ensure that they are kept up to date on treasury related matters and training and attendance at updates with GCC's advisors is undertaken as appropriate.

8. Environmental, Social and Governance Considerations

8.1 Following the Motion agreed by Council in November 2019 the Council has developed and implemented a Responsible Investment Policy, which rules out new investments in pooled funds that invest in fossil fuel companies. It is acknowledged that some of the Fund investments taken out prior to this motion being passed do contain a small percentage of fossil fuel holdings and a report was present to this committee in April 2024 that detailed these holdings and the implications of disinvestment. It is confirmed that no new investment has been made in any fund that contain fossil fuel holdings since the motion was passed.

8.2 The Code requires local authorities to consider their counterparty policies in light of environmental, social and governance (ESG) information, while recognising that there is not a developed approach to ESG for public sector organisations and not expecting authorities to use real-time ESG scoring / criteria for individual investments.

8.3 Whilst recognising that ESG issues are wide-ranging and non-standardised, the Council aims to be a responsible investor and will consider ESG issues when investing. As such,

- We invest in a social housing REIT that provides high-standard, specialist properties which provide housing for some of society's most vulnerable people. Tenant groups include those with autism, learning disabilities as well as mental health struggles. This fund is also signed up to the UN Principles for Responsible Investment.
- We invest in a responsible income fund which does not invest in companies which have fossil fuel reserves or are engaged in fossil fuel extraction.
- We invest in an ethical bond fund which does not invest in companies which have fossil fuel reserves or are engaged in fossil fuel extraction.
- We invest in a diversified income fund that has a significant exposure to wind / solar / renewable energy companies and is very active in promoting responsible investing.
- All the banks that we hold investment balances with are signed up to the UN Principles for Responsible Banking.
- All of our Pooled Strategic Funds (excluding our social housing REIT) and Money Market Funds are signed up to the UN Principles for Responsible Investment, the UK Stewardship Code 2020, and the Net-Zero Asset Managers Initiative.
- The Council has a Climate Change Strategy, and more details can be found at the link below:
  Greener Gloucestershire climate dashboard | Gloucestershire County Council

Appendix A

Economic Update

The bullets below provided by Arlingclose, GCC's treasury advisors, are a summary of the economic climate over the financial year 2023/24 that has impacted on the treasury management environment of GCC:

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 the second half of 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 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 (ECB) 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:

- 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 2023 they started declining again before falling sharply in December 2023 as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January 2024 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 2024, 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:

- 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.

