Bath & North East Somerset Council

MEETING	**Corporate Audit Committee**
MEETING DATE:	**1st November 2023**
TITLE:	**Treasury Management Performance Report to 30th September 2023**
WARD:	All
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1** – Performance Against Prudential Indicators **Appendix 2** – The Council's Investment Position at 30th September 2023 **Appendix 3** – Average monthly rate of return for first half of 2023/24 **Appendix 4** – The Council's External Borrowing Position at 30th September 2023 **Appendix 5** – Arlingclose's Economic & Market Review Q2 of 2023/24 **Appendix 6** – Interest & Capital Financing Budget Monitoring 2023/24 **Appendix 7** – Summary Guide to Credit Ratings **Appendix 8** – Extract from Treasury Management Risk Register	

1 THE ISSUE

1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report within six months after the end of each financial year.

1.2 This report gives details of performance against the Council's Treasury Management Strategy for the first half of 2023/24.

2 RECOMMENDATION

The Corporate Audit Committee agrees that;

2.1 The Treasury Management Report to 30th September 2023, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 The Treasury Management Indicators to 30th September 2023 are noted.

3 THE REPORT

Summary

3.1 The estimated average rate of investment return for 1st April 2023 to 30th September 2023 is 4.64%, which is in 0.09% below the benchmark rate of 4.73% over the period.

3.2 The Council's Prudential Indicators for 2023/24 were agreed by Council in February 2023 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

3.3 The Council's revenue budget for interest & capital financing costs for 2023/24 is £1.110m under budget, due to higher than budgeted investment returns as a result of interest rate rises since budget setting, and also a delay to borrowing requirements and associated interest costs. The breakdown of the 2023/24 revenue budget for interest and capital financing, and the forecast year end position, is included in **Appendix 6**.

Summary of Returns

3.4 The Council's investment position as at 30th September 2023 is given in **Appendix 2**. The balance of deposits as at 30th September 2023 are set out in the charts in this appendix, along with the equivalent details for the previous quarters position for comparison.

3.5 Estimated gross interest earned on investments totalled £907k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 4.64%, which is below the benchmark rate of average 7-day SONIA (4.73%). This shortfall is mainly due to existing short-term loans being locked in at a lower rate prior to the Bank of England base rate rises. The prior year comparators are also included in this appendix.

Summary of Borrowings

3.6 The Council's external borrowing as at 30th September 2023 totalled £218.1m and is detailed in **Appendix 4**. This includes £10m in new short-term loans taken out in April 2023 to cover the annual pension prepayment and to allow the Council to maintain its liquidity indicator above £15m. The summary of the movement in borrowing during the quarter is shown in the following table:

Borrowing Portfolio Movements	**£m**
Balance as at 30th June 2023	**219.111**
New Loans Taken	0.000
PWLB Annuity Loan principal repayments	(0.967)
Balance as at 30th September 2023	**218.144**

3.7 The Council's Capital Financing Requirement (CFR) is forecast to be £462.1m at 31st March 2024, based on the Capital Programme agreed in February 2023, including both fully and provisionally approved schemes. The actual CFR at 31st March 2023 was £341m. This represents the Council's underlying need to borrow to finance capital expenditure and demonstrates that the borrowing taken to date relates to funding historical capital spend.

3.8 The lower level of current borrowing of £218.1m represents re-investment of the internal balances including reserves, reducing the in-year borrowing costs in excess of the potential investment returns.

3.9 The Liability Benchmark in **Appendix 1** illustrates the gap between current borrowing and the liability benchmark. This gap is a useful guide to the optimal amount and duration of borrowing to minimise interest and credit risk. This is currently £109m and circa 20 years. This is lower than the CFR as it takes account the Council's ability to internally borrow to fund capital.

3.10 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as at 31st March 2023 apportioned to Bath & North East Somerset Council is £10.1m. Since this borrowing is managed by an external body and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 3.6.

Strategic & Tactical Decisions

3.11 As shown in the charts in **Appendix 2**, the investment portfolio of £53.9m as at 30th September 2023 is diversified across Money Market Funds, Strategic funds, the Government's Debt Management Account Deposit Facility and in highly rated UK Banks. The Council uses AAA rated Money Market funds to maintain short term liquidity.

3.12 Of the Council's total investment portfolio, £10m is in externally managed strategic pooled funds, where the objectives are regular revenue income and long-term price stability. These investments have been made in the knowledge that there is a risk that capital value could move both up and down on a frequent basis and are intended to be held over a long period of time to help manage any price fluctuations.

This investment includes £5m in Environmental Social and Governance (ESG) focused funds and £5m in a property fund, as listed below

- £5m CCLA Local Authorities Property Fund.
- £3m FP Foresight UK Infrastructure Income Fund.
- £2m VT Gravis Clean Energy Income Fund.

