

CABINET

THURSDAY 30th NOVEMBER 2023

COUNCIL

TUESDAY 12th DECEMBER 2023

REPORT OF THE PORTFOLIO HOLDER FOR OPERATIONS AND FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2023/24

EXEMPT INFORMATION

None

PURPOSE

To present to Members the Mid-year Review of the Treasury Management Strategy Statement and Annual Investment Strategy.

RECOMMENDATIONS

That Council be requested to approve the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2023/24.

EXECUTIVE SUMMARY

This mid-year report has been prepared in compliance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2021), and covers the following:-

- An economic update for the half of the 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital expenditure as set out in the Capital Strategy, and Prudential Indicators;
- A review of the Council's investment portfolio for 2023/24;
- A review of the Council's borrowing strategy for 2023/24;
- A review of any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24.

The main issues for Members to note are:

1. The Council has complied with the professional codes, statutes and guidance.

2. There are no issues to report regarding non-compliance with the approved prudential indicators.
3. The investment portfolio yield, excluding property fund returns, for the first six months of the year is 5.28% (1.85% for the same period in 2022/23) compared to the average 3 Month SONIA benchmark rate of 5.03% for the period (previously benchmarked against 3 Month LIBID which was 1.71% for the same period in 2022/23).

The aim of this report is to inform Members of the treasury and investment management issues to enable all Members to have ownership and understanding when making decisions on Treasury Management matters. In order to facilitate this, training on Treasury Management issues was most recently delivered for Members in February 2023 and further training is planned during 2023/24.

RESOURCE IMPLICATIONS

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

LEGAL/RISK IMPLICATIONS BACKGROUND

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

EQUALITIES IMPLICATIONS

None

SUSTAINABILITY IMPLICATIONS

None

REPORT AUTHOR

Please contact Jo Goodfellow, Assistant Director Finance, extension 241 or Omotayo Lawal, Head of Finance, extension 246.

LIST OF BACKGROUND PAPERS

| | |
|----------------------------|--|
| <i>Background Papers -</i> | <i>Local Government Act 2003</i> |
| | <i>CIPFA Code of Practice on Treasury Management in Public Services 2017</i> |
| | <i>Annual Report on the Treasury Management Service and Actual Prudential Indicators 2022/23 – Council 19th September 2023</i> |

| | |
|--|---|
| | <i>Treasury Management Strategy & Prudential Indicators Report 2023/24 - Council 28th February 2023</i> |
| | <i>Budget & Medium Term Financial Strategy 2023/24 - Council 28th February 2023</i> |
| | <i>Quarter 2 2023/24 Performance Report Including Financial Healthcheck</i> |

APPENDICES

Appendix 1 – Investments Held at 30th September 2023

Appendix 2 - the CFR, Liability Benchmark and Borrowing

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW

The CIPFA Code of Practice on Treasury Management (revised 2021) suggests that Members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This is the second monitoring report for 2023/24 presented to Members this year and therefore ensures the Council is embracing best practice. Cabinet also receives regular monitoring reports as part of the quarterly healthcheck on Treasury Management activities and risks.

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, Treasury Management is defined as:

“The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Introduction

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 2021).

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.

- Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee.

1. Economics and Interest Rates

1.1 Economics update

The second quarter of 2023/24 saw:

- Interest rates rise by a further 1%, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% m/m decline in real GDP in July, mainly due to high levels of industrial action.
- CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% month on month rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3month year on year average (3myy) rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 0.25% hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- The pound weakened from its cycle high of \$1.30 in the middle of July to \$1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

1.2 Interest Rate Forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 0.2%) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 25th September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

| Link Group Interest Rate View | 25.09.23 | | | | | | | | | | | | |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
| BANK RATE | 5.25 | 5.25 | 5.25 | 5.00 | 4.50 | 4.00 | 3.50 | 3.00 | 2.75 | 2.75 | 2.75 | 2.75 | 2.75 |
| 3 month ave earnings | 5.30 | 5.30 | 5.30 | 5.00 | 4.50 | 4.00 | 3.50 | 3.00 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 |
| 6 month ave earnings | 5.60 | 5.50 | 5.40 | 5.10 | 4.60 | 4.10 | 3.60 | 3.10 | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 |
| 12 month ave earnings | 5.80 | 5.70 | 5.50 | 5.20 | 4.70 | 4.20 | 3.70 | 3.20 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 5 yr PWLB | 5.10 | 5.00 | 4.90 | 4.70 | 4.40 | 4.20 | 4.00 | 3.90 | 3.70 | 3.70 | 3.60 | 3.60 | 3.50 |
| 10 yr PWLB | 5.00 | 4.90 | 4.80 | 4.60 | 4.40 | 4.20 | 4.00 | 3.80 | 3.70 | 3.60 | 3.60 | 3.50 | 3.50 |
| 25 yr PWLB | 5.40 | 5.20 | 5.10 | 4.90 | 4.70 | 4.40 | 4.30 | 4.10 | 4.00 | 3.90 | 3.80 | 3.80 | 3.80 |
| 50 yr PWLB | 5.20 | 5.00 | 4.90 | 4.70 | 4.50 | 4.20 | 4.10 | 3.90 | 3.80 | 3.70 | 3.60 | 3.60 | 3.60 |

2. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Council on 28th February 2023.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

3. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

3.1 Prudential Indicator for Capital Expenditure

This table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

| Capital Expenditure | 2023/24 Original Programme | Budget B'fwd from 2022/23 | Virements in Year | Total 2023/24 Budget | Actual Spend @ Period 6 | Predicted Outturn | 2023/24 Revised Estimate* |
|---------------------|----------------------------|---------------------------|-------------------|----------------------|-------------------------|-------------------|---------------------------|
| | £m | £m | £m | £m | £m | £m | £m |
| General Fund | 5.820 | 21.274 | 6.424 | 33.518 | 4.353 | 32.034 | 33.430 |
| HRA | 8.364 | 7.880 | - | 16.244 | 7.326 | 14.127 | 16.017 |
| Total | 14.184 | 29.154 | 6.424 | 49.762 | 11.679 | 46.161 | 49.448 |

* Includes potential expenditure slippage into 2024/25 of £3.287m

The virements of £6.424m represent additional funding applied to the Gungate capital scheme (Council 18th July) and the acquisition of the commercial lease at Bolebridge St (Council 26th June).

3.2 Changes to the Financing of the Capital Programme

The following table draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. Any borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

| Capital Expenditure | 2023/24 Original Capital Programme £m | 2023/24 Predicted Outturn £m | 2023/24 Revised Budget * £m |
|---------------------------------|--|---|--|
| Unsupported | 1.762 | 2.325 | 4.110 |
| Supported | 12.422 | 43.836 | 45.652 |
| Total spend | 14.184 | 46.161 | 49.762 |
| Financed by: | | | |
| Grants - Disabled Facilities | 0.547 | 1.162 | 1.162 |
| Coalfields Grant | 0.030 | 0.038 | 0.038 |
| Section 106's | - | 0.830 | 0.830 |
| GF Receipts | 2.020 | 10.529 | 10.529 |
| GF Reserve | 0.230 | 0.421 | 0.701 |
| Sale of Council House Receipts | 0.308 | 0.651 | 0.676 |
| HRA Receipts | 0.350 | 0.350 | 0.350 |
| Future High Street Fund | 0.900 | 15.706 | 15.706 |
| Other Grants/Contributions | 0.024 | 0.924 | 0.924 |
| MRR | 2.979 | 4.092 | 4.057 |
| HRA 1-4-1 Replacements Receipts | 0.100 | 0.921 | 1.471 |
| HRA Reserve | 3.815 | 6.281 | 6.857 |
| HRA Regeneration Fund | 0.200 | 1.195 | 1.429 |
| HRA Affordable Housing Reserve | 0.920 | 0.735 | 0.920 |
| | | | |
| Total Financing | 12.422 | 43.836 | 45.652 |
| Borrowing need | 1.762 | 2.325 | 4.110 |

* includes schemes re-profiled from 2022/23 of £29.154m

3.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The following table shows the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for External Debt

| | 2022/23 | 2023/24 | 2023/24 | 2023/24 |
|------------------------------|----------------|------------------|------------------|----------------|
| | Outturn | Original | Projected | Revised |
| | £m | Capital | Outturn | Budget |
| | | Programme | £m | £m |
| | | £m | | |
| CFR – Non Housing | 3.785 | 6.608 | 5.354 | 6.529 |
| CFR – Housing | 69.981 | 71.582 | 70.534 | 71.140 |
| Total CFR | 73.766 | 78.190 | 75.888 | 77.669 |
| Net movement in CFR | 0.325 | 4.299 | 2.122 | 3.903 |
| Operational Boundary | | | | |
| Expected Borrowing | 63.060 | 63.060 | 63.060 | 63.060 |
| Other long term liabilities | - | - | - | - |
| Total Debt 31st March | 63.060 | 63.060 | 63.060 | 63.060 |

3.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

| | 2022/23 | 2023/24 | 2023/24 | 2023/24 |
|-------------------------|----------------|-----------------|------------------|----------------|
| | Outturn | Original | Projected | Budget |
| | £m | Estimate | Outturn | £m |
| | | £m | £m | |
| Gross borrowing | 63.060 | 63.060 | 63.060 | 63.060 |
| Less investments | 71.332 | 15.194 | 50.571 | 50.428 |
| Net borrowing | -8.272 | 47.866 | 12.489 | 12.633 |
| CFR (year end position) | 73.766 | 78.190 | 75.888 | 77.669 |

A further prudential indicator controls the overall level of borrowing. This is **the Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

| Authorised Limit for External | 2023/24 | Current | 2023/24 |
|--------------------------------------|----------------|----------------|----------------|
|--------------------------------------|----------------|----------------|----------------|

| Debt | Original Indicator | Position | Revised Indicator |
|-------------|---------------------------|-----------------|--------------------------|
| Borrowing | 89.015 | 89.015 | 89.015 |
| Total | 89.015 | 89.015 | 89.015 |

4. Borrowing

The Council's estimated revised capital financing requirement (CFR) for 2023/24 is £75.888m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 3.4 shows the Council has borrowings of £63.060m and plans to utilise £12.828m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

It is not anticipated that any additional borrowing will be undertaken during 2023/24.

