REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2023

REPORT OF:	DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT
Contact Officer:	Rachel Jarvis, Assistant Director Corporate Resources (S151), Email: rachel.jarvis@midsussex.gov.uk
Wards Affected:	All
Key Decision:	No
Report to:	Audit Committee 28 November 2023

Purpose of Report

1. The report attached as Appendix A sets out the Council's Treasury Management activity for the half year to 30 September 2023.

Summary

2. The shared service has adhered to all borrowing limits and counterparty lending limits approved in the Treasury Management Strategy Statement. Interest rates on investments remain buoyant, due to the ongoing economic conditions, resulting in the continuation of windfall income for the half year. Compensating for the high inflationary pressures on service budgets.

Recommendations

3. **The Committee is asked to consider this report, provide any comments it feels appropriate, and endorse the contents of the report and its appendices to Full Council.**

Background

4. The Treasury Management function of the Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The Service Level Agreement (SLA) was extended for a further three years from October 2022.

5. The 2023-24 Treasury Management Mid-Year Report produced by the Group Accountant (Strategic Finance) is attached as Appendix A. For completeness, the report covering the first quarter only is included as Appendix B.

Policy Context

6. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce a mid-year report. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the

world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Director of Resources and Organisational Development.

Other Options Considered

7. None – this report is statutorily required.

Financial Implications

8. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

Risk Management Implications

9. The Council's investment risk is managed by monitoring counterparty credit ratings.

Equality and Customer Service Implications

10. None

Sustainability Implications

11. None

Appendices

- Appendix A - 2023-24 Treasury Management Mid-Year Report
- Appendix B - 1st Quarter Treasury Management Update Report Quarter ended 30th June 2023

Background Papers

- Treasury Management Strategy Statement & Annual Investment Strategy 2023/24 to 2025/26 (Council 1st March 2023), and Review of Treasury Management Activity 2022/23 (Audit Committee 18th September 2023)
- Code of Practice on Treasury Management (CIPFA) and Treasury Management in the Public Services Guidance Notes (CIPFA)
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2021)
- Department for Levelling Up, Housing and Communities Investment Guidance
- Statutory MRP guidance
- Link Asset Services report template (October 2023)

1. SUMMARY

This report summarises the Council's treasury management for the half year to 30 September 2023. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. BACKGROUND

2.1 Capital Strategy

The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.2 Treasury Management

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, longer term cash flow planning to ensure the Council can meet its capital spending operations.

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."

3. 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:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. 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.

4. 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.

5. 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 Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure 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.

4. ECONOMICS AND INTEREST RATES

*The following commentary has been supplied by **Link Group**, the professional consultants for the Council's shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken for the first half year.*

4.1 Economics update

4.1.1 The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, 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 more strikes.
- 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% m/m 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 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 25bps 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.

4.2 Interest rate forecasts

4.2.1 The Council's shared treasury management services provider has appointed Link Group as its treasury advisors and part of their service is to assist them to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) 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.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

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

5. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by this Council on 1st March 2023. The details in this report update the actual and forecast expenditure in light of the updated economic position and budgetary changes already approved.

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.

6. 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
- Compliance with the limits in place for borrowing activity

6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The increase is made up of a number of capital variations which are detailed in the Budget Management Reports to Cabinet on 13 November 2023. The Capital Programme for 2023/24, as approved at Council on the 1st March 2023, amounted to £5.735m. This was increased to £12.337m following additions to the programme and rescheduling of the 2022/23 programme as detailed in the Capital Programme Update reports on 13 November 2023.

	2023/24 Original Estimate	Actual at 30 Sept 2023	2023/24 Revised Estimate
	£m	£m	£m
Total capital expenditure	5.735	2.728	12.377

6.2 Changes to the Financing of the Capital Programme

The table below 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. The 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.

	2023/24 Original Estimate	2023/24 Revised Estimate
	£m	£m
Total Capital Expenditure	5.735	12.377
Financed by:		
Capital receipts	2.386	4.308
Capital grants, S106 etc.	2.032	4.737
Reserves and revenue contributions	1.317	3.332
Total financing	5.735	12.377
Borrowing requirement	0.000	0.000

6.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The table also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

There is no movement in the Capital Financing Requirement from the original.

