GMCA AUDIT COMMITTEE

Date: 20 September 2023

Subject: Quarterly Treasury Management Update – 30 June 2023

Report of: Steve Wilson, Treasurer

PURPOSE OF REPORT

To update Members on treasury management activities during the first quarter of 2023/24.

RECOMMENDATIONS:

Members are requested to:

1. Note the report on treasury activities during the first quarter of 2023/24.

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Report authors must identify which paragraph relating to the following issues:

Equalities Impact, Carbon and Sustainability Assessment:

N/A

Risk Management

There are considerable risks to the security of the GMCA's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The GMCA has established good practice in relation to Treasury Management.

Legal Considerations

This report fulfils the statutory requirements to have the necessary prudential indicators to be included in a Treasury Management Strategy.

Financial Consequences – Revenue

Financial revenue consequences are contained within the body of the report.

Financial Consequences – Capital

Financial capital consequences are contained within the body of the report.

Number of attachments to the report:

None

Comments/recommendations from Overview & Scrutiny Committee

N/A.

Background Papers

Treasury Management Strategy Statement 2023/24, GMCA 24 March 2023

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution

No

Exemption from call in

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?

N/A

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

Quarterly Treasury Management Update – 30 June 2023

1. INTRODUCTION

1.1 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 Authority is implementing best practice in accordance with the Code.

2. ECONOMICS UPDATE

2.1 The first quarter of 2023/24 saw:

a) A 0.2% m/m rise in real Gross Domestic Product (GDP) in April 2023, partly due to fewer strikes;

b) Consumer Price Indexation (CPI) inflation falling from 10.1% to 8.7% in April 2023, before remaining at 8.7% in May 2023. This was the highest reading in the G7;

c) Core CPI inflation rise in both April 2023 and May 2023, reaching a new 31-year high of 7.1%;

d) A tighter labour market in April 2023, as the 3myy growth of average earnings rose from 6.1% to 6.5%;

e) Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;

f) 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.

2.2 The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real GDP in April 2023, following March 2023 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April 2023 was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April 2023 were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.

2.3 The fall in the composite Purchasing Managers Index (PMI) from 54.0 in May 2023 to a three-month low of 52.8 in June 2023 (>50 points to expansion in the economy, <50 points to contraction) was worse than the consensus forecast of 53.6. Both the services and manufacturing PMIs fell. The decline in the services PMI was bigger (from 55.2 to 53.7), but it remains consistent with services activity expanding by an annualised 2%. The fall in the manufacturing PMI was smaller (from 47.1 to 46.2), but it is consistent with the annual rate of manufacturing output falling from -0.8% in April 2023 to around -5.0%. At face value, the composite PMI points to the 0.1% q/q rise in GDP in Q1 2023 being followed by a 0.2% q/q gain in Q2 2023.

2.4 Meanwhile, the 0.3% m/m rise in retail sales volumes in May 2023 was far better than the consensus forecast of a 0.2% m/m decline and followed the robust 0.5% m/m rise in April 2023. Some of the rise was due to the warmer weather. Indeed, the largest move was a 2.7% m/m jump in non-store sales, due to people stocking up on outdoor-related goods. But department stores also managed to squeeze out a 0.6% m/m rise in sales and the household goods sub-sector enjoyed a reasonable performance too. Overall, the figures were far better than analysts had expected. In addition, the GfK measure of consumer confidence rebounded from -27 to a 17-month high of -24 in June 2023.

2.5 The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Link’s central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024. Our colleagues at Capital Economics estimate that around 60% of the drag on real activity from the rise in rates has yet to bite, and the drag on the quarterly rate of real GDP growth over the next year may be about 0.2ppts bigger than over the past year.

2.6 The labour market became tighter over the quarter and wage growth reaccelerated. Labour demand was stronger than the consensus had expected. The three-month change in employment rose from +182,000 in March 2023 to

+250,000 in April 2023. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April 2023. That was supported by a further 140,000 decline in inactivity as people returned to work from retirement and caring responsibilities (while inactivity due to long-term sick continued to rise). But it was not enough to offset the big rise in employment, which meant the unemployment rate fell from 3.9% to 3.8%

2.7 The tighter labour market supported wage growth in April 2023, although the 9.7% rise in the National Living Wage on 1 April 2023 (compared to the 6.6% increase in April 2022) probably had a lot to do with it too. The 3myy rate of average earnings growth reaccelerated from 6.1% to 6.5% (consensus 6.1%) and United Kingdom (UK) wage growth remains much faster than in the United States (US) and the Euro-zone. In addition, regular private sector wage growth increased from 7.1% 3myy to 7.6%, which left it well above the Bank’s forecast for it to fall below 7.0%. Overall, the loosening in the labour market appears to have stalled in April 2023 and regular private sector wage growth was well above the Bank’s forecast.