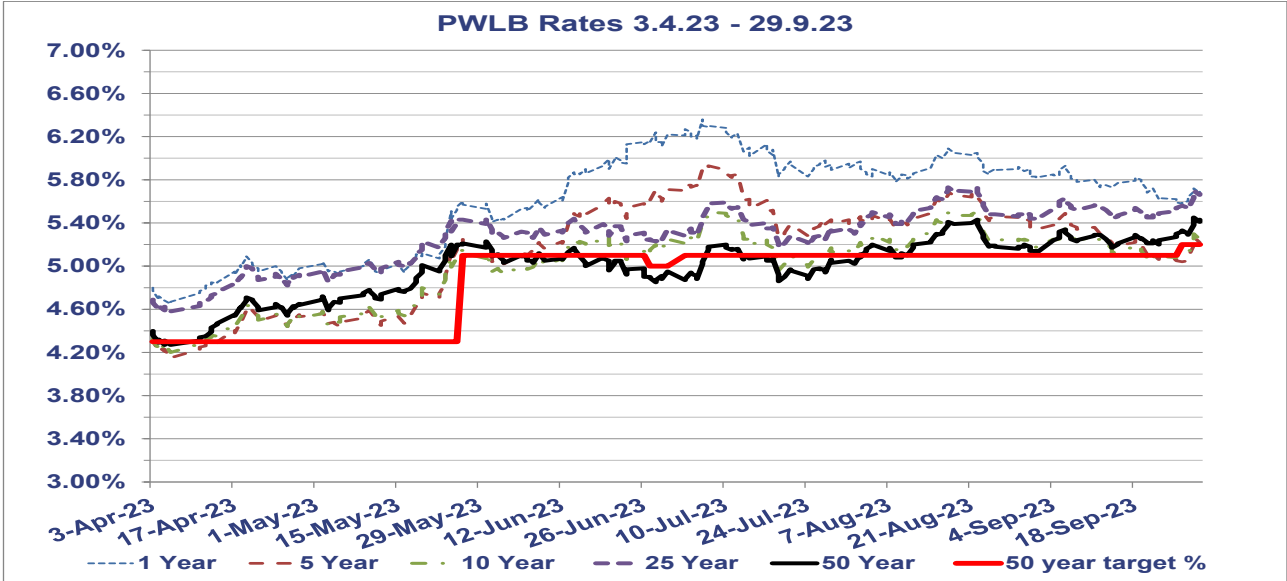
PWLB maturity certainty rates (gilts plus 0.8%) year to date to 29th September 2023

Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%.

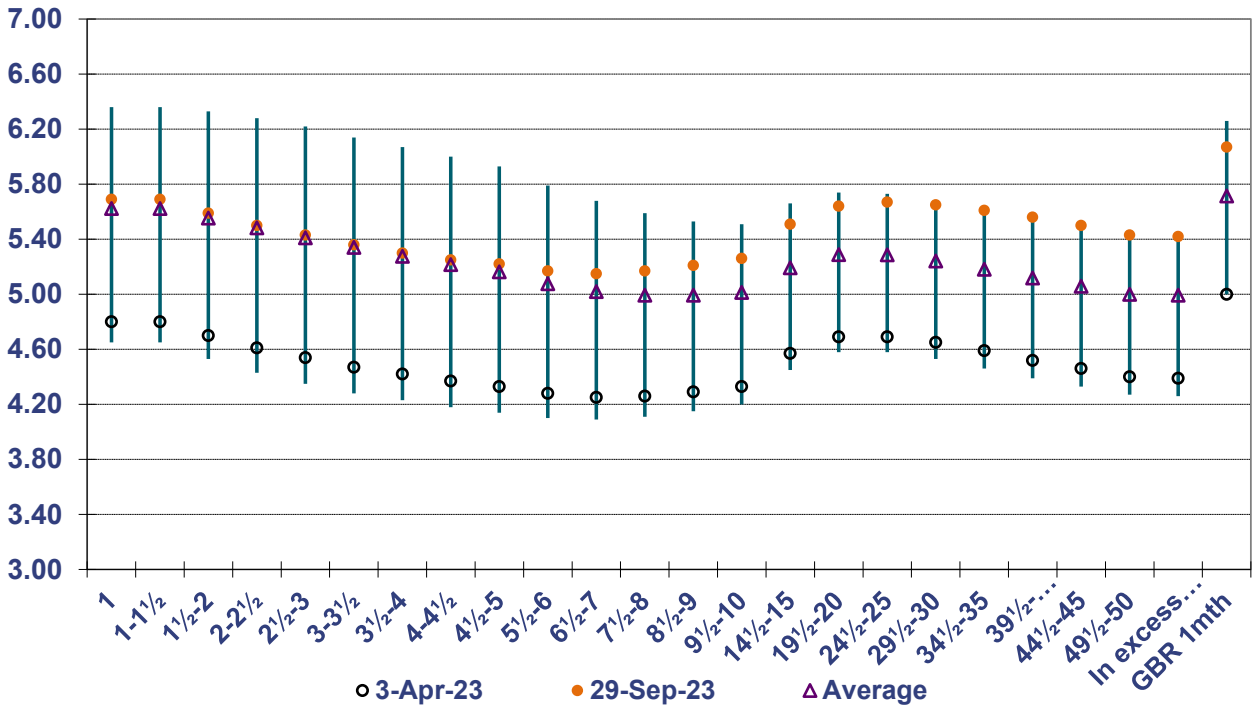
July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September.