In the current economic environment of persistent high core inflation and interest rates, the value of equity, bonds and property have been falling, whereas yield has stayed strong. Expectation is that value will stabilise and start to recover once when there is certainly that peak interest rates have been reached. The fair value of our strategic investments has decreased from £8.78m as at 31 March 2023 to £8.04m as at 30 September 2023. This is shown in the table below:

	CCLA Local Authorities Property Fund	FP Foresight UK Infrastructure Income Fund	VT Gravis Clean Energy Income Fund	Total
Historic Cost	5,000,000	3,000,000	2,000,000	**10,000,000**
Fair Value as at:				
30/09/2023	4,284,580	2,251,477	1,508,369	**8,044,426**
30/06/2023	4,330,486	2,354,436	1,626,336	**8,311,258**
31/03/2023	4,342,727	2,586,831	1,852,212	**8,781,770**
31/03/2022	5,199,881	3,065,260	2,045,847	**10,310,988**

This change in valuation does not have an impact on the revenue account due to a statutory override, and gains/losses will instead go to an unusable reserve. These will only be transferred to revenue if/when the Council's holding in the pooled funds are sold, or if the Government removes the override. The next review of the statutory override will take place prior to the end of 2024/25. The Council has in place a Capital Financing Reserve which can be used to help mitigate any future revenue impacts should the statutory override be removed.

3.13 The Council's average investment return for short-term investments was 4.70%, which is 0.95% above the budgeted level of 3.75%. The average return for the £10m long-term strategic investments is 4.36%, 0.36% above the budgeted rate of 4%. The combined average return on all investments is 4.64%.

Investment Type/	Average YTD Investment Return
Short Term Investments Total	**4.70%**
Long Term Strategic Investments:	
CCLA Local Authorities Property Fund	4.13%
FP Foresight UK Infrastructure Income Fund	4.35%
VT Gravis Clean Energy Income Fund	4.83%
Long Term Strategic Investments Total (Est.)	**4.36%**
Overall Total	**4.64%**

3.14 The current forecast is to achieve £300k of additional income above the budgeted level by the end of the year. This is due to the impact of the higher than budgeted returns, and additional interest received from non-treasury activity.

Future Strategic & Tactical Issues

3.15 The Council's Treasury Management Advisor's economic and market reviw for the quarter two of 2023/24 is included in **Appendix 5**.

3.16 Interest rates have risen from 4.25% at 31 March 2023 to 5.25% as at 30th September 2023. At its meeting on 21st September 2023 the Bank of England's Monetary Policy Committee kept rates the same for the first time since 2021, in a vote of 5-4, leading to speculation that interest rates might have reached their peak. In fact, this is Arlingclose's view in their current interest rate forecast with a fall in rates not expected until August 2024 at the earliest.

3.17 The Council currently hold £20m in Lender Option Borrower Option (LOBO) debt, with an interest rate of 4.50%. Given the Bank rate is currently 5.25%and with longer term borrowing rates above 5%, there is an increasing risk that these interest rates will be increased/called at the next call date during October 2023. The Council have planned should this happen, and will look to repay and refinance the loan with a mix of long-term PWLB borrowing and short-term Local Authority borrowing.

3.18 Current cashflow forecasts indicate that the Council will need to borrow to fund its Capital Programme from January 2024, as internal balances reduce during the remainder of the year.

Budget Implications

3.19 The breakdown of the 2023/24 revenue budget and the forecast year end position for interest and capital financing, based on the period April to September 2023 is included in **Appendix 6**. An overall underspend of £1.110m is reported towards the Council’s net revenue outturn, because of higher than budgeted investment income and a delay in borrowing.

4 STATUTORY CONSIDERATIONS

4.1 This report is for information only.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 The financial implications are contained within the body of the report.

6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.

6.2 The Council’s lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and borrowing advice is provided by our Treasury Management consultants, Arlingclose.

6.3 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.

6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year. An extract from the risk register, detailing how the top 5 risks are managed, is included as **Appendix 8**.

7 EQUALITIES

7.1 As this report contains performance information for noting only, an Equality Impact Assessment is not considered necessary.

8 CLIMATE CHANGE

8.1 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

8.2 An ESG section has been included the Treasury Management Strategy document for 2023/24, with the treasury team monitoring investment options permitted under the new guidelines.

8.3 The Council holds £5m in longer term investments, split across two ESG focussed Strategic Funds, as detailed under 3.12.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

10.1 Consultation has been carried out with the Cabinet Member for Resources, Chief Finance Officer, and Monitoring Officer.

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Background papers	*2023/24 Treasury Management & Investment Strategy*
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1
Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Treasury Borrowing limits
These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2023/24 Prudential Indicator	**Actual as at 30th September 2023**
Operational boundary – borrowing	£433m	£218.1m
Operational boundary – other long-term liabilities	£4m	£0m
Operational boundary – TOTAL	**£437m**	**£218.1m**
Authorised limit – borrowing	£462m	£218.1m
Authorised limit – other long-term liabilities	£4m	£0m
Authorised limit – TOTAL	**£466m**	**£218.1m**

2. Security: Average Credit Rating*
The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**.

	2023/24 Prudential Indicator	**Actual as at 30th September 2023**
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA+

* *The calculation excludes the strategic investment in the CCLA Local Authority Property Fund and ESG focussed Investment Funds, which are unrated.*

3. Liquidity
The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	2023/24 Prudential Indicator	Minimum During Quarter	Date of minimum
Minimum total Cash Available within 3 months	£15m	£30.0m	28-Sept-23

4. Interest rate exposures
This indicator is set to control the Council's exposure to interest rate risk. The upper limit represents the maximum one-year revenue impact of a 1% rise or fall in interest rates.