2.8 CPI inflation stayed at 8.7% in May 2023 (consensus 8.4%) and, perhaps more worryingly, core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March 2023 to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn’t rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1 July 2023 means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.

2.9 This suggests the Bank may have more work to do than the Fed or European Central Bank (ECB). Indeed, the Bank of England sounded somewhat hawkish in the June 2023 meeting. This came through most in the Monetary Policy Committee’s (MPC) decision to step up the pace of hiking from the 25bps at the previous two meetings. The 7-2 vote, with only two members voting to leave rates unchanged at 4.50%, revealed support for stepping up the fight against high inflation.

2.10 That said, the Bank has not committed to raising rates again or suggested that 50bps rises are now the norm. What it did say was that "the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting". Moreover, the Committee did not strengthen its forward guidance that any further rate hikes would be conditional on the data. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. We still think it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, we think rates are more likely to peak between 5.50-6.00%. Link's forecast is also for rates to be cut in the second half of 2024, and we expect rates to then fall further than markets are pricing in.

2.11 Growing evidence that UK price pressures are becoming increasingly domestically generated has driven up market interest rate expectations and at one point pushed the 10-year gilt yield up to 4.49% in late June 2023, very close to its peak seen after the "mini-budget". Yields have since fallen slightly back to 4.38%. But growing expectations that rates in the UK will remain higher for longer than in the US mean they are still more than 70 bps above US yields. While higher interest rates are priced into the markets, the likely dent to the real economy from the high level of interest rates is not. That's why we think there is scope for market rate expectations to fall back in 2024 and why we expect the 10-year PWLB Certainty Rate to drop back from c5.20% to 5.00% by the end of this year and to 4.20% by the end of 2024.

2.12 The pound strengthened from $1.24 at the start of April 2023 to a one-year high at $1.26 in early May 2023, which was partly due to the risks from the global banking issues being seen as a bigger problem for the US than the UK. The pound then fell back to $1.23 at the end of May 2023, before rising again to $1.28 in the middle of June 2023 as the strong core CPI inflation data released in June suggested the Bank of England was going to have to raise rates more than the Fed or ECB in order to tame domestic inflation. However, sterling's strong run may falter because more hikes in the near term to combat high inflation are likely to weaken growth (and, hopefully, at some point inflation too) to such a degree that the policy rate will probably be brought back down, potentially quite quickly, as the economic cycle trends downwards decisively. This suggests that additional rate hikes are unlikely to do much to boost the pound.

2.13 In early April 2023, investors turned more optimistic about global GDP growth, pushing up UK equity prices. But this period of optimism appears to have been short-lived. The Financial Times Stock Exchange (FTSE) 100 has fallen by 4.8% since 21 April 2023, from around 7,914 to 7,553, reversing part of the 7.9% rise since 17 March 2023. Despite the recent resilience of economic activity, expectations for equity earnings have become a bit more downbeat. Nonetheless, further down the track, more rate cuts than markets anticipate should help the FTSE 100 rally.

2.14 MPC meetings 11 May 2023 and 22 June 2023

a) On 11 May 2023, the Bank of England’s MPC increased Bank Rate by 25 basis points to 4.50%, and on 22 June 2023 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.

b) Nonetheless, with UK inflation significantly higher than in other G7 countries, the MPC will have a difficult task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank’s inflation models being “broken” is perhaps another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.

c) Of course, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Market Committee (FOMC) has already hiked short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July, whilst the ECB looks likely to raise its Deposit rate at least once more to a peak of 3.75%, with upside risk of higher to come.

3. INTEREST RATES FORECASTS

3.1 The Authority has appointed Link Group as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The Public Works Loan Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

3.2 The latest forecast, made on 26 June 2023, sets out a view that both short 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, against a backdrop of a stubbornly robust economy and a tight labour market.