Rates are forecast to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and 50-year rates are forecast to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

PWLB RATES 01.04.23 - 29.09.23



PWLB Certainty Rate Variations 3.4.23 to 29.9.23



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|----------------|------------|------------|------------|------------|------------|
| Low | 4.65% | 4.14% | 4.20% | 4.58% | 4.27% |
| Date | 06/04/2023 | 06/04/2023 | 06/04/2023 | 06/04/2023 | 05/04/2023 |
| High | 6.36% | 5.93% | 5.51% | 5.73% | 5.45% |
| Date | 06/07/2023 | 07/07/2023 | 22/08/2023 | 17/08/2023 | 28/09/2023 |
| Average | 5.62% | 5.16% | 5.01% | 5.29% | 5.00% |
| Spread | 1.71% | 1.79% | 1.31% | 1.15% | 1.18% |

- The current PWLB rates are set as margins over gilt yields as follows: -.
 - **PWLB Standard Rate** is gilt plus 1%
 - **PWLB Certainty Rate (GF)** is gilt plus 0.8%
 - **PWLB Local Infrastructure Rate** is gilt plus 0.6%
 - **PWLB Certainty Rate (HRA)** is gilt plus 0.4%
- The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 0.4%.

5. Debt Rescheduling

Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24. The Executive Director Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

7. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 28th February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness.

Following the Government's fiscal event on 23rd September 2022, both S&P and Fitch placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and a challenging economic outlook. Nothing further has evolved in the first half of 2023/24.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices

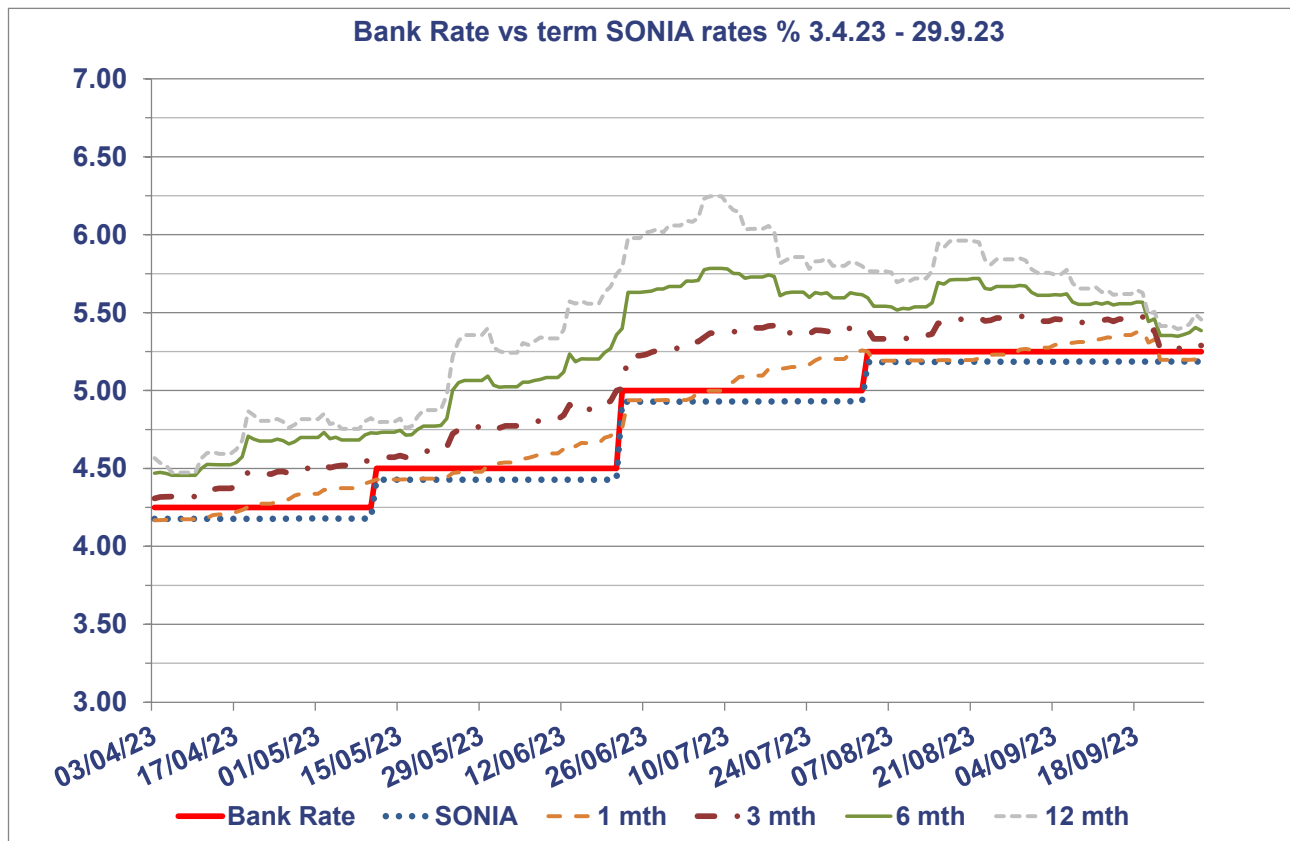
It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances

The Council held £68.642m of investments as at 30th September 2023, excluding investments in property funds (£60.610m at 31st March 2023) and the investment portfolio yield for the first six months of the year is 5.28% against a benchmark of the average 3 months SONIA of 5.03%. A full list of investments held as at 30th September 2023 is detailed in **APPENDIX 1**.

The Executive Director Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2023/24.

Investment performance year to date as of 29th September 2023



| | Bank Rate | SONIA | 1 mth | 3 mth | 6 mth | 12 mth |
|------------------|------------|------------|------------|------------|------------|------------|
| High | 5.25 | 5.19 | 5.39 | 5.48 | 5.78 | 6.25 |
| High Date | 03/08/2023 | 29/09/2023 | 19/09/2023 | 30/08/2023 | 07/07/2023 | 07/07/2023 |
| Low | 4.25 | 4.18 | 4.17 | 4.31 | 4.46 | 4.47 |
| Low Date | 03/04/2023 | 04/04/2023 | 03/04/2023 | 03/04/2023 | 06/04/2023 | 06/04/2023 |
| Average | 4.81 | 4.74 | 4.83 | 5.03 | 5.26 | 5.45 |
| Spread | 1.00 | 1.01 | 1.22 | 1.17 | 1.33 | 1.77 |

The table above covers the first half of 2023/24.

The Council's budgeted investment return for 2023/24 is £1.3m, and we are currently forecasting an additional £1.7m in investment income as at September Period 6, due to increased balances available for investment due to capital slippage, plus increasing interest rates.

Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS and as approved by Council on 28th February 2023 meets the requirements of the Treasury Management function.

8.Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports. There are no such changes to report to Members at this stage.

9. Property Funds

To date, the Council has invested £1.85m with Schroders UK Real Estate Fund, £6.057m with Threadneedle Property Unit Trust, and £4.057m with Hermes Federated Property Unit Trust, total investment £11.962m. Although the capital values of the funds did initially fall, mainly since 31st March 2020, they then recovered and as at 31st March 2022 there was an overall gain of £1.32m. However, since then capital values have fallen again, and as at 30th September the valuation stands at £10.62m, with an overall loss of £1.35m. It should be noted that investments in property are subject to fluctuations in value over the economic cycle and should yield capital growth in the longer term as the economy grows.

| Fund Valuations | Investment | Valuation 31/03/2019 | Valuation 31/03/2020 | Valuation 31/03/2021 | Valuation 31/03/2022 | Valuation 31/03/2023 | Valuation 30/09/2023 |
|--------------------------------------|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Schroders UK Real Estate Fund | 1,848,933 | 1,897,716 | 1,884,412 | 1,848,933 | 2,139,618 | 1,727,176 | 1,638,076 |
| Valuation Increase / (reduction) | | 48,783 | (13,305) | (35,479) | 290,685 | (412,442) | (32,656) |
| Threadneedle Property Unit Trust | 2,000,249 | 1,921,884 | 1,836,032 | 1,794,439 | 2,097,097 | 1,732,373 | 1,727,499 |
| Valuation Increase / (reduction) | | (78,365) | (85,852) | (41,594) | 302,658 | (364,724) | (7,604) |
| Threadneedle Property Unit Trust | 4,056,536 | - | - | - | 4,407,163 | 3,640,676 | 3,630,433 |
| Valuation Increase / (reduction) | | | | | 350,627 | (766,487) | (15,980) |
| Hermes Federated Property Unit Trust | 4,056,500 | - | - | - | 4,450,808 | 3,741,712 | 3,620,146 |
| Valuation Increase / (reduction) | | | | | 394,308 | (709,096) | (119,174) |
| Total | 11,962,218 | 3,819,601 | 3,720,444 | 3,643,372 | 13,094,687 | 10,841,937 | 10,616,154 |
| Valuation Increase / (reduction) | | (29,581) | (99,156) | (77,072) | 1,338,279 | (2,252,750) | (175,414) |