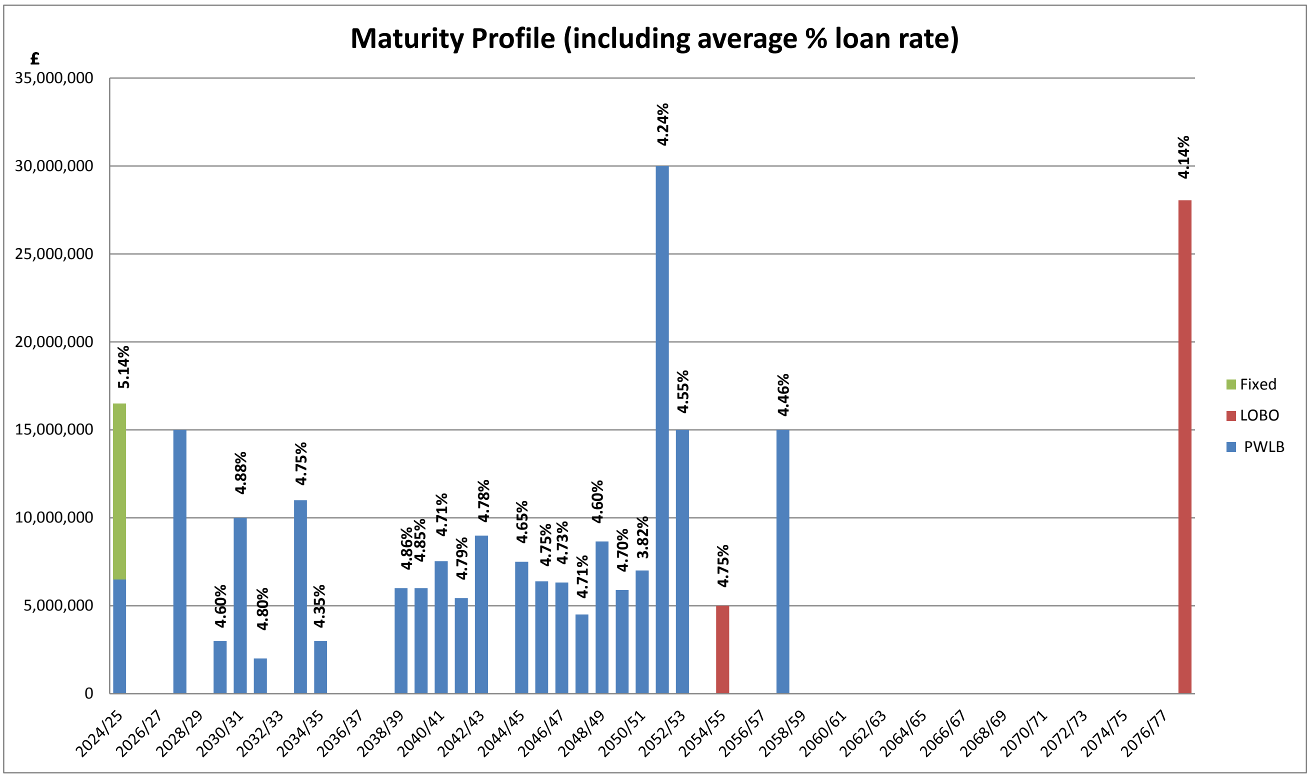
- Moody's, meanwhile, upgraded the long-term ratings of German lenders Helaba, Bayern LB and LBBW on better solvency and capital positions, despite challenges from a slowing German economy and exposure to the commercial real estate sector. Moody's also upgraded or placed on review for an upgrade, Australian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

- Credit default swap (CDS), which is a financial swap agreement that the seller of the CDS will compensate the buyer in the event of a loan default or other credit event, 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 GCC' counterparty list recommended by Arlingclose remain under constant review.

Appendix B

Loan Maturity Profile



Although the spread of borrowing is generally smooth there are a number of peaks. The peak in 2024/25 is due to some temporary borrowing that was taken of £10 million, due to be repaid early April 2024, and 2051/52 is because there are three loans maturing, one of which is for £15m. The peak in 2077/78 is the final date of maturity for a number of LOBOs loans. Note that LOBO loans are shown on this graph at maturity rather than the earliest call (option) date.

Appendix C

Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit.

GCC aimed to achieve a score of 7 or lower, to reflect GCC's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

Appendix D

Compliance Statement: Prudential Indicators

All treasury management activities undertaken during the year complied fully with the principles in the Code and the approved Treasury Management Strategy