Prudential Indicator – the Operational Boundary for external debt

	2023/24 Original Estimate	Actual at 30 Sept 2023	2023/24 Revised Estimate
	£m	£m	£m
Prudential Indicator: Capital Financing Requirement			
CFR – non housing	5.714	5.510	5.714
Net movement in CFR	(0.400)	(0.200)	(0.400)
Prudential Indicator: The Operational Boundary for External Debt			
	Op Boundary	**Actual**	**Op Boundary**
Borrowing	28.000	0.000	28.000
Other long term liabilities*	4.000	1.526	4.000
Total debt	32.000	1.526	32.000

*finance leases

6.4 Limits to Borrowing Activity: Debt Compared with the Capital Financing Requirement

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 the next two financial years. This allows some flexibility for limited early borrowing for future years. The PWLB borrowing was fully repaid in 2022/23. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2023/24 Original Estimate	Actual at 30 Sept 2023	2023/24 Revised Estimate
	£m	£m	£m
Borrowing	0.00	0.000	0.00
Other long term liabilities*	1.375	1.526	1.375
Total debt	1.375	1.526	1.375
CFR	5.714	5.510	5.714

*finance leases

6.5 Limits to Borrowing Activity: Debt Compared with the Authorised Limit

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 debt	**2023/24 Original Indicator**	**Actual at 30 Sept 23**	**2023/24 Revised Indicator**
	£m	**£m**	**£m**
Borrowing	30.000	0.000	30.000
Other long term liabilities	4.000	1.526	4.000
Total	34.000	1.526	34.000

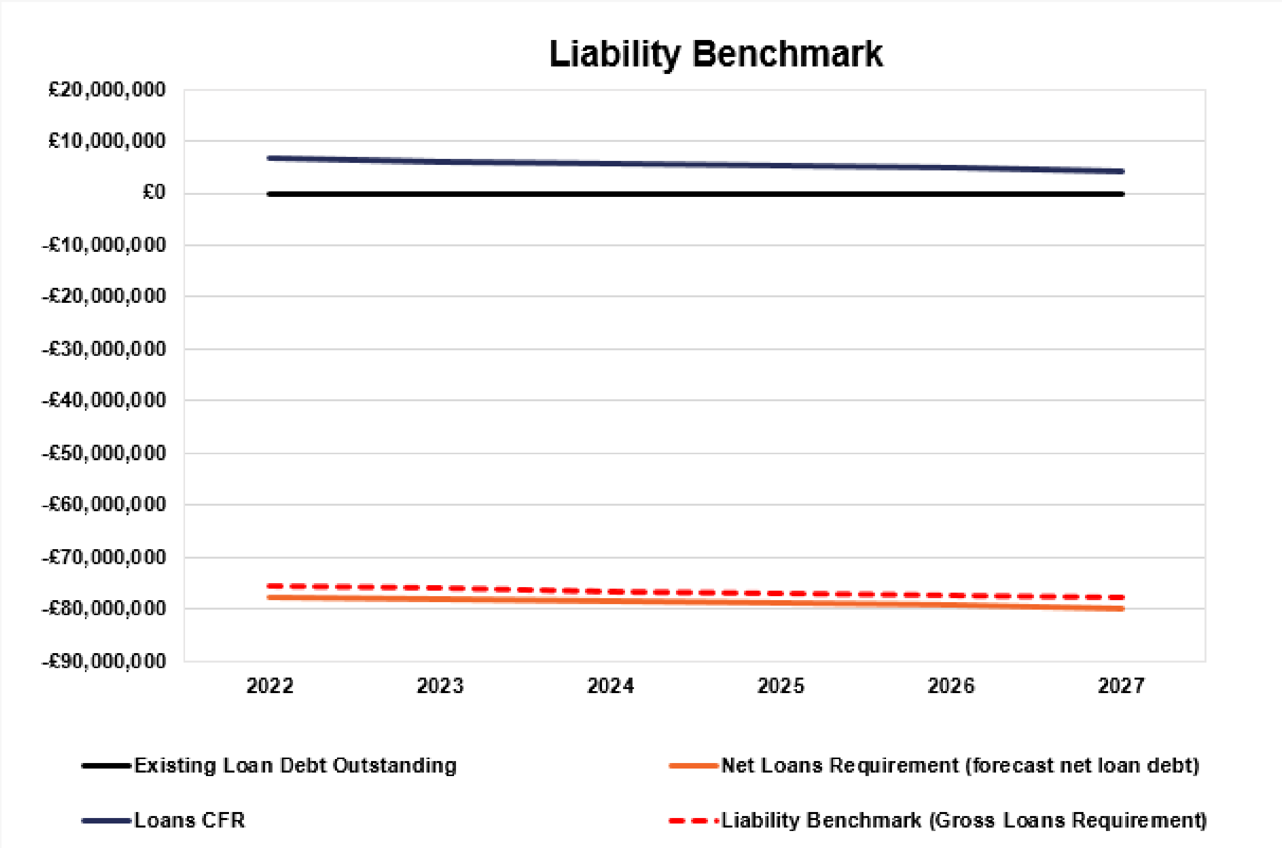
6.6 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

- Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.
- Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

As the authority is effectively debt free, with the exception of the finance lease from 2023/24, the benchmark lacks relevance but is nevertheless a requirement.



7 BORROWING

7.1 The Council's capital financing requirement (CFR) for 2023/24 is £5.714m. 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 6.4 shows the Council currently has borrowings of £1.375m. This will be below the CFR, with the balance of the CFR funded from 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 any upside risk to gilt yields prevails.

The Council has not taken out any new borrowing in 2023/24. There was some temporary borrowing from 10 days for cash flow reasons as a result of a minor dealing error on the TM side, this was at no detriment to the Council. Occasionally, where commitments have been made to fixed-term investment deals, there are points where the cash flow reaches a trough. The service provider endeavours to keep a safe buffer of liquidity. On this occasion, the buffer was exceeded due to some large rate refunds. Worthing Borough Council provided the borrowing at a rate commensurate with the market rates at the time.

7.2 PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th 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.

We forecast rates 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 we forecast

50-year rates 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.

- The current PWLB rates are set as margins over gilt yields as follows: -.
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

8 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

9 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 30 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 Director of Resources and Organisational Development 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.

10 ANNUAL INVESTMENT STRATEGY

10.1 The Council will aim to achieve the optimum return (yield) on 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-rated financial institutions. The shared Treasury Service uses information supplied by the Treasury advisers, Link Asset Services, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in section 10.3, investment rates have continued to rise. There have been 4 meetings of the MPC in the 6 months to 30th September 2023, at each meeting the decision has been made to increase the base rate until the September meeting when the rate was held at 5.25%, its highest since 2008's Global Financial Crisis. It is anticipated that a first rate cut to 5.00% will be in Q3 2024, to be followed by further rate cuts through the remainder of 2024 and into 2025.

Our investments continue to follow a low risk and largely short term strategy, with emphasis placed on laddering investments to even out maturity dates. This increases our ability to respond to changes in market conditions and to changes in risk; which we continue to monitor closely.

10.2 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.