The following table details the dividend returns achieved from the property fund investments, which support the revenue budget. The Council received £458k in dividends from its property fund investments in 2022/23 (£269k in 2021/22), and has received £214k for the current financial year as at 30th September 2023 (Q2 returns not yet received in respect of Hermes).

| Fund Valuations | Investment | Dividend Returns 31/03/2019 | Dividend Returns 31/03/2020 | Dividend Returns 31/03/2021 | Dividend Returns 31/03/2022 | Dividend Returns 31/03/2023 | Dividend Returns 30/09/2023 |
|--------------------------------------|------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Schroders UK Real Estate Fund | 1,848,933 | 48,118 | 56,638 | 52,898 | 61,655 | 71,962 | 33,974 |
| Threadneedle Property Unit Trust | 2,000,249 | 60,056 | 90,274 | 75,452 | 79,231 | 83,373 | 46,086 |
| Threadneedle Property Unit Trust | 4,056,536 | - | - | - | 70,417 | 175,213 | 96,851 |
| Hermes Federated Property Unit Trust | 4,056,500 | - | - | - | 57,352 | 127,182 | 36,671 |

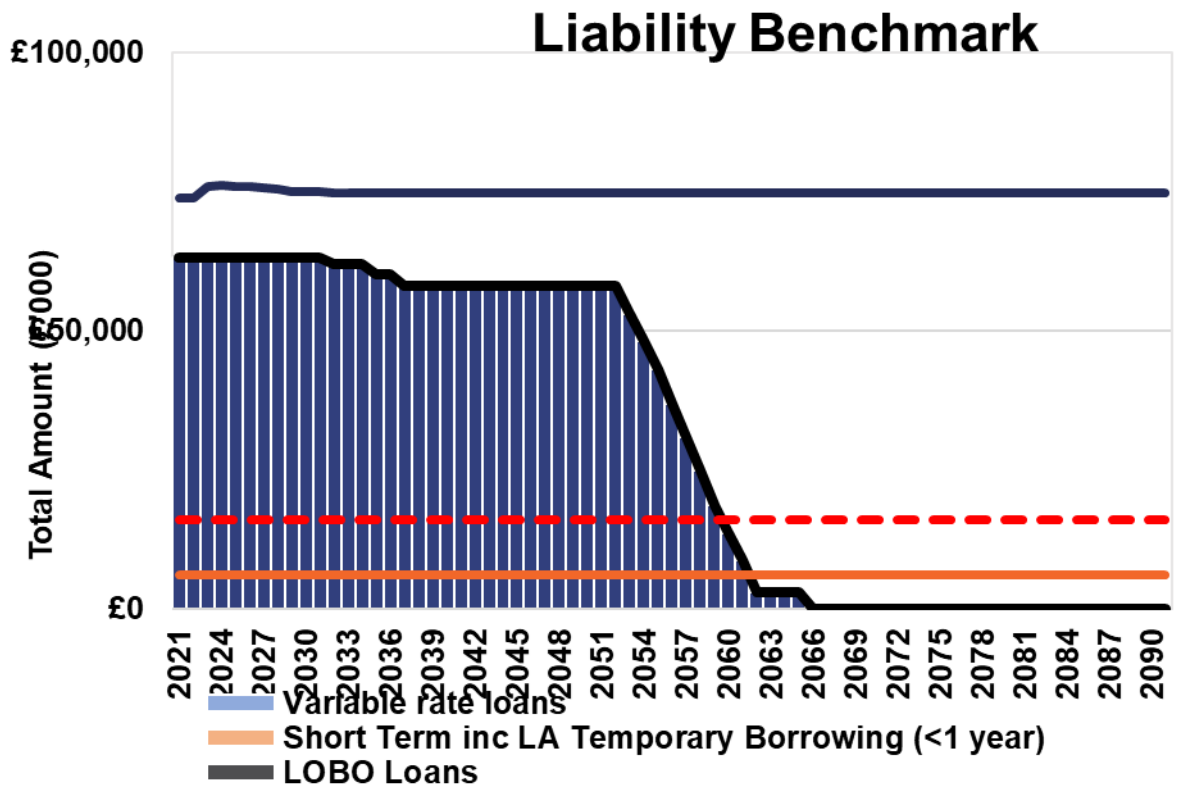
| | | | | | | | |
|--------------------------------|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Total | | 108,174 | 146,911 | 128,350 | 268,655 | 457,730 | 213,582 |
| Annual Revenue % Return | | 2.8% | 3.8% | 3.3% | 2.2% | 4.2% | 4.7% |