	2023/24 Prudential Indicator	Actual as at 30th September 2023
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m	£0.357m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m	£0.357m

The impact of this limit is that the Council should never be holding a maturity adjusted net debt / investment position on variable rates of more than £100m.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates, which includes amounts which are maturing each year in PWLB annuity loans.

5. Maturity Structure of borrowing
This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	Actual as at 30th September 2023
	%	%	%
Under 12 months	50	Nil	4.6
12 months and within 24 months	50	Nil	0.0
24 months and within 5 years	75	Nil	0.0
5 years and within 10 years	75	Nil	6.9
10 years and within 25 years	100	25	51.8
Over 25 years	100		36.7

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date that the lender can demand repayment. For LOBO's, this is shown at the date of maturity.

6. Upper limit for total principal sums invested for over 364 days

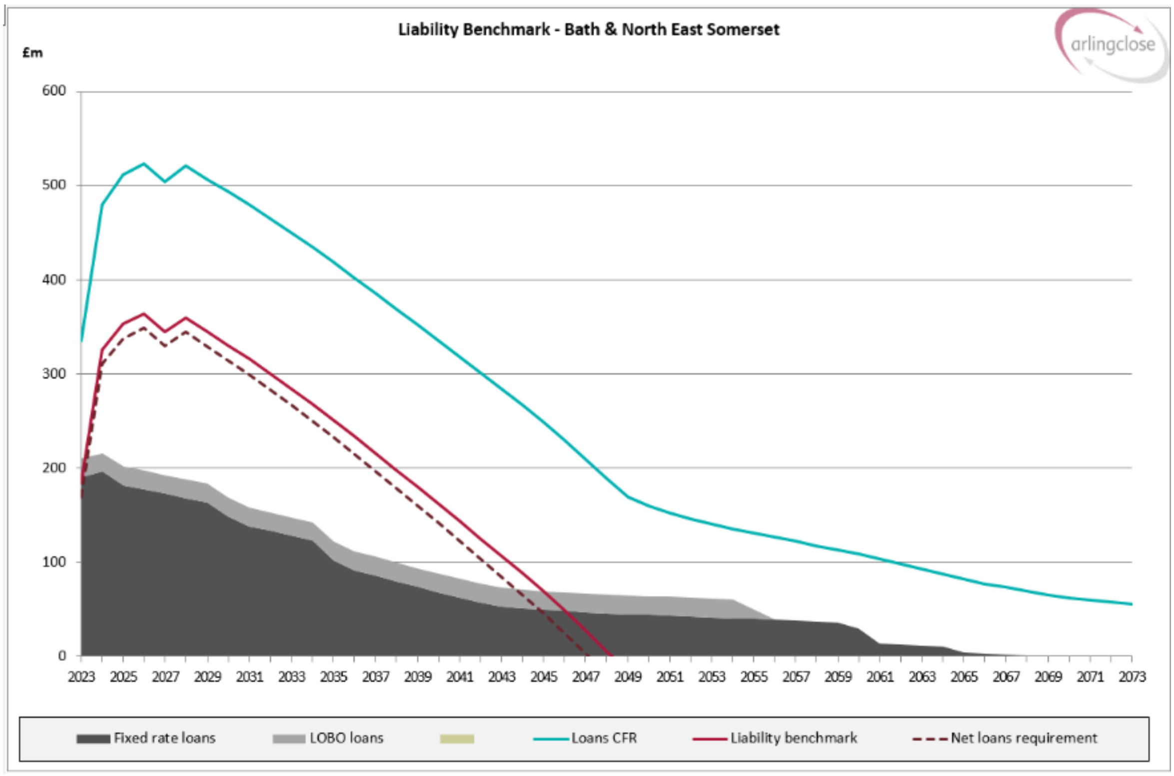
The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2023/24 Prudential Indicator	Actual as at 30th September 2023
Limit on principal invested beyond 31st March 2024	£50m	£10m*
Limit on principal invested beyond 31st March 2025	£20m	£10m*
Limit on principal invested beyond 31st March 2026	£10m	£10m*

*The Council includes the CCLA LA Property Fund & two long term ESG focussed Investment Funds against this indicator as they are both held as Long-Term Strategic Investments.

7. Liability Benchmark

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.



The difference between actual borrowing (the grey slopes) and the liability benchmark (the solid red line) shows that the Council is under borrowed by around £109m in 2023/24. When it comes to considering new borrowing this funding gap can be used as a guide to the optimal amount and length of borrowing required to minimise interest rate and credit risk.

APPENDIX 2

The Council's Investment position at 30th September 2023

The term of investments is as follows:

Term Remaining	Balance at 30th September 2023	Comparator Balance at 30th June 2023
	£m	**£m**
Notice (instant access funds)	31.40	37.85
Up to 1 month	7.50	5.00
1 month to 3 months	0.00	0.00
3 months to 6 months	5.00	0.00
6 months to 12 months	0.00	0.00
Strategic Funds	10.00	10.00
Total	**53.90**	**52.85**

The investment figure is made up as follows:

	Balance at 30th September 2023	Comparator Balance at 30th June 2023
	£m	**£m**
B&NES Council	50.77	50.00
Schools	3.13	2.85
Total	**53.90**	**52.85**

The Council had a total average net positive balance of £54.11m during the period April 2023 to September 2023.

