<table>
<tr><th colspan="3">Bath & North East Somerset Council</th></tr>
<tr><td>MEETING</td><td colspan="2">Cabinet</td></tr>
<tr><td rowspan="2">MEETING DATE:</td><td rowspan="2">8th February 2024</td><td>EXECUTIVE FORWARD PLAN REFERENCE:</td></tr>
<tr><td>E 3471</td></tr>
<tr><td>TITLE:</td><td colspan="2">Treasury Management Performance Report to 31st December 2023</td></tr>
<tr><td>WARD:</td><td colspan="2">All</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Appendix 1 – Performance Against Prudential Indicators
Appendix 2 – The Council’s Investment Position at 31st December 2023
Appendix 3 – Average monthly rate of return for nine months until 31st December 2023
Appendix 4 – The Council’s External Borrowing Position at 31st December 2023
Appendix 5 – Arlingclose’s Economic & Market Review Q3 of 2023/24
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Appendix 7 – Summary Guide to Credit Ratings
Appendix 8 – Extract from Treasury Management Risk Register</td></tr>
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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 2023/24 for the nine months until 31st December 2023.

2 RECOMMENDATION

That Cabinet agrees that:

2.1 The Treasury Management Report to 31st December 2023, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 The Treasury Management Indicators to 31st December 2023 are noted.

3 THE REPORT

Summary

3.1 The estimated average rate of investment return for 1st April 2023 to 31st December 2023 is 4.80%, which is in 0.08% below the benchmark rate of 4.88% for 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 £2.18m under budget, due to higher than budgeted investment returns as a result of interest rate rises since budget setting, a delay to borrowing requirements and associated interest costs and a saving on Minimum Revenue Provision (MRP) payments due to capital spend reprofiling. 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 31st December 2023 is given in **Appendix 2**. The balance of deposits as at 31st December 2023 are set out in the charts in this appendix, along with the equivalent for the previous quarters for comparison.

3.5 Estimated gross interest earned on investments totalled £1.5m. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 4.80%, which is below the benchmark rate of average 7-day SONIA (4.88%). This slight shortfall is mainly due to existing short-term investments being locked in at a lower rate prior to the Bank of England base rate rises, and the lag between interest rates rising and the return on money market funds increasing. The prior year comparators are also included in this appendix.

Summary of Borrowings

3.6 The Council's external borrowing as at 31st December 2023 totalled £216.99m and is detailed in **Appendix 4**. In October 2023 one of our LOBO (Lender Option Borrowing Option) lenders exercised their option to increase their interest rate to 5.88%, triggering an option for the Council to either accept the new rate or to repay the £10m of borrowing. The Council exercised its option to repay the loan. To replace this, two new £5m PWLB Annuity Loans at a blended rate of 4.58% were taken, which is just above the original LOBO rate of 4.5%, but well below the revised rate. These two new loans were only taken out when the Council needed to borrow 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 September 2023	**218.144**
New Loans Taken	10.000
LOBO Repayments	(10.000)
PWLB Annuity Loan principal repayments	(1.157)
Balance as at 31st December 2023	**216.989**

3.7 The Council's Capital Financing Requirement (CFR) was forecast to be £462.1m by 31st March 2024, based on the Capital Programme agreed in February 2023 and 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 £216.99m 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 £99.8m 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 £39.1m as at 31st December 2023 is diversified across Money Market Funds, Strategic funds, and other Local Authorities. 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.

There are some positive signs as our ESG funds have increased in value by £215k this quarter, however the CCLA property fund valuation has fallen by another £76k. This resulted in the fair value of our strategic investments as at 31st December 2023 being £8.18m. A breakdown of comparison with previous values 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:				
30/12/2023	4,208,069	2,404,178	1,571,365	**8,183,612**
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 4.87%, which is 1.12% above the budgeted level of 3.75%. The average return for the £10m long-term strategic investments is 4.48%, 0.48% above the budgeted rate of 4%. The combined average return on all investments is 4.80%.