Investments held as at 30th September 2023:

| <i>Borrower</i> | <i>Deposit £</i> | <i>Rate %</i> | <i>From</i> | <i>To</i> | <i>Notice</i> |
|--------------------------------------|----------------------|---------------|-------------|-----------|---------------|
| Lloyds Bank | 5,000,000 | 5.00% | 11-May-23 | 10-Nov-23 | - |
| Standard Chartered | 5,000,000 | 4.83% | 11-May-23 | 10-Nov-23 | - |
| Standard Chartered | 5,000,000 | 5.19% | 24-May-23 | 24-Nov-23 | - |
| Birmingham City Council | 5,000,000 | 4.00% | 27-Jan-23 | 29-Jan-24 | - |
| Cornwall County Council | 5,000,000 | 5.40% | 14-Jul-23 | 15-Jan-24 | - |
| NatWest Bank | 5,000,000 | 6.15% | 10-Jul-23 | 08-Jul-24 | - |
| Lloyds Bank | 4,000,000 | 5.99% | 14-Jul-23 | 12-Jan-24 | - |
| NatWest Bank | 5,000,000 | 5.85% | 08-Aug-23 | 08-Aug-24 | - |
| Southampton City Council | 5,000,000 | 5.85% | 18-Sep-23 | 18-Jun-24 | - |
| Santander | 5,000,000 | 4.67% | - | - | 180 day |
| MMF – Aberdeen | 8,615,000 | 5.25%* | - | - | On call |
| MMF – PSDF | 1,298,000 | 5.20%* | - | - | On call |
| MMF – Federated | 9,729,000 | 5.35%* | - | - | On call |
| Total | 68,642,000 | 5.28% | - | - | - |
| Schroders UK Real Estate Fund | 1,848,933 | 3.66% | - | - | - |
| Threadneedle Property Unit Trust | 6,056,785 | 4.82% | - | - | - |
| Hermes Federated Property Unit Trust | 4,056,500 | 3.63% | - | - | - |
| Total | 80,604,218 | 5.13% | - | - | - |

* Interest rate fluctuates daily dependant on the funds investment portfolio, rate quoted is approximate 7 day average.

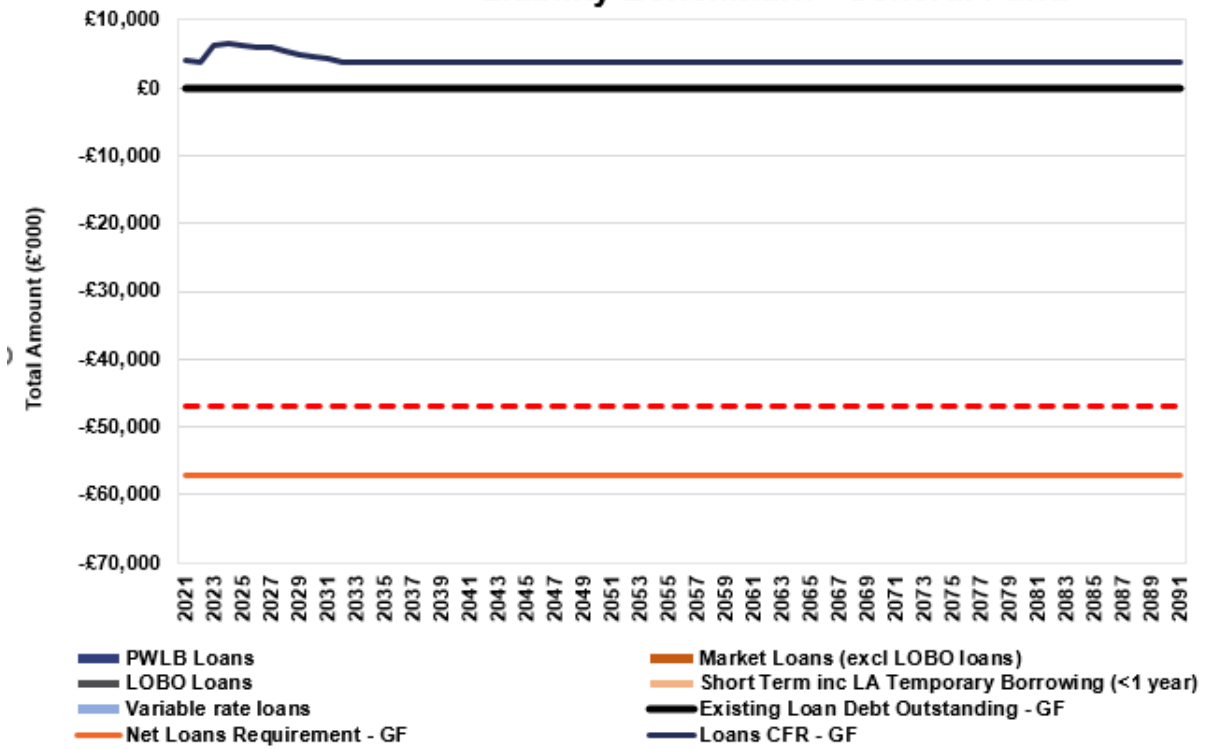
| Fund | Initial Investment | Fund Value 30/09/2023 | 2023/24 Return to Date | | |
|--------------------------------------|-----------------------|-----------------------|------------------------|--------------|---|
| | | | | | |
| Schroders UK Real Estate Fund | £1,848,933.03 | £1,638,075.65 | £33,974.37 | 3.66% | Returns Received Monthly. Received up to Sep-23. |
| Threadneedle Property Unit Trust | £6,056,785.32 | £5,357,932.17 | £142,936.94 | 4.82% | Returns Received Quarterly. Received up to Sep-23 |
| Hermes Federated Property Unit Trust | £4,056,499.57 | £3,620,145.98 | £36,670.53 | 3.63% | Returns Received Quarterly. Received up to Jun-23 |
| Total | £11,962,217.92 | £10,616,153.80 | £143,364.79 | 4.23% | |