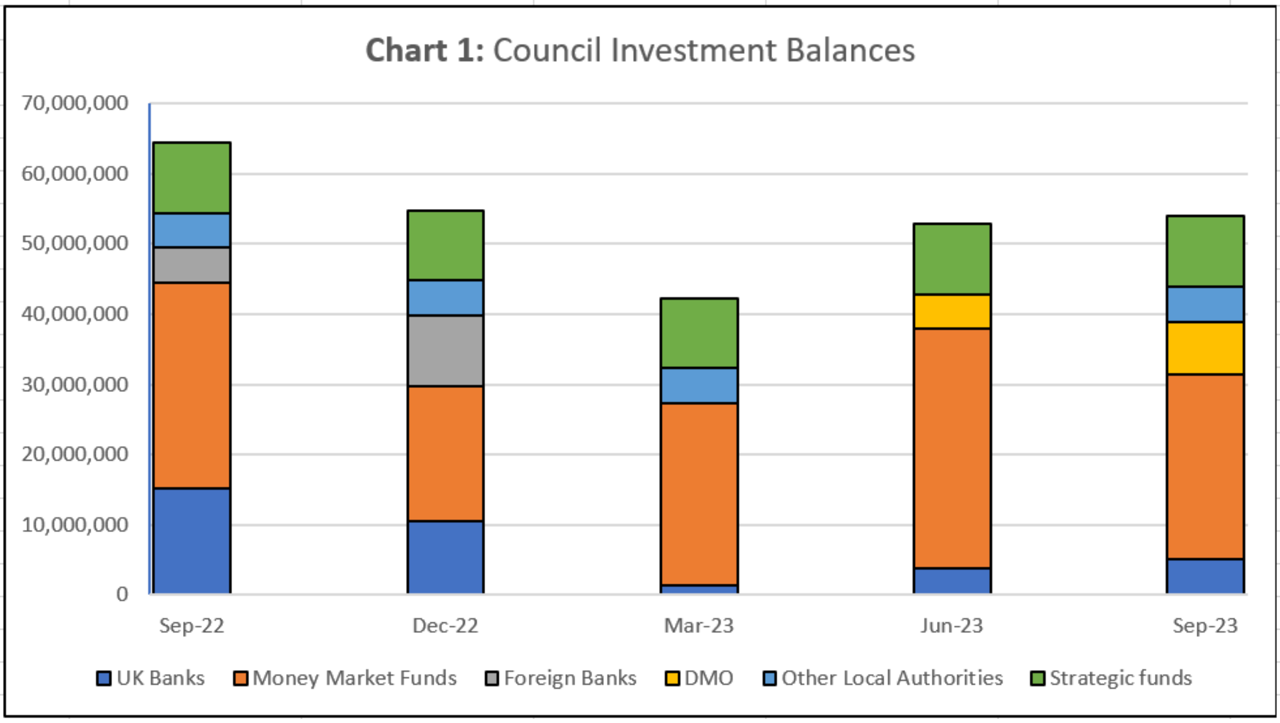


Chart 1: Council Investment Balances
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
UK Banks
Money Market Funds
Foreign Banks
DMO
Other Local Authorities
Strategic funds