Investment Type/	Average YTD Investment Return
Short Term Investments Total	**4.87%**
Long Term Strategic Investments:	
CCLA Local Authorities Property Fund	4.42%
FP Foresight UK Infrastructure Income Fund	4.52%
VT Gravis Clean Energy Income Fund	4.52%
Long Term Strategic Investments Total (Est.)	**4.48%**
Overall Total	**4.80%**

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 review for the quarter three 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 31st December 2023. The Bank of England's Monetary Policy Committee has left rates at 5.25% for the last three meetings, resulting in expectation that interest rates 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 Following the repayment of £10m of LOBO debt in October the Council currently hold £10m 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 around 5%, there is a possibility that these interest rates will be increased/called at the next call date during April 2024. The Council have planned should this happen and will look to repay and consider refinancing 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 February 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 December 2023 is included in **Appendix 6**. An overall underspend of £2.18m is reported towards the Council's net revenue outturn, because of higher than budgeted investment income, delays in borrowing and a reduced Minimum Revenue Provision (MRP) charge due to reprofiling of capital spend.

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.

Contact person	Claire Read - 01225 47 7109; Jamie Whittard - 01225 47 7213 Claire_Read@BATHNES.GOV.UK: Jamie_Whittard@BATHNES.GOV.UK
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 31st December 2023
Operational boundary – borrowing.	£433m	£216.99m
Operational boundary – other long-term liabilities	£4m	£0m
Operational boundary – TOTAL	**£437m**	**£216.99m**
Authorised limit – borrowing.	£462m	£216.99m
Authorised limit – other long-term liabilities.	£4m	£0m
Authorised limit – TOTAL	**£466m**	**£216.99m**

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 31st December 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	£22.3m	28-Dec-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 31st December 2023
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m	-£0.199m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m	£0.199m

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 31st December 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	56.2
Over 25 years	100		32.2

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 as the council would only consider repaying these loans if the lenders exercised their option to alter the interest rate.

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

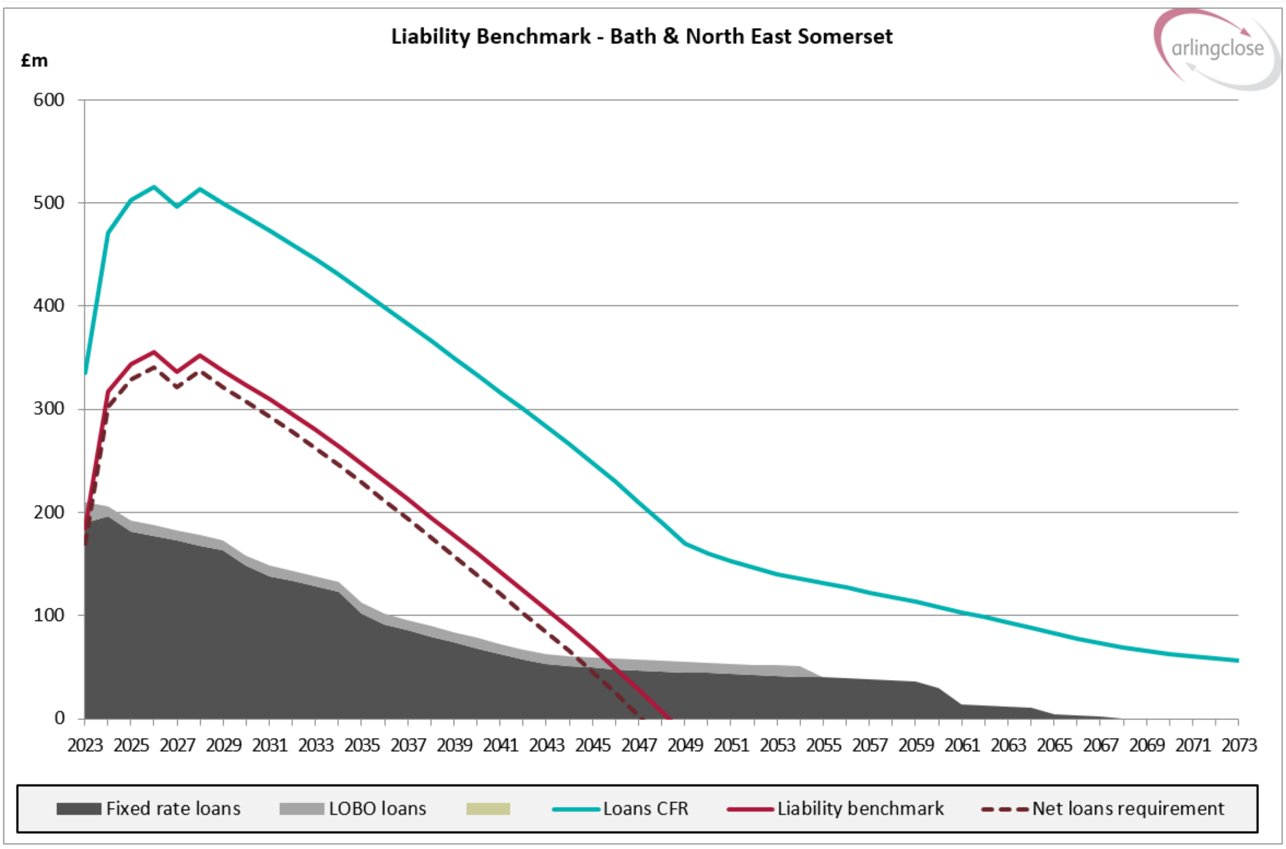
The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2023/24 Prudential Indicator	Actual as at 31st December 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 £99m 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 31st December 2023