Treasury Management Prudential Indicators

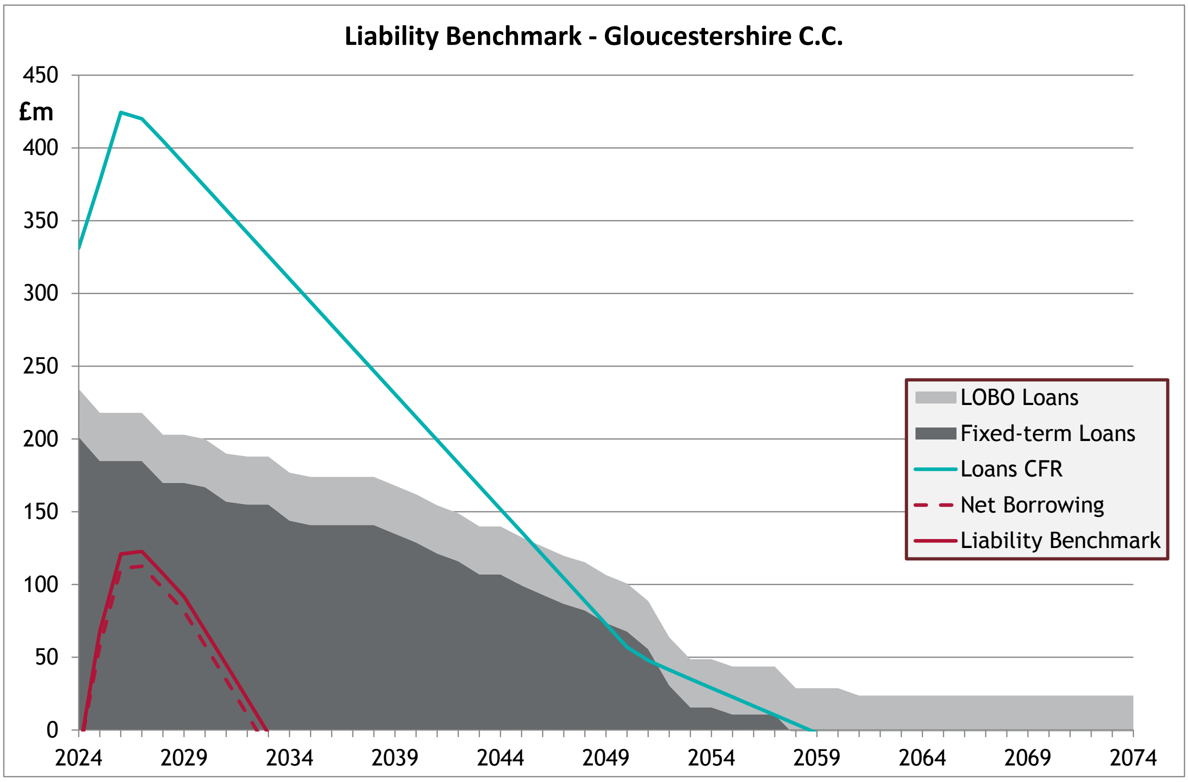
As required by the Code, GCC monitors and measures the following specific treasury management prudential indicators.

Liability Benchmark:

This new indicator compares GCC'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 GCC 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 GCC 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	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast
	£m	£m	£m	£m	£m
Loans CFR (excl PFI and lease liabilities)	317.2	332.9	371.4	418.7	432.6
Less: Balance sheet resources	353.0	349.2	357.9	366.9	376.1
Net loans requirement	**- 35.8**	**- 16.3**	**13.5**	**51.8**	**56.5**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**- 25.8**	**- 6.3**	**23.5**	**61.8**	**66.5**
Existing borrowing	- 241.9	- 234.4	- 221.3	- 221.3	- 221.3

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing as per the latest MTFS, MRP on new capital expenditure based on asset life and balance sheet resources representing income, expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The table below shows the principal position.

Maturity Structure of Fixed Rate Borrowing	Upper Limit	Lower Limit	Actual Fixed Rate £m Borrowing as at 31/03/24	Actual Fixed Rate £m Borrowing as at 31/03/24	Actual Fixed Rate £m Borrowing as at 31/03/24	Fixed Rate Borrowing as at 31/03/23	Compliance with Set Limits?
	%	%	LOBO*	Market	PWLB	%	
under 12 months	25	0	33.050	10.000	8.747	21.9	Yes
12 months and within 24 months	25	0			0.000	0.0	Yes
24 months and within 5 years	50	0			15.000	6.4	Yes
5 years and within 10 years	75	0			26.000	11.0	Yes
10 years and within 20 years	100	0			36.958	15.7	Yes
20 years and within 30 years	100	0			91.269	38.7	Yes
30 years and within 40 years	100	0			15.000	6.4	Yes

* Note that LOBO's are included in the table above at earliest call date and not at maturity.

Total principal sums invested for periods longer than 364 days.

This indicator allows GCC to manage the risk inherent in investments longer than 364 days. The limit for 2023/24 was set at £150m. At its peak sums invested for longer than 365 days, including strategic funds, totalled £105 million.