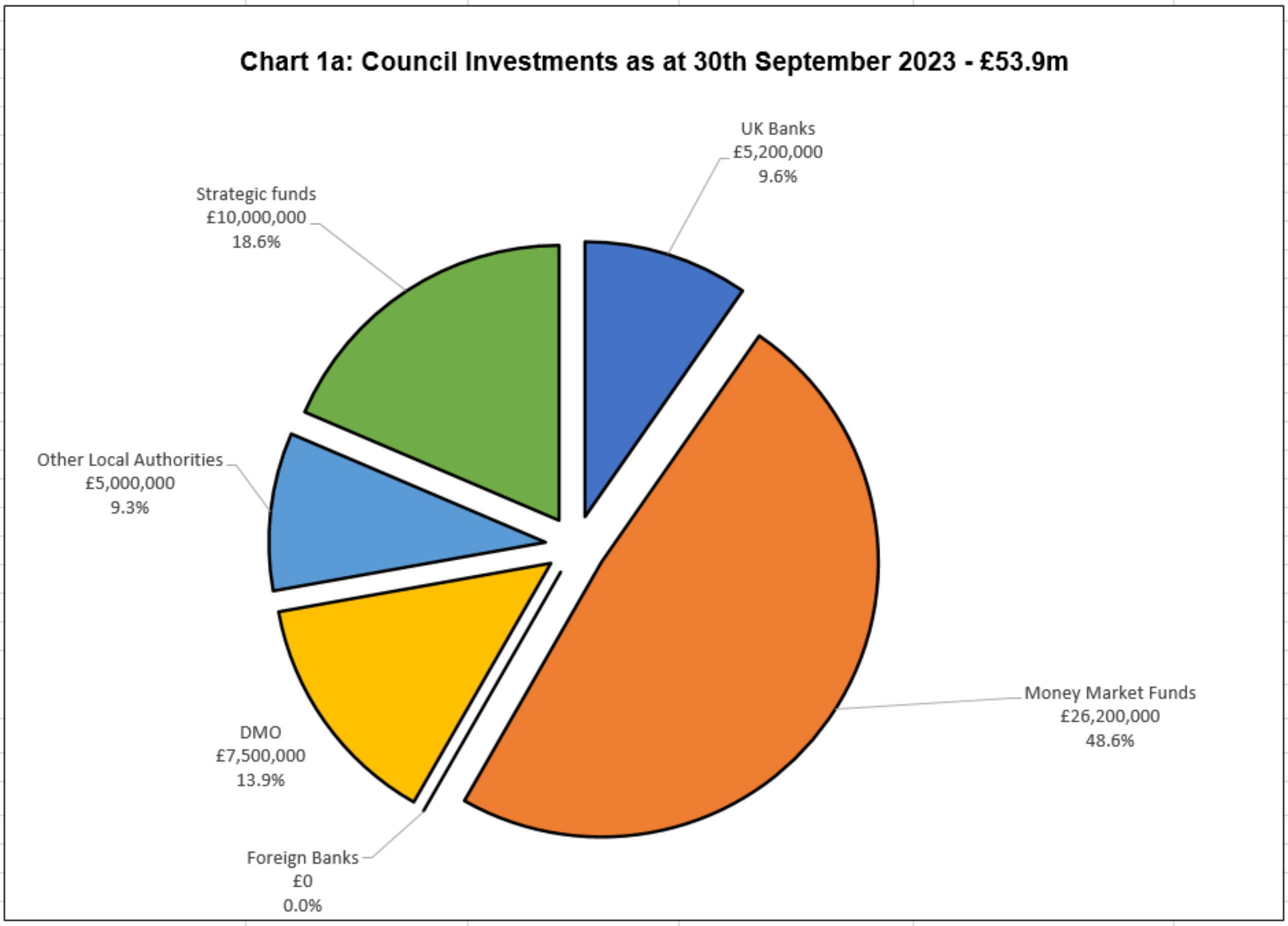


Chart 1a: Council Investments as at 30th September 2023 - £53.9m
UK Banks
£5,200,000
9.6%
Strategic funds
£10,000,000
18.6%
Other Local Authorities
£5,000,000
9.3%
DMO
£7,500,000
13.9%
Foreign Banks
£0
0.0%
Money Market Funds
£26,200,000
48.6%

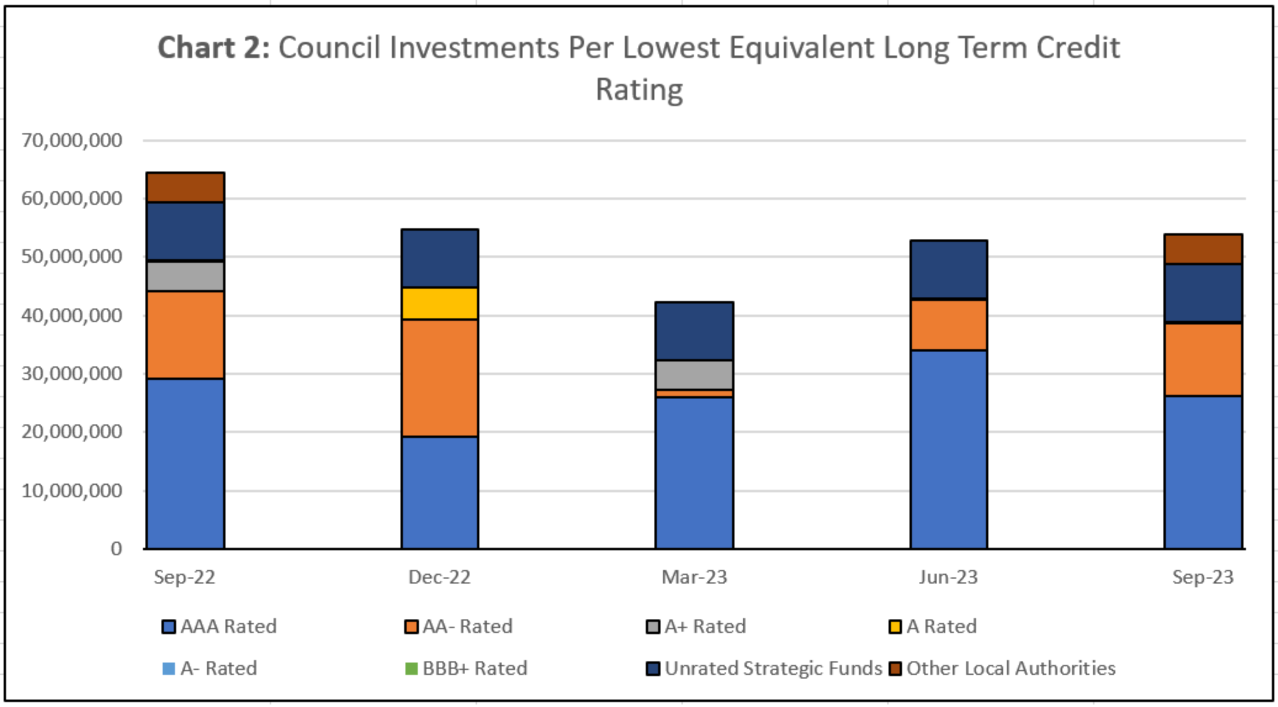


Chart 2: Council Investments Per Lowest Equivalent Long Term Credit Rating
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
AAA Rated
AA- Rated
A+ Rated
A Rated
A- Rated
BBB+ Rated
Unrated Strategic Funds
Other Local Authorities