3.3 You will note that Link's forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.

3.4 Link's current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View 26 June 2023

	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

Link Group Interest Rate View 24 May 2023

	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	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View 27 March 2023

	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

3.5 London Inter-Bank Offered Rate (LIBOR) and London Interbank Bid Rate (LIBID) rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

3.6 The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

3.7 A Summary Overview of The Future Path of Bank Rate

a) Our central forecast for interest rates was previously updated on 25 May 2023 and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened to a degree, especially as it moved to a more aggressive 0.5% hike in June 2023 but, with inflation remaining elevated, we anticipate that Bank Rate will need to increase to at least 5.5%, if not higher, to sufficiently slow the UK economy and loosen the labour market.

b) Moreover, we also still anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but timing on this will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Our current judgment is that rates will have to increase and stay at their peak until the second quarter of 2024 as a minimum.

c) In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine and whether there are any further implications for Russia itself following the recent aborted mutiny by the Wagner group.

d) On the positive side, consumers are still estimated to be sitting on excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

3.8 PWLB Rates

a) Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since our previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%.

b) We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

3.9 The balance of risks to the UK economy:

a) The overall balance of risks to economic growth in the UK is to the downside.

3.10 Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

a) Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, the rising gilt yields we have seen of late).

b) The Bank of England increases Bank Rate too fast and too far over the coming months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

c) UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

d) Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

e) A broadening of banking sector fragilities, which have been successfully addressed in the near-term by central banks and the market generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.

3.11 Upside risks to current forecasts for UK gilt yields and PWLB rates:

a) Despite the recent tightening by 0.5%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

b) The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

c) Longer-term US treasury yields rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.

d) Projected gilt issuance, inclusive of natural maturities and quantitative tightening, could be too much for the markets to comfortably digest without higher yields compensating.

4. ANNUAL INVESTMENT STRATEGY

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

a) Security of capital

b) Liquidity

c) Yield

4.2 The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Authority’s risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

4.3 As shown by the charts below and the interest rate forecasts in section 3, investment rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to increase over the next few months.