The term of investments is as follows:

Term Remaining	**Balance at 31st December 2023**	**Comparator** Balance at 30th September 2023
	£m	**£m**
Notice (instant access funds)	24.10	31.40
Up to 1 month	5.00	7.50
1 month to 3 months	0.00	0.00
3 months to 6 months	0.00	5.00
6 months to 12 months	0.00	0.00
Strategic Funds	10.00	10.00
Total	**39.10**	**53.90**

The investment figure is made up as follows:

	Balance at 31st December 2023	**Comparator** Balance at 30th September 2023
	£m	**£m**
B&NES Council	35.63	50.77
Schools	3.47	3.13
Total	**39.10**	**53.90**

The Council had a total average net positive balance of £52.63m during the period April 2023 to December 2023.

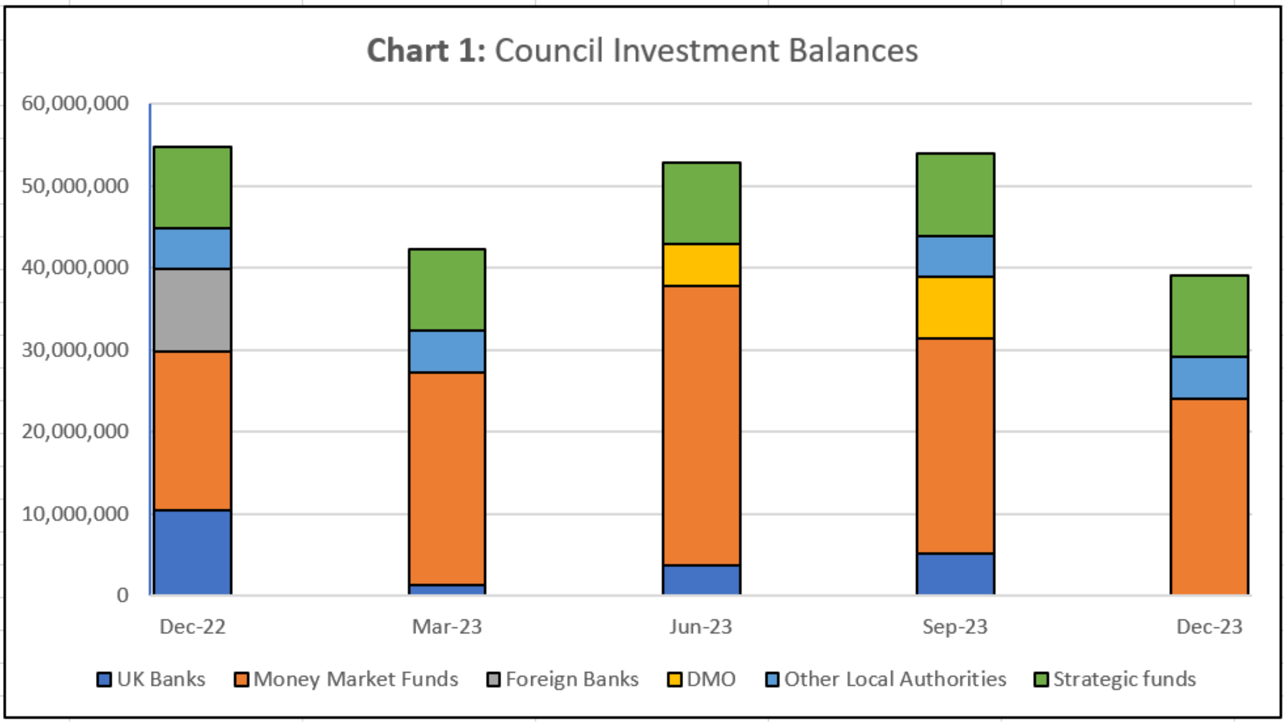


Chart 1: Council Investment Balances
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
Dec-22
Mar-23
Jun-23
Sep-23
Dec-23
UK Banks
Money Market Funds
Foreign Banks
DMO
Other Local Authorities
Strategic funds