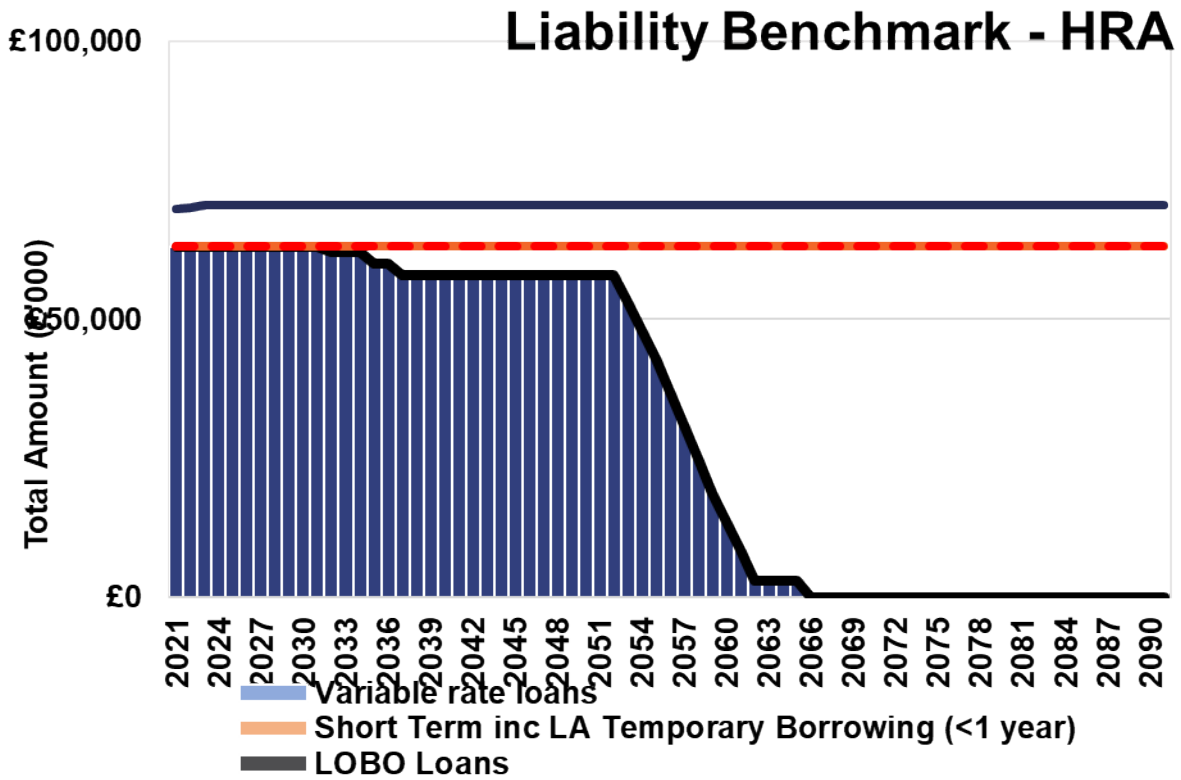
The combined liability benchmark chart above shows the existing loan debt outstanding, the capital financing requirement, net loans requirement and liability benchmark indicator.

The difference between the loans capital financing requirement and existing debt indicates internal borrowing. Prior to any new borrowing, the Council will have regard to underlying assumptions of liability benchmark analysis as part of prudent treasury management.

Liability Benchmark - General Fund



The net loans requirement and liability benchmark for the General Fund is negative as this is reflective of the balance of GF treasury investments held.



The liability benchmark for the HRA is set at the same level as the net loans requirement (£63m reflecting PWLB loans outstanding) as there is no need to maintain additional borrowing to meet liquidity needs as this falls to the General Fund.

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