4.4 Creditworthiness

4.4.1 There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

4.5 Investment counterparty criteria

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

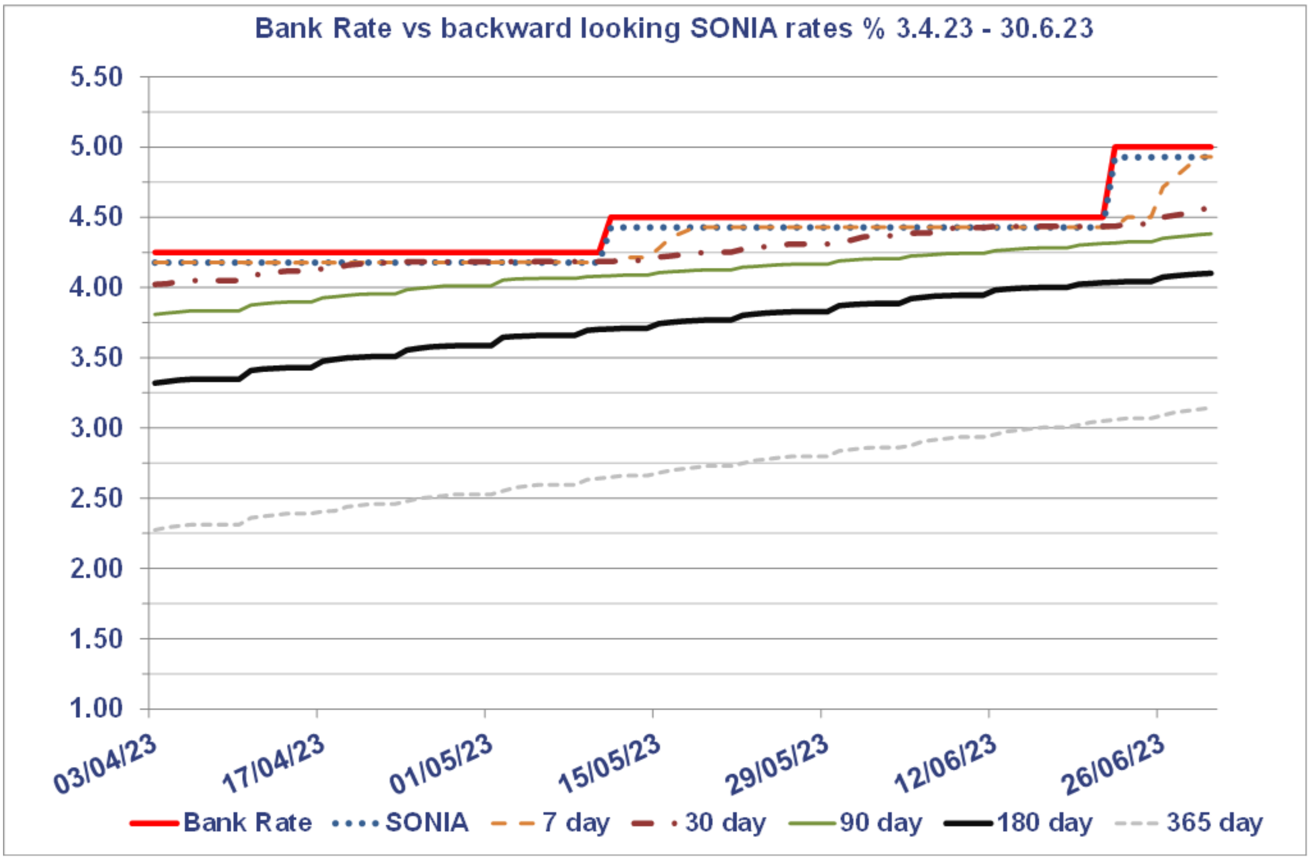
4.6 CDS prices

4.6.1 For UK banks, these have retreated from the spikes caused by the Truss / Kwarteng policy approach in September 2022. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.7 Investment balances

4.7.1 The average level of funds available for investment purposes during the quarter was £321m. 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.

4.8 Investment performance year to date as of end-June 2023



	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.00	4.93	4.93	4.57	4.38	4.10	3.14
High Date	22 June 2023	30 June 2023	30 June 2023	30 June 2023	30 June 2023	30 June 2023	30 June 2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	3 April 2023	4 April 2023	11 April 2023	3 April 2023	3 April 2023	3 April 2023	3 April 2023
Average	4.44	4.37	4.34	4.27	4.11	3.74	2.70
Spread	0.75	0.75	0.75	0.55	0.57	0.78	0.87

4.8.1 The Authority achieved an average rate of 4.33% which underperformed the average backward looking SONIA rate by 4 bps. The Authority's budgeted investment return for 2023/24 is £2.257m, and performance for the year to date is £3.050m above budget.

4.9 Approved limits

4.9.1 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2023.