10.3 Investment Counterparty Criteria

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

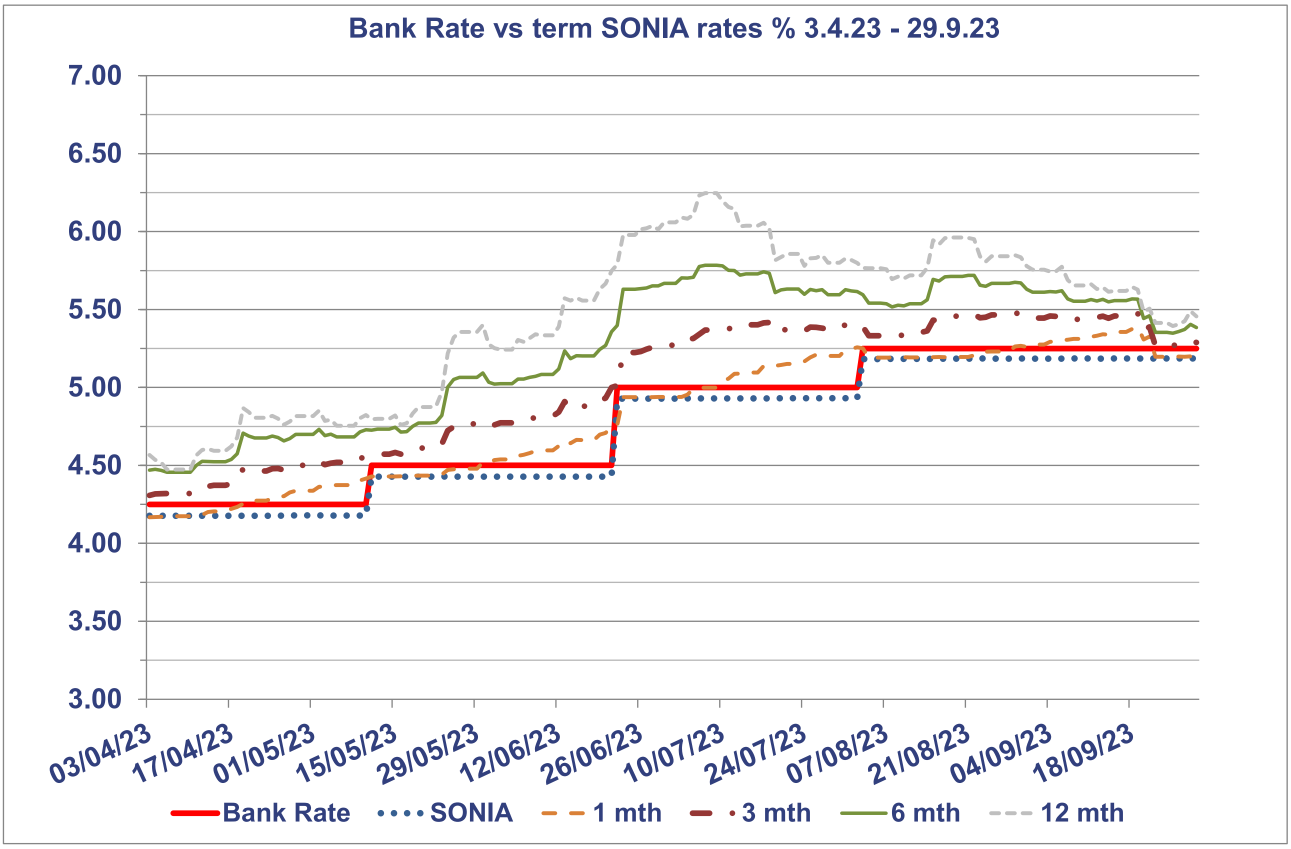
10.4 Credit Default Swap Prices

Credit Default Swaps (CDS) are credit derivative contracts that enable investors to swap credit risk on a company with another counterparty. They are market indicators of credit risk. Although CDS prices for UK banks spiked at the outset of the pandemic in 2020, they then subsequently returned to near pre-pandemic levels. **However, sentiment 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 average level of funds available for investment purposes during the 6 months, excluding the Council's £6m investment in the Local Authorities' Property Fund, was **£85.5m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

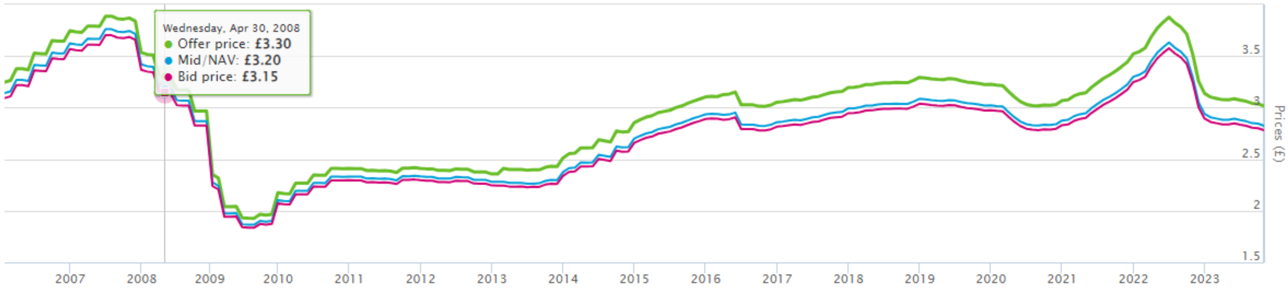
Investment rates during period ended 30th September 2023



10.4 Investment performance year to date as at 30 September 2023

The Council earned £1,591,426 in investment income of which £123,534 was from market funds, call accounts and notice accounts. This total excludes interest from the Council's £6m investment in the Local Authorities' Property Fund.

Local Authorities' Property Fund – the Council has invested £6m with the Local Authorities' Property Fund. Since 31st March the Property Fund has declined in value by £73k. This reflects the general decline in property prices in the UK. The fund should be viewed as long term. Losses occurred in 2008 from which the fund recovered. The fund has consistently provided good dividends and earned £140k in dividend income in for the first half of 2023/24.