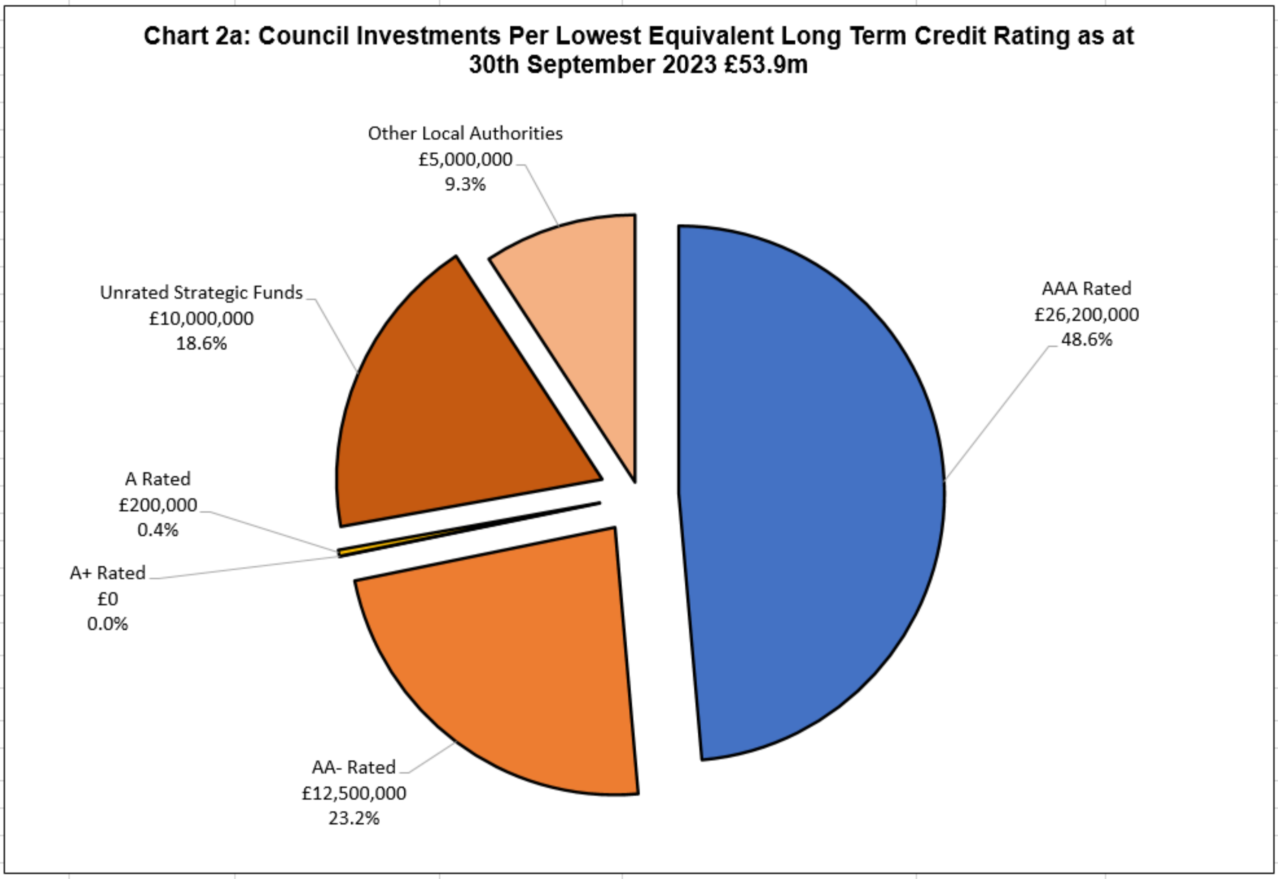


Chart 2a: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 30th September 2023 £53.9m
Other Local Authorities
£5,000,000
9.3%
AAA Rated
£26,200,000
48.6%
Unrated Strategic Funds
£10,000,000
18.6%
A Rated
£200,000
0.4%
A+ Rated
£0
0.0%
AA- Rated
£12,500,000
23.2%