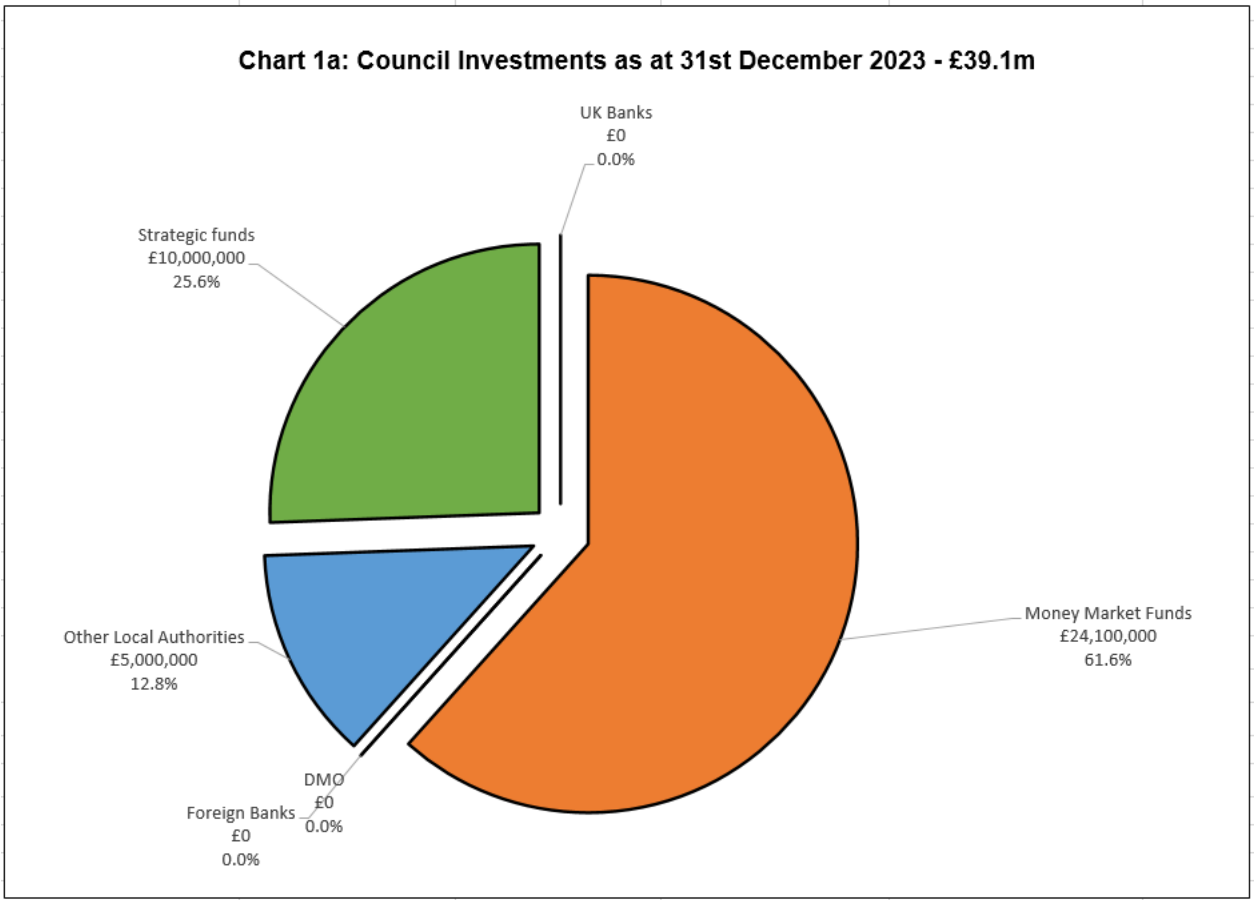


Chart 1a: Council Investments as at 31st December 2023 - £39.1m
UK Banks
£0
0.0%
Strategic funds
£10,000,000
25.6%
Money Market Funds
£24,100,000
61.6%
Other Local Authorities
£5,000,000
12.8%
DMO
£0
0.0%
Foreign Banks
£0
0.0%