10.5 Approved limits and Counterparties

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period to 30 September 2023.

10.6 The current difficult economic situation has had a severe impact on the majority of Councils, but some are less well placed to manage the additional pressures caused by rising interest rates and general inflationary increases in wages, utilities and other costs. The service provider continues to monitor and take due care when recommending investments with other Local Authorities.

10.7 Investments at 30 September 2023

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Close Brothers Limited	11/09/2023	04/03/2024	£1,000,000	5.75%	A-
Close Brothers Limited	26/09/2023	04/03/2024	£1,000,000	5.75%	A-
Close Brothers Limited	26/09/2023	04/03/2024	£1,000,000	5.75%	A-
Close Brothers Limited	30/03/2023	30/09/2024	£2,000,000	4.75%	A-
Clydesdale Bank Plc	11/08/2023	09/08/2024	£2,000,000	5.65%	A-
Goldman Sachs International Bank	02/03/2023	01/03/2024	£1,500,000	4.65%	A+
Goldman Sachs International Bank	06/03/2023	05/03/2024	£1,000,000	4.69%	A+
Goldman Sachs International Bank	31/03/2023	28/03/2024	£1,500,000	4.96%	A+
Handlesbanken Fixed Term Deposit	06/04/2023	05/04/2024	£1,000,000	4.82%	AA
Handlesbanken Fixed Term Deposit	08/08/2023	08/08/2024	£3,000,000	5.54%	AA
Lloyds Bank Plc (Rfb)	31/03/2023	/ /	£360,000	5.14%	A+
National Westminster Bank Plc (Rfb)	05/04/2023	05/04/2024	£1,000,000	4.65%	A+
National Westminster Bank Plc (Rfb)	29/06/2023	28/06/2024	£2,000,000	6.11%	A+
National Westminster Bank Plc (Rfb)	30/06/2023	30/11/2023	£1,000,000	5.64%	A+
National Westminster Bank Plc (Rfb)	04/07/2023	02/07/2024	£1,000,000	6.20%	A+
Standard Chartered Bank	31/03/2023	29/12/2023	£1,000,000	4.82%	A+
Standard Chartered Bank	31/03/2023	28/03/2024	£2,000,000	4.90%	A+
Standard Chartered Bank	05/04/2023	04/04/2024	£1,000,000	4.77%	A+
Standard Chartered Bank	28/07/2023	26/07/2024	£1,000,000	6.24%	A+
Cambridge Building Society	05/07/2023	05/12/2023	£1,000,000	5.50%	Unrated
Cambridge Building Society	05/07/2023	04/07/2024	£1,000,000	5.90%	Unrated
Cambridge Building Society	05/07/2023	28/02/2024	£1,000,000	5.70%	Unrated
Coventry Building Society	31/05/2023	30/05/2024	£1,000,000	5.01%	A-
Coventry Building Society	14/06/2023	13/06/2025	£1,000,000	5.26%	A-
Coventry Building Society	09/08/2023	09/08/2024	£1,000,000	5.49%	A-
Coventry Building Society	18/08/2023	16/01/2024	£1,000,000	5.46%	A-