APPENDIX 3

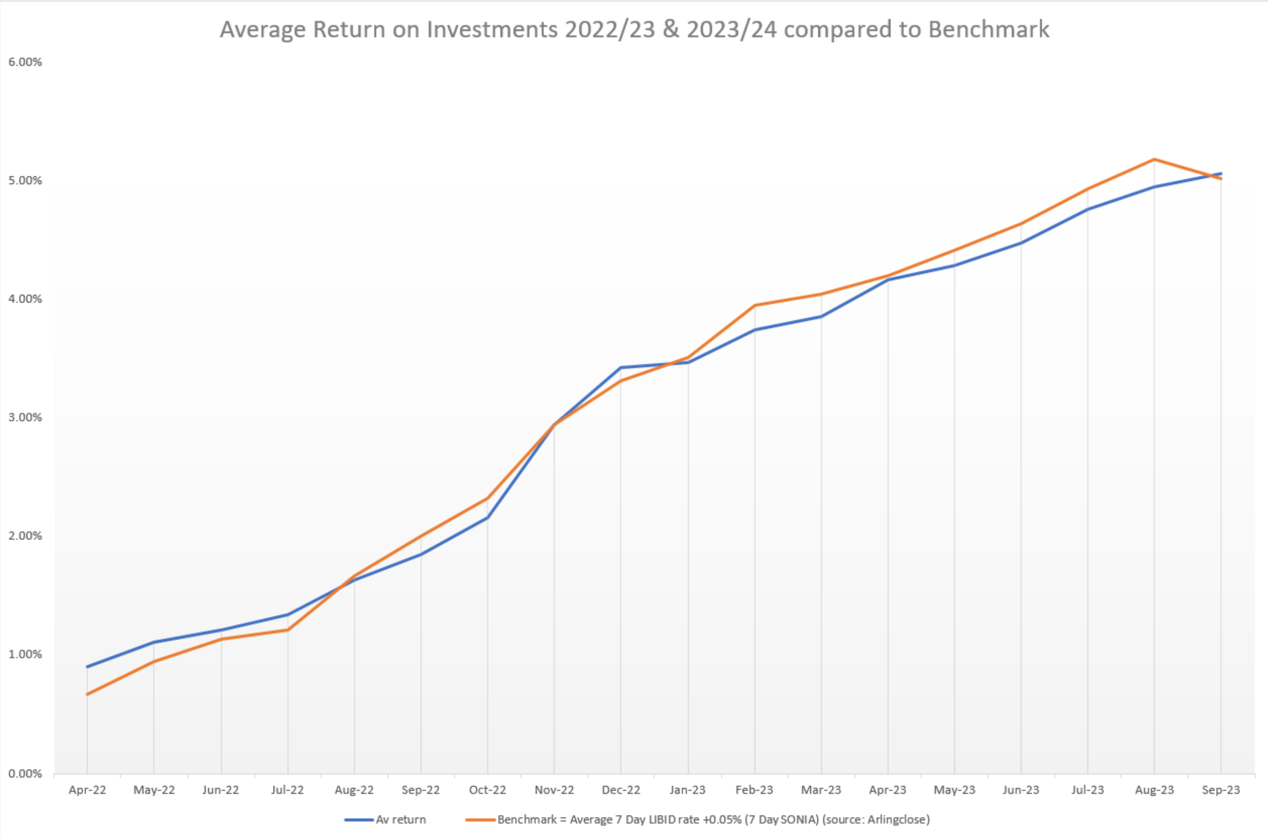
Average rate of return on investments for 2023/24

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2023	4.15%	4.20%	-0.04%
May 2023	4.28%	4.41%	-0.13%
June 2023	4.46%	4.64%	-0.17%
July 2023#	4.76%	4.93%	-0.17%
August 2023#	4.95%	5.18%	-0.23%
September 2023#	5.06%	5.02%	0.04%
Average	**4.64%**	**4.73%**	**-0.09%**

\# Includes **estimates** for Q2 Strategic Investments returns – actuals will not be known until after dispatch so will be updated in Q3 report

For Comparison, the average rate of return on investments for 2022/23 was as follows:

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2022	0.90%	0.67%	+0.23%
May 2022	1.11%	0.94%	+0.18%
June 2022	1.21%	1.13%	+0.08%
July 2022	1.34%	1.21%	+0.13%
August 2022	1.63%	1.67%	-0.04%
September 2022	1.85%	2.00%	-0.15%
October 2022	2.16%	2.32%	-0.16%
November 2022	2.94%	2.94%	0.00%
December 2022	3.42%	3.31%	+0.11%
January 2023	3.47%	3.51%	-0.04%
February 2023	3.74%	3.95%	-0.21%
March 2023	3.85%	4.04%	-0.19%
Average	**2.09%**	**2.30%**	**-0.21%**



Average Return on Investments 2022/23 & 2023/24 compared to Benchmark
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22
Jan-23
Feb-23
Mar-23
Apr-23
May-23
Jun-23
Jul-23
Aug-23
Sep-23
Av return
Benchmark = Average 7 Day LIBID rate +0.05% (7 Day SONIA) (source: Arlingclose)