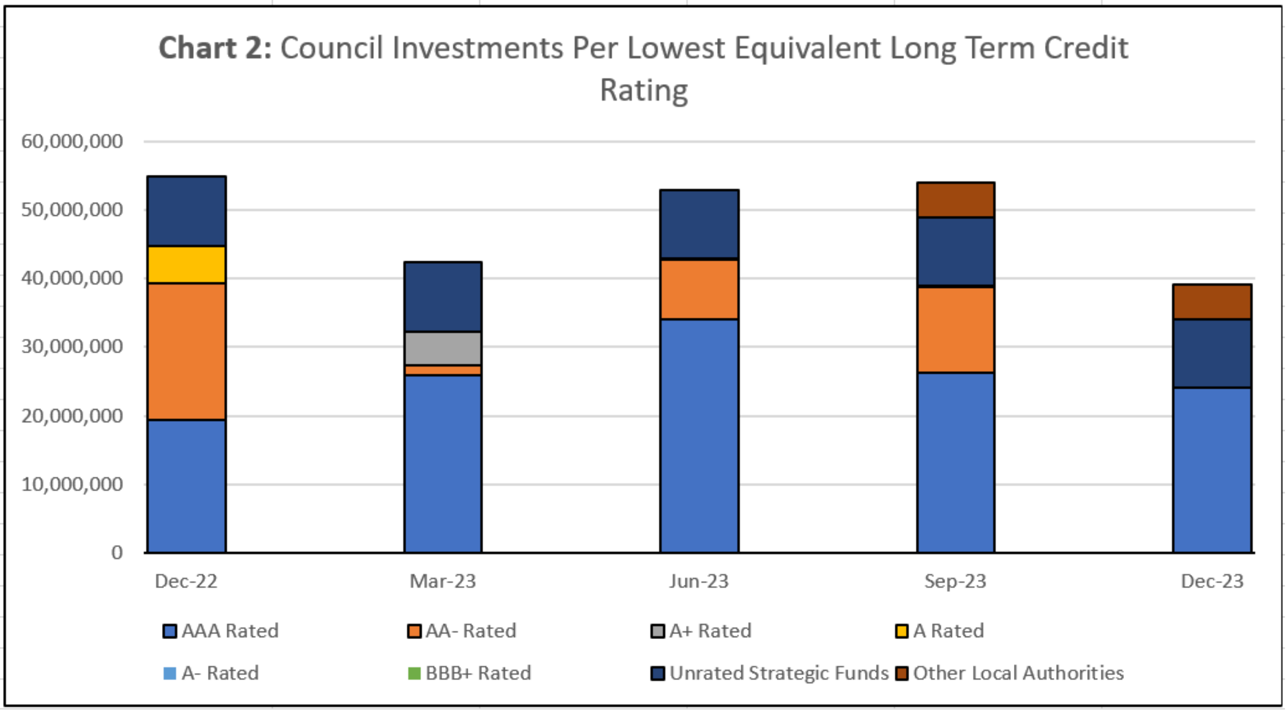


Chart 2: Council Investments Per Lowest Equivalent Long Term Credit Rating
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
Dec-22
Mar-23
Jun-23
Sep-23
Dec-23
AAA Rated
AA- Rated
A+ Rated
A Rated
A- Rated
BBB+ Rated
Unrated Strategic Funds
Other Local Authorities