Furness Building Society	27/04/2023	26/04/2024	£1,000,000	5.00%	Unrated
Furness Building Society	15/05/2023	15/05/2024	£1,000,000	5.00%	Unrated
Leeds Building Society	16/06/2023	16/10/2023	£1,000,000	4.77%	A-
Leeds Building Society	16/06/2023	20/11/2023	£1,000,000	4.89%	A-
Leeds Building Society	11/08/2023	09/08/2024	£2,000,000	5.69%	A-
Monmouthshire Building Society	07/08/2023	07/08/2024	£3,000,000	5.75%	Unrated
National Counties Building Society	06/04/2023	05/04/2024	£1,000,000	4.34%	Unrated
National Counties Building Society	26/05/2023	27/05/2025	£1,000,000	5.10%	Unrated
National Counties Building Society	29/06/2023	28/06/2024	£1,000,000	5.80%	Unrated
Newcastle Building Soc.	19/07/2023	19/07/2024	£2,000,000	5.85%	Unrated
Newcastle Building Soc.	01/08/2023	01/08/2024	£1,000,000	5.85%	Unrated
Nottingham Building Soc.	26/07/2023	25/07/2024	£2,000,000	6.05%	Unrated
Nottingham Building Soc.	08/08/2023	20/05/2024	£1,000,000	5.87%	Unrated
Nationwide Building Society	30/06/2023	29/02/2024	£1,000,000	5.58%	A
Nationwide Building Society	08/08/2023	08/08/2024	£3,000,000	5.55%	A
Principality Building Soc	09/06/2023	07/06/2024	£3,000,000	5.09%	BBB+
Progressive Building Society	06/04/2023	05/04/2024	£2,000,000	4.50%	Unrated
Progressive Building Society	05/07/2023	05/07/2024	£1,000,000	6.00%	Unrated
Saffron Building Society	26/05/2023	24/05/2024	£1,000,000	5.15%	Unrated
Saffron Building Society	04/07/2023	03/07/2024	£2,000,000	5.91%	Unrated
West Bromwich Building So	05/07/2023	03/01/2024	£1,000,000	5.40%	BB-
Yorkshire Building Society	22/06/2023	22/01/2024	£1,000,000	5.30%	A-
Yorkshire Building Society	26/07/2023	26/07/2024	£2,000,000	5.63%	A-
Debt Management Office	06/07/2023	12/10/2023	£2,000,000	5.20%	N/A
Debt Management Office	03/08/2023	02/02/2024	£2,000,000	5.43%	N/A
Cheshire East Council	26/09/2023	05/01/2024	£2,000,000	5.38%	AA-
Lancashire County Council	25/04/2023	24/04/2024	£1,000,000	4.70%	AA-
North Lanakshire Council	22/08/2023	19/08/2024	£5,000,000	5.75%	AA-
Blackrock	03/04/2023	/ /	£10,000	5.23%	AAA mmf
Ccla Investment Management Limited	06/02/2020	/ /	£10,000	5.20%	AAA mmf
Federated Investors (Uk) Llp	15/02/2023	/ /	£3,000,000	5.35%	AAA mmf
Invesco Liquidity Funds Plc	01/09/2023	/ /	£150,000	5.33%	AAA mmf
Lloyds Bank Plc (Rfb)	05/04/2023	07/04/2025	£2,000,000	4.10%	A+
Furness Building Society	27/04/2023	25/04/2025	£1,000,000	5.10%	Unrated
TOTAL			**£85,530,000**		

11 OTHER

11.1 Changes in risk appetite

The 2021 CIPFA Codes and guidance notes place 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.

11.2 Sustainability and Ethical Policies of Counterparties

Following the concerns expressed by Members, the Shared Treasury Service in consultation with the Assistant Director Corporate Resources gives due consideration to environmental, social and corporate governance issues. Some of the policies of the banks and building societies that the Council is currently using are linked below.

https://www.cambridgebs.co.uk/more/about-us/community-detail

https://www.ccla.co.uk/our-policies/climate-change-and-investment-policy

https://www.closebrothers.com/sustainability-and-environment

https://www.coventrybuildingsociety.co.uk/member/sustainability/environment-policy.html

https://www.cumberland.co.uk/about/corporate-governance

https://www.federatedinvestors.com/resources/resource-centers/responsible-investing-center.do?hint=class

https://www.goldmansachs.com/investor-relations/corporate-governance/sustainability-reporting/

https://www.handelsbanken.com/en/sustainability/climate-impact

https://www.invesco.com/corporate/about-us/esg/environmental-sustainability

https://www.leedsbuildingsociety.co.uk/knowledge-base/members/continuing-to-reduce-our-carbon-footprint/

https://www.lloydsbankinggroup.com/our-group/responsible-business/financing-a-green-future-together/reducing-our-own-environmental-footprint/

https://www.monbs.com/blog/valuer-project/

https://www.ncbs.co.uk/about-us/corporate-information

https://investors.natwestgroup.com/esg-disclosures

https://www.newcastle.co.uk/about-us/governance/corporate-governance/

https://www.nationwide.co.uk/about-us/responsible-business/

https://www.principality.co.uk/about-us/our-community/csr

https://theprogressive.com/your-society/our-responsibilities/progressive-and-the-environment

https://www.saffronbs.co.uk/about/community/green-hub/going-green-saffron

https://www.santandercb.co.uk/why-santander/sustainability

https://www.sc.com/en/sustainability/?gclid=Cj0KCQjw18WKBhCUARIsAFiW7Jw9h9XtzcULNMBFfdOMiAEC0Lkjnwv5QBGzPyHH7ftV08AuVuZm3hYaAmJmEALw_wcB&gclsrc=aw.ds

https://www.westbrom.co.uk/suppliers/supplier-code-of-conduct

https://www.ybs.co.uk/your-society/environment/index.html

1st Quarter Treasury Management Update Report
Quarter ended 30th June 2023

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1. Economic Backdrop

1.1 The following are relevant economic events disclosed here since they occurred during Quarter one of the 2023/24 year:

- CPI inflation fell from 10.1% to 8.7% in April, but remained at 8.7% in May, this was the highest of the G7 nations;
- Core CPI inflation rose in both April and May reaching a 31-year high of 7.1%;
- The labour market remained tight with 3 month-year average earnings growth rising from 6.1% to 6.5% in April data;
- The Bank of England Base rate has risen a further 75 bps over the quarter from 4.25% to 5.00%;
- Gilt yields, an instrument which underpins PWLB borrowing costs for councils, are nearing the peaks of the “mini budget”. Caused by higher than anticipated core inflation figures.

1.2 The UK economy has continued to weather the pressures of rising inflation and the drag of increased interest rates, showing surprising resilience. The 0.2% month on month GDP rise in April will further raise hopes that the UK economy may avoid recession this year.

1.3 **MPC Meetings During Quarter 1**

11th of May 2023 - 0.25% rise.

At the 11th May, the Bank of England’s Monetary Policy Committee (MPC) increased the Bank Rate by 25 basis points to 4.50%.

22nd of June 2023 - 0.50% rise.

At the 22nd June meeting, the MPC moved rates up a further 50 basis points to 5.00%.

Both increases reflected a split vote – seven members voting for an increase and two for none.

2. Interest Rate Forecast

2.1 The latest forecast, made on the 26th of June, sets the view that both short and long-dated interest rates will be elevated for some while. In part due to the Bank of England's efforts to bring inflation within the economy under control, against a backdrop of a stubbornly robust economy and strong labour market.

2.2 Below are the current Bank Rate and PWLB rate forecasts. There have been a number of upward revisions between each PWLB forecast. This is representative of the continued surprise upsides in data releases and increased domestic inflationary pressures which have driven markets to demand higher returns on fixed income instruments such as Gilts which have a direct impact on the cost of PWLB borrowing for local authorities.

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

3. Annual Investment Strategy

3.1 The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by Full Council on 1st of March 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets the Council's investment priorities as being security of capital, liquidity, and yield in that order.

3.2 Creditworthiness

There have been no changes in credit ratings for institutions which are considered significant during quarter 1. However, the shared service officers continue to monitor rating agency releases and other subjective measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

3.2 Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement (TMSS) is meeting the operational requirements of the treasury management function.

3.3 Investment Balances

Below is a summary of the portfolio as at 30th June 2023. The portfolio balances have decreased during the quarter, this is a strategic decision, intended to extend gaps between when borrowing is needed, shielding the Council from elevated borrowing rates. Capital expenditure in the quarter has been financed by internal borrowing where possible meaning the cash balances of the council have been utilised in lieu of borrowing.

Portfolio position as at 30th June 2023:

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
BLACKROCK	03/04/2023	/ /	£120,000.00	4.751	AAA mmf
Cambridge Building Society	09/07/2021	05/07/2023	£1,000,000.00	0.400	*
Cambridge Building Society	05/07/2021	05/07/2023	£2,000,000.00	0.400	*
CCLA Investment Management Limited	06/02/2020	/ /	£1,800,000.00	4.782	AAA mmf
Cheshire East Council	23/03/2023	26/09/2023	£2,000,000.00	4.300	AA-
Close Brothers Limited	05/09/2022	05/09/2023	£2,000,000.00	2.800	A-
Close Brothers Limited	08/09/2022	11/09/2023	£1,000,000.00	3.900	A-