APPENDIX 4

Council's External Borrowing at 30th September 2023

Lender	Amount outstanding @ 30th June 2023	Change in Quarter	Amount outstanding @ 31st August 2023	Start date	End date	Interest rate
	£	£	£			
Long term						
PWLB489142	10,000,000	-	**10,000,000**	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	-	**5,000,000**	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	-	**5,000,000**	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	-	**5,000,000**	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	-	**10,000,000**	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	-	**15,000,000**	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	-	**5,300,000**	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	-	**5,000,000**	29/01/2015	08/10/2064	2.92%
PWLB505122	15,525,299	-	**15,525,299**	20/06/2016	20/06/2041	2.36%
PWLB508126	8,443,250	-	**8,443,250**	06/12/2018	20/06/2043	2.38%
PWLB508202	9,476,058	-	**9,476,058**	12/12/2018	20/06/2068	2.59%
PWLB508224	4,210,397	-	**4,210,397**	13/12/2018	20/06/2043	2.25%
PWLB505744	7,810,341	(196,274)	**7,614,067**	24/02/2017	15/08/2039	2.28%
PWLB505966	8,085,202	(171,528)	**7,913,674**	04/04/2017	15/02/2042	2.26%
PWLB506052	6,870,715	(145,906)	**6,724,810**	08/05/2017	15/02/2042	2.25%
PWLB506255	6,559,998	-	**6,559,998**	10/08/2017	10/04/2067	2.64%
PWLB506729	8,271,625	-	**8,271,625**	13/12/2017	10/10/2042	2.35%
PWLB506995	8,303,098	-	**8,303,098**	06/03/2018	10/10/2042	2.52%
PWLB506996	8,699,377	-	**8,699,377**	06/03/2018	10/10/2047	2.62%
PWLB507749	8,613,628	(163,510)	**8,450,118**	10/09/2018	20/07/2043	2.42%
PWLB508485	19,141,417	(113,497)	**19,027,920**	11/02/2019	20/07/2068	2.52%
PWLB509840	8,800,947	(176,123)	**8,624,824**	04/09/2019	20/07/2044	1.40%
KBC Bank N.V *	5,000,000	-	**5,000,000**	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	5,000,000	-	**5,000,000**	08/10/2004	08/10/2054	4.50%
Commerzbank AG Frankfurt*	10,000,000	-	**10,000,000**	27/04/2005	27/04/2055	4.50%
Medium term						
West of England Combined	5,000,000	-	**5,000,000**	28/04/2023	26/04/2024	4.45%
Portsmouth C.C.	5,000,000	-	**5,000,000**	28/04/2023	26/04/2024	4.45%
Total Borrowing	**219,111,351**	**(966,838)**	**218,144,513**			

*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals. Should the lender use the option to change the rate, then at this point the borrower has the option to repay the loan without penalty.

The "Change in Quarter" movement on some of the PWLB loans reflects that these loans have an annuity repayment profile, so repayments of principal are made on a 6 monthly basis throughout the life of the loans.

APPENDIX 5: Arlingclose Economic & Market Review

Economic background: UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightemrpning cycle.

Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

Financial markets: Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit review: Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2023/24

April 2023 to September 2023	**YEAR END POSITION** Budgeted Spend or (Income) £'000	Actual Spend or (Income) £'000	Actual over or (under) spend £'000	**ADV/FAV**
Interest & Capital Financing				
- Debt Costs	8,873	8,073	(800)	FAV
- Internal Repayment of Loan Charges	(14,708)	(14,708)	0	-
- Ex Avon Debt Costs	910	900	(10)	FAV
- Minimum Revenue Provision (MRP)	11,164	11,164	0	-
- Interest on Balances*	(1,450)	(1,750)	(300)	FAV
Total	**4,789**	**3,679**	**(1,110)**	**FAV**

APPENDIX 7

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan, or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, or which has otherwise ceased business.

APPENDIX 8

Extract from Treasury Management Risk Register – Top 5 Risks

			Current Risk Score											Trend			
	Risk Nr	Description	Likelihood					Impact					This Period	Periods Ago			Management Action
			1	2	3	4	5	1	2	3	4	5					
			L		M	H		L		M	H			1	2	3	
1	R01	Liquidity Risk - The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.		2						3			6	6	6	6	Obtain approval of annual Treasury Management Strategy by February Council. Carry out weekly reviews of investment portfolio and planned actions. Carry out monthly dashboard meeting with Chief Finance Officer. Consider short and medium term cash balances and cashflows to inform any short - medium term borrowing requirement.
2	R02	Interest Rate Risk - The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately				4				3			12	12	12	9	Monitor interest rates on a monthly basis and compare with budget to determine impact on Council finances and report through monthly Treasury Dashboard. Report implication of interest rate changes to Cabinet as part of quarterly Treasury Management Performance Report. Explore alternative potential investment products following new freedoms - including corporate bonds, gilts, Certificate of Deposits etc. Discussion with our treasury advisors on any new borrowing in terms of duration and timing given the current volatility in the gilt market and PWLB interest rates.
3	R04	Inflation Risk - The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.				4					4		16	16	16	12	Liaise with Chief Finance Officer to ensure Inflation both current and projected forms part of the medium term financial planning framework.
4	R05	Credit and Counterparty Risk - The risk of failure by a third party to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.			3						4		12	12	12	12	Complete annual review of Counterparty List with external advisors to feed into Treasury Management Strategy. Regular review of counterparty financial standing through use of credit ratings, credit default swap rates and national press coverage and liaison with Chief Finance Officer and external advisors to consider any issues / change in circumstances of counterparties.
5	R09	Key Personnel - There is a risk that staff absence results in the inability to process Treasury Management transactions.			3					3			9	9	9	9	Produce & maintain a Business Continuity Plan to manage staff absences Provide refresher training and periodically ask secondary process operators to run the treasury process to ensure that there are a number of people able to perform the treasury activity