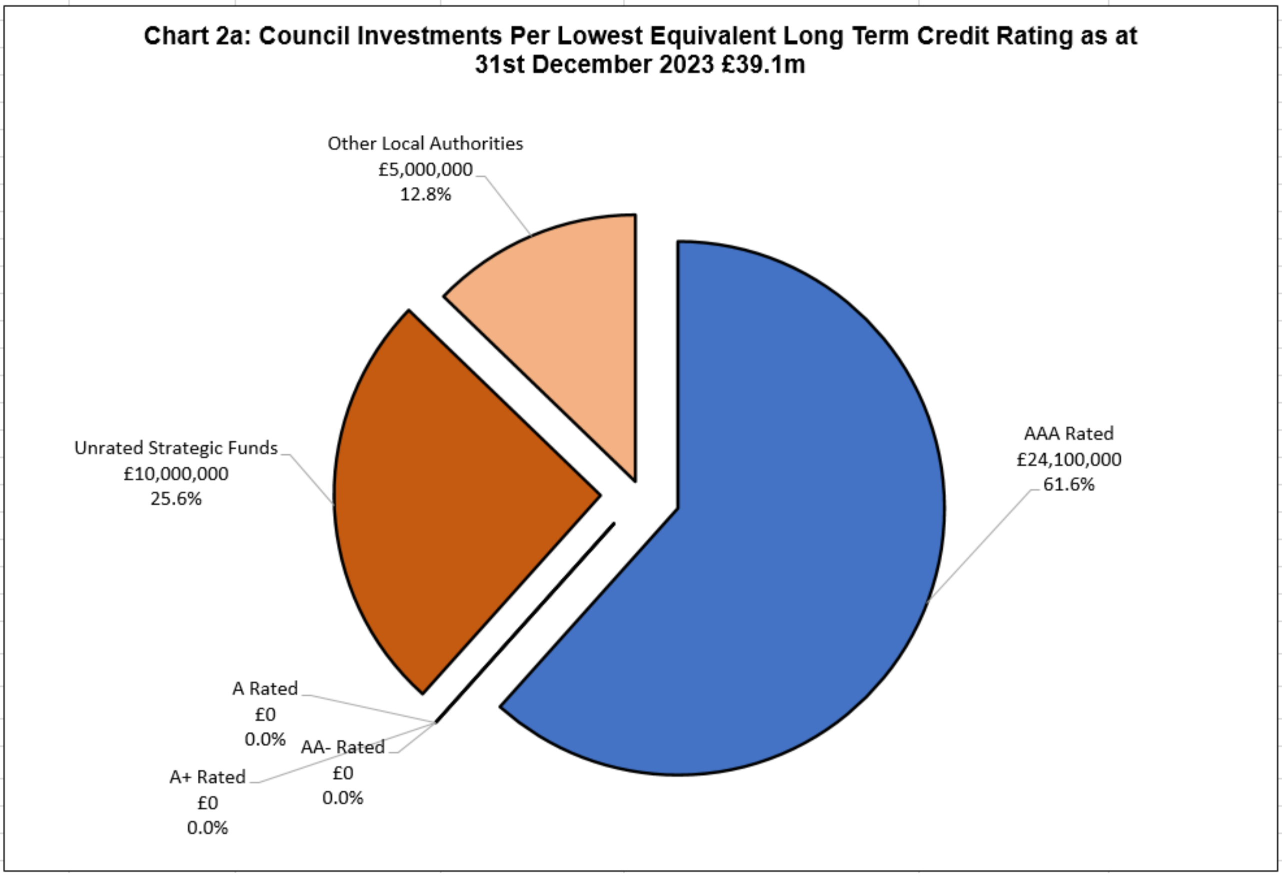


Chart 2a: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st December 2023 £39.1m
Other Local Authorities £5,000,000 12.8%
AAA Rated £24,100,000 61.6%
Unrated Strategic Funds £10,000,000 25.6%
A Rated £0 0.0%
AA- Rated £0 0.0%
A+ Rated £0 0.0%