Close Brothers Limited	30/03/2023	30/09/2024	£2,000,000.00	4.750	A-
Clydesdale Bank PLC	10/08/2022	11/08/2023	£4,000,000.00	2.820	A-
Coventry Building Society	10/08/2022	09/08/2023	£1,000,000.00	2.320	A-
Coventry Building Society	18/08/2022	18/08/2023	£1,000,000.00	2.700	A-
Coventry Building Society	31/05/2023	30/05/2024	£1,000,000.00	5.010	A-
Coventry Building Society	14/06/2023	13/06/2025	£1,000,000.00	5.260	A-
Federated Investors (UK) LLP	15/02/2023	/ /	£280,000.00	4.728	AAA mmf
Furness Building Society	27/04/2023	26/04/2024	£1,000,000.00	5.000	*
Furness Building Society	15/05/2023	15/05/2024	£1,000,000.00	5.000	*
Furness Building Society	27/04/2023	25/04/2025	£1,000,000.00	5.100	*
Goldman Sachs International Bank	02/03/2023	01/03/2024	£1,500,000.00	4.650	A+
Goldman Sachs International Bank	06/03/2023	05/03/2024	£1,000,000.00	4.685	A+
Goldman Sachs International Bank	31/03/2023	28/03/2024	£1,500,000.00	4.955	A+
Goldman Sachs International Bank	06/04/2023	05/04/2024	£1,000,000.00	4.820	A+
Handelsbanken plc	08/08/2022	08/08/2023	£3,000,000.00	2.480	AA
HSBC ESG MMF	14/04/2022	/ /	£2,460,000.00	4.703	AAA mmf
Invesco Liquidity Funds Plc	04/05/2023	/ /	£10,000.00	4.704	AAA mmf
Lancashire County Council	25/04/2023	24/04/2024	£1,000,000.00	4.700	AA-
Leeds Building Society	16/06/2023	16/10/2023	£1,000,000.00	4.770	A-
Leeds Building Society	16/06/2023	20/11/2023	£1,000,000.00	4.890	A-
Lloyds Bank Plc (RFB)	31/03/2023	/ /	£3,030,000.00	4.900	AA
Lloyds Bank Plc (RFB)	05/04/2023	07/04/2025	£2,000,000.00	4.100	AA
Monmouthshire Building Society	02/08/2021	07/08/2023	£3,000,000.00	0.350	*
National Counties Building Society	06/04/2023	05/04/2024	£1,000,000.00	4.340	*
National Counties Building Society	26/05/2023	27/05/2025	£1,000,000.00	5.100	*
National Counties Building Society	29/06/2023	28/06/2024	£1,000,000.00	5.800	*
National Westminster Bank PLC (RFB)	05/04/2023	05/04/2024	£1,000,000.00	4.650	A+
National Westminster Bank PLC (RFB)	29/06/2023	28/06/2024	£2,000,000.00	6.110	A+
National Westminster Bank PLC (RFB)	30/06/2023	30/11/2023	£1,000,000.00	5.640	A+

Nationwide Building Society	08/08/2022	08/08/2023	£3,000,000.00	2.430	*
Nationwide Building Society	30/06/2023	29/02/2024	£1,000,000.00	5.580	*
Principality Building Soc	09/06/2023	07/06/2024	£3,000,000.00	5.090	BBB+
Progressive Building Society	05/07/2022	05/07/2023	£1,000,000.00	2.400	*
Progressive Building Society	06/04/2023	05/04/2024	£2,000,000.00	4.500	*
Saffron Building Society	26/05/2023	24/05/2024	£1,000,000.00	5.150	*
Standard Chartered Bank	29/07/2022	28/07/2023	£1,000,000.00	2.790	A+
Standard Chartered Bank	31/03/2023	29/12/2023	£1,000,000.00	4.820	A+
Standard Chartered Bank	31/03/2023	28/03/2024	£2,000,000.00	4.900	A+
Standard Chartered Bank	05/04/2023	04/04/2024	£1,000,000.00	4.770	A+
Surrey Heath Borough Council	26/09/2022	26/09/2023	£3,000,000.00	2.700	AA-
West Bromwich Building So	05/07/2022	05/07/2023	£2,000,000.00	2.100	BB-
West Bromwich Building So	05/07/2022	05/07/2023	£1,000,000.00	2.100	BB-
Yorkshire Building Society	26/07/2022	26/07/2023	£3,000,000.00	2.520	A-
Yorkshire Building Society	22/06/2023	22/01/2024	£1,000,000.00	5.300	A-
TOTAL			£77,700,000.00		

3.4 **Approved Limits**

The chief financial officer can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2023.

3.5 **Prudential Indicators**

During the quarter ended 30th June 2023, there has been no material changes or re-profiling of the capital programme which give rise to a review of prudential indicators. Members will be updated in subsequent quarterly reports if material changes occur. In the meantime, members are encouraged to review the current and projected indicators given in the above end of year treasury management review.