<u>Investment Limits</u>

	2023/24	2023/24	31.3.24	Complied?
	Limit	Maximum	Actual	Yes/No
Any single organisation, except the UK Government (unsecured)	£15m	£15m	**£12.5m**	yes
Any group of organisations under the same ownership	£60m	n/a	**n/a**	yes
Any group of pooled funds under the same management	£60m	£40m	**38.4m**	yes
Negotiable instruments held in a broker's nominee account	£30m	£10m	**£10m**	yes
Limit per non-UK country	£30m	£15m	**0**	yes
Registered providers and registered social landlords	£30m	0	**0**	yes
Unsecured investments with banks and building societies	£15m	£15m	**£12.5m**	yes
Money Market Funds	£30m/fund	£30m per fund	**£20m in one fund**	yes
Strategic pooled funds	£30m/fund	£28.7m max in one fund	**£85.1m over 9 funds**	yes
Real Estate Investment Trusts	£30m	£5m	**£4.8m**	yes

GCC has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment as shown by Appendix C and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

The target set in the Treasury Strategy is A-, and the target achieved was A+.

Capital Related Prudential Indicators

GCC measures and manages its capital expenditure and borrowing with references to the capital related prudential indicators. It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis, and therefore they are presented alongside the regular Revenue and Capital monitoring reports to Cabinet. They are included here for completeness.

Capital Expenditure:

GCC has undertaken and is planning capital expenditure as summarised below.

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund services	136.059	198.794	162.281	109.508
PFI and Finance Leases	1.440	7.776	1.206	1.641
TOTAL	**137.499**	**206.570**	**163.487**	**111.149**

Capital Financing Requirement

The Capital Financing Requirement is the total amount required by GCC to fully fund the Capital Programme. The outturn position for GCC's cumulative maximum external borrowing requirement for 2023/24 is shown in the table below:

	31/03/2024 Actual £m
CFR	478.239
Less: Existing Profile of Borrowing	233.778
Less: Other Long Term Liabilities*	149.087
Cumulative Maximum External Borrowing Requirement	**95.374**
Useable Reserves	(251.785)
Cumulative Net Borrowing Requirement/(investments)	**(156.411)**

**Other long term liabilities are GCC's PFI schemes and the Energy from Waste contract. The PFI schemes include a Fire Joint Training Centre, and 4 Fire Stations and a Community Life Skills Centre. Under current accounting regulations GCC must show these liabilities as part of the total debt of GCC.*

Authorised Limit and Operational Boundary for External Debt

GCC is required to set an affordable Authorised Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. GCC's Authorised Borrowing Limit was revised for 2023/24 when the 2024/25 budget was set, and reduced from £565 million to £520 million.

This limit represents a worse case scenario for debt required and is calculated as the total capital financing requirement (including lease liabilities), plus the minimum revenue provision, plus maturing debt and capital receipts. Added to this is an allowance to cover the possibility of not being able to make monthly salary payments. This allows GCC flexibility with its total borrowing requirement.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

	2023/24 Maximum	31.3.23 Actual	2023/24 Operational	2023/24 Authorised
Borrowing	239.78	233.78	338.43	358.43
PFI and Finance Leases	149.09	149.09	161.58	161.58
Total debt	**388.87**	**382.87**	**500.00**	**520.00**

Gross Debt and the Capital Financing Requirement:

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. GCC has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2023 actual	31.3.2024 actual	31.3.2025 forecast	31.3.2026 forecast
	£m	£m	£m	£m
Debt (incl. PFI & leases)	388.865	379.113	358.54	354.381
Capital Financing Requirement	466.004	478.239	512.704	555.824

The difference between the CFR and actual debt represents the internal borrowing position of GCC.

Proportion of Financing Costs to Net Revenue Stream:

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants that represents the net budget of GCC.

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Proportion of Financing Costs to Net Revenue Stream	3.64%	3.43%	3.64%	3.74%