APPENDIX 3

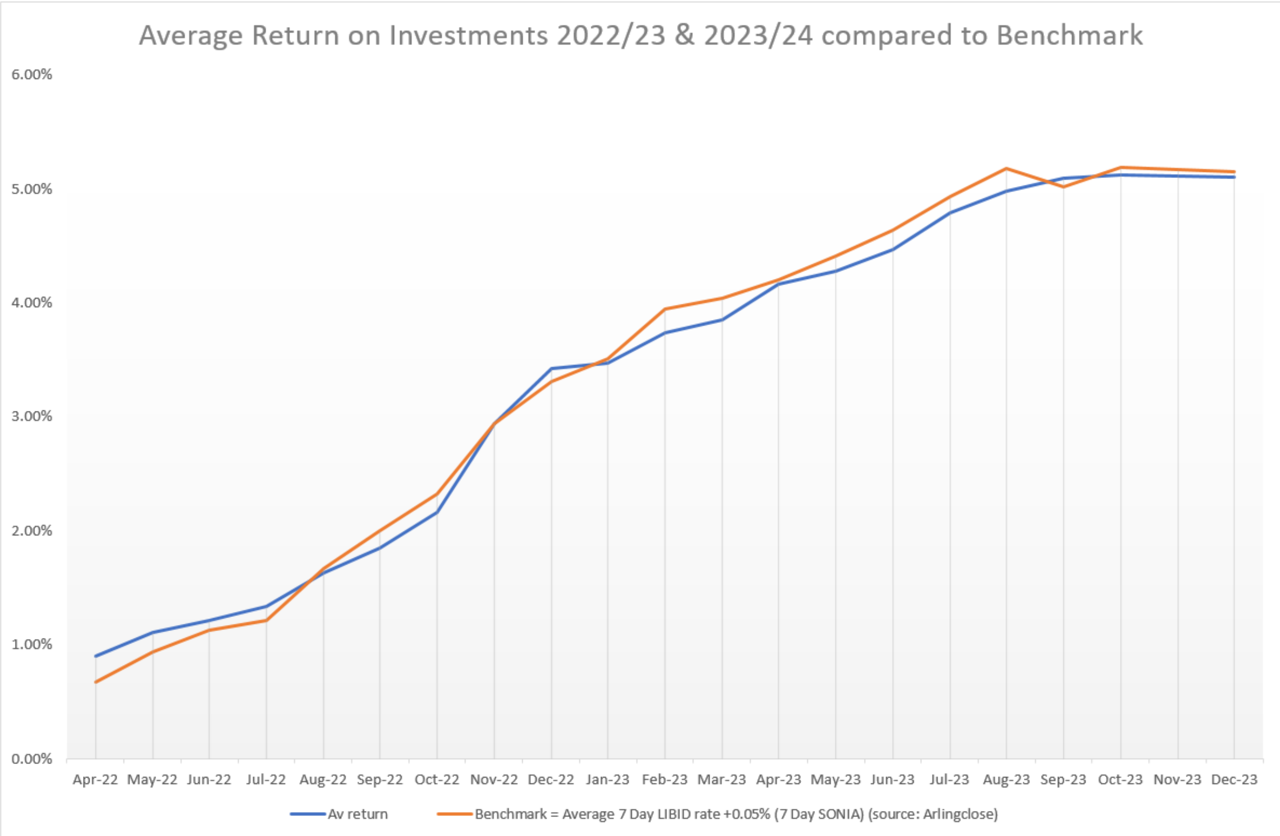
Average rate of return on investments for 2023/24

	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	4.79%	4.93%	-0.14%
August 2023	4.98%	5.18%	-0.20%
September 2023	5.09%	5.02%	0.07%
October 2023#	5.12%	5.19%	-0.07%
November 2023#	5.11%	5.17%	-0.06%
December 2023#	5.10%	5.15%	-0.05%
Average	**4.80%**	**4.88%**	**-0.08%**

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

For comparison, the average rate of return on investments in 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 Oct-23 Nov-23 Dec-23
Av return
Benchmark = Average 7 Day LIBID rate +0.05% (7 Day SONIA) (source: Arlingclose)

APPENDIX 4

Council's External Borrowing at 31st December 2023

Lender	Amount outstanding @ 30th September	Change in Quarter	Amount outstanding @ 31st December	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	(348,627)	**15,176,672**	20/06/2016	20/06/2041	2.36%
PWLB508126	8,443,250	(166,045)	**8,277,206**	06/12/2018	20/06/2043	2.38%
PWLB508202	9,476,058	(56,198)	**9,419,860**	12/12/2018	20/06/2068	2.59%
PWLB508224	4,210,397	(83,928)	**4,126,469**	13/12/2018	20/06/2043	2.25%
PWLB505744	7,614,067	-	**7,614,067**	24/02/2017	15/08/2039	2.28%
PWLB505966	7,913,674	-	**7,913,674**	04/04/2017	15/02/2042	2.26%
PWLB506052	6,724,810	-	**6,724,810**	08/05/2017	15/02/2042	2.25%
PWLB506255	6,559,998	(39,888)	**6,520,109**	10/08/2017	10/04/2067	2.64%
PWLB506729	8,271,625	(168,418)	**8,103,207**	13/12/2017	10/10/2042	2.35%
PWLB506995	8,303,098	(166,169)	**8,136,929**	06/03/2018	10/10/2042	2.52%
PWLB506996	8,699,377	(127,734)	**8,571,644**	06/03/2018	10/10/2047	2.62%
PWLB507749	8,450,118	-	**8,450,118**	10/09/2018	20/07/2043	2.42%
PWLB508485	19,027,920	-	**19,027,920**	11/02/2019	20/07/2068	2.52%
PWLB509840	8,624,824	-	**8,624,824**	04/09/2019	20/07/2044	1.40%
PW677322	-	5,000,000	**5,000,000**	22/11/2023	22/11/2038	4.88%
PW687799	-	5,000,000	**5,000,000**	29/12/2023	29/12/2038	4.28%
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	**218,144,513**	**(1,157,007)**	**216,987,507**			

*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 rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the CPI remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August was indeed the peak for Bank Rate.

Economic growth in the UK remained weak over the period, edging into recessionary territory. In calendar Q3 2023, the economy contracted by 0.1%, following no change in Q2. Monthly GDP data showed a 0.3% contraction in October, following a 0.2% rise in September. While other indicators have suggested a pickup in activity in the subsequent months, Q4 GDP growth is likely to continue the weak trend.

July data showed the unemployment rate increased to 4.2% (3mth/year) while the employment rate rose to 75.7%. Pay growth edged lower as the previous strong pay rates waned; total pay (including bonuses) growth was 7.2% over the three months to October 2023, while regular pay growth was 7.3%. Adjusting for inflation, pay growth in real terms were positive at 1.3% and 1.4% for total pay and regular pay, respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 3.9% (down from 4.6%) in November 2023. The largest downward contribution came from energy and food prices. The core rate also surprised on the downside, falling to 5.1% from 5.7%.

The Bank of England's Monetary Policy Committee held Bank Rate at 5.25% throughout the period, although a substantial minority continue to vote for a 25-basis point rate rise. The Bank continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.

Following the December MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, 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, it is likely this will reverse at some point and spending will struggle. Higher rates will also impact exposed businesses; according to S&P/CIPS survey data, the UK manufacturing and construction sectors contracted during the quarter. The services sector recovered, however, with the PMI rising strongly in December, possibly due to improving consumer confidence.

The US Federal Reserve held its key interest rate at 5.25-5.50% over the period. While policymakers continued to talk up the risks to inflation and therefore interest rates, this stance ebbed over the quarter culminating in a relatively dovish outcome from the

December FOMC meeting. The European Central Bank continues to resist market policy loosening expectations, but the Eurozone CPI rate has fallen sharply as GDP growth as markedly slowed, hitting 2.4% in November (although rising to 2.9% on energy-related base effects).

Financial markets: Financial market sentiment and bond yields remained volatile, but the latter rapidly trended downwards towards the end of 2023 on signs of sharply moderating inflation and economic growth.

Gilt yields fell towards the end of the period. The 10-year UK benchmark gilt yield rose from 4.57% to peak at 4.67% in October before dropping to 3.54% by the end of December 2023. The Sterling Overnight Rate (SONIA) averaged 5.19% over the period.

Credit review: Arlingclose maintained the advised maximum duration limit for all banks on its recommended counterparty list to 35 days over the period.

In October, Moody’s revised the outlook on the UK’s Aa3 sovereign rating to stable from negative. This led to similar rating actions on entities that include an element of government support in their own credit ratings, including banks and housing associations. Local authorities were, however, downgraded on expectations of lower government funding.

Following the issue of a Section 114 notice, in November Arlingclose advised against undertaking new lending to Nottingham City Council. After reducing its recommended duration on Warrington Borough Council to a maximum of 100 days in September, the local authority was subsequently suspended from the Arlingclose recommended list following a credit rating downgrade by Moody’s to Baa1.

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. 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 December 2023	YEAR END POSITION Budgeted Spend or (Income) £'000	 Forecast Spend or (Income) £'000	 Forecast over or (under) spend £'000	ADV/FAV
Interest & Capital Financing				
- Debt Costs	8,873	7,973	(900)	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	10,194	(970)	FAV
- Interest on Balances*	(1,450)	(1,750)	(300)	FAV
Total	**4,789**	**2,609**	**(2,180)**	**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			
			Likelihood					Impact					This Period	Periods Ago			
	Risk Nr	Description	1	2	3	4	5	1	2	3	4	5					Management Action
			L		M	H		L		M	H			1	2	3	
1	R01	Credit & Counterparty Risk - Default 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		2							4		8				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.
2	R04	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			3					3			9	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	R06	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			3						4		12	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	R08	Legal & Regulatory Risk - Acting Outside Powers The risk that the organisation itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.		2							4		8				Obtain independent review of the council's strategy and polices to ensure compliance with the CIPFA Code of Practice on Treasury Management Local Authorities (Capital Finance and Accounting) (England) Regulations, Local Government Act and any other regulation or guidance as specified by the Secretary of State.. Stay on top of Government and CIPFA consultations on Treasury and Capital Financing regulations
5	R09	Legal & Regulatory Risk - Changes Risk that regulatory changes are not planned for and adversely impact the Council's budget and or ability to borrow				4				3			12				Read, resond and calculate the impact of Local Government accounting, investment and capital financing / borrowing consultations have on treasury management. Plan for the implementation of new regulations, conditions and accounting treatment