4.9.2 A full list of investments held as of 30 June 2023 is in Appendix 2.

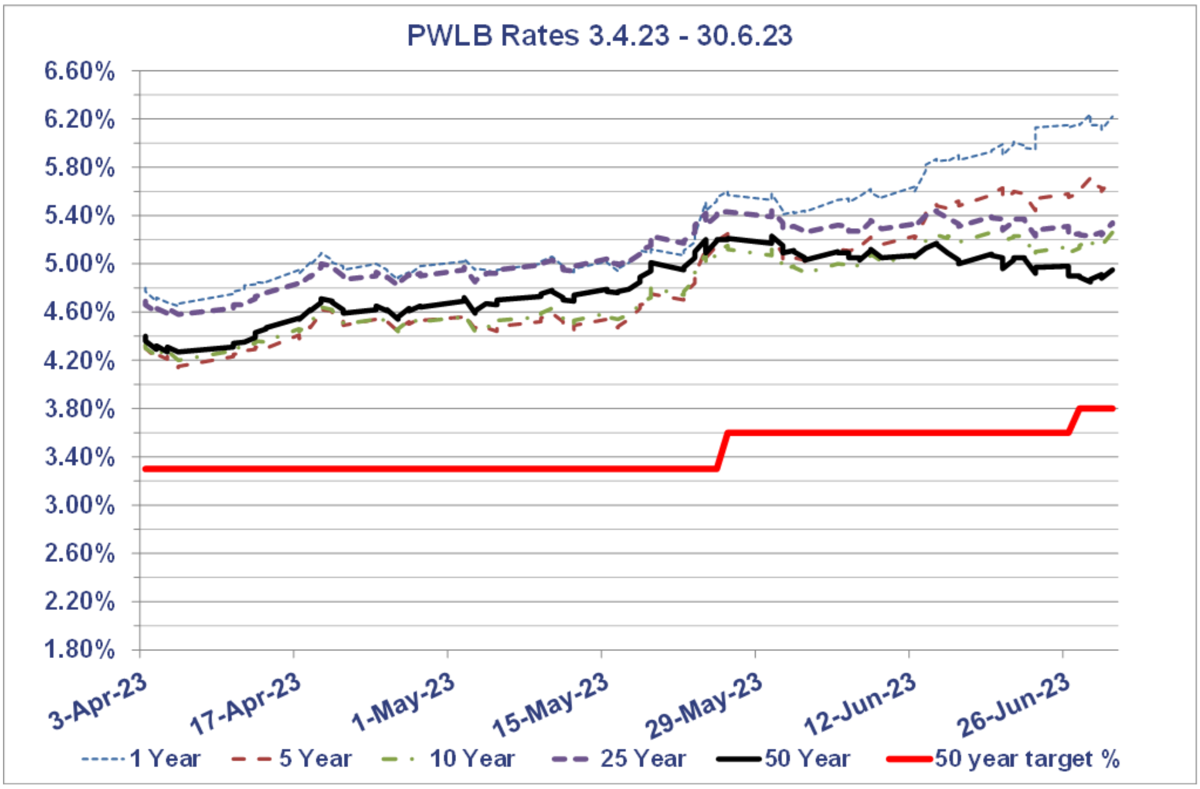
5. BORROWING

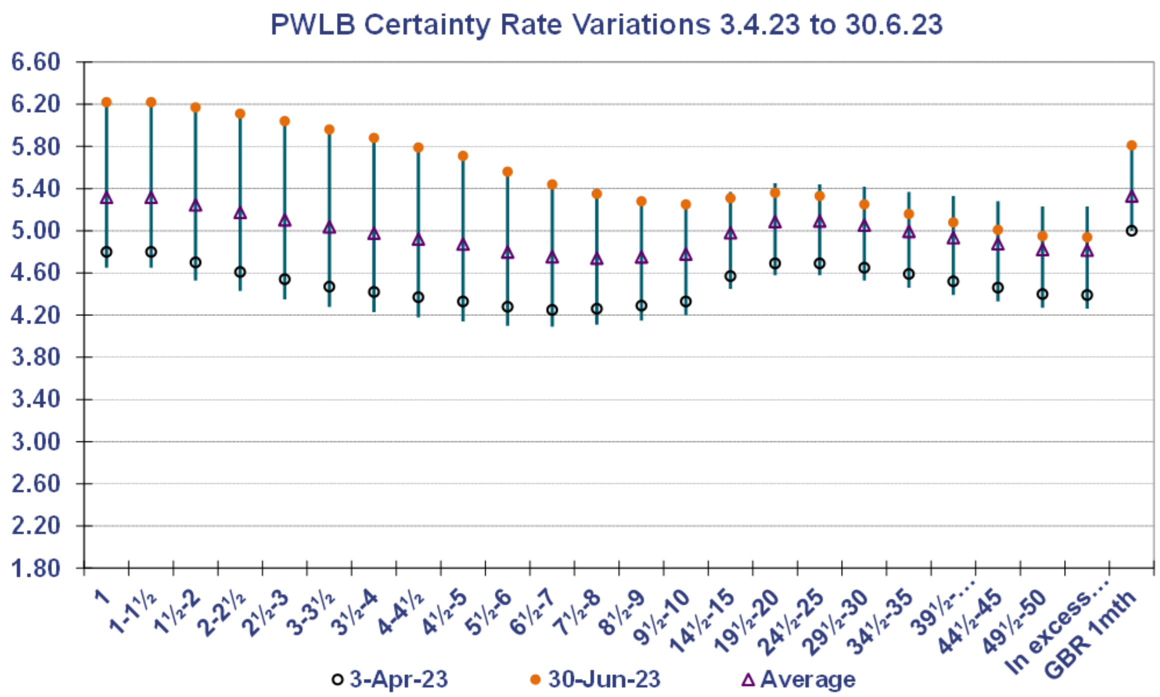
5.1 No borrowing was undertaken during the quarter ended 30th June 2023. It is anticipated that borrowing will be undertaken during this financial year.

5.2 PWLB maturity Certainty Rates 1 April to 30 June 2023

5.2.1 Gilt yields and PWLB rates were on a rising trend between 1 April and 30 June 2023.

5.2.2 The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.30% before increasing to a peak of 3.80% in June 2023. As can be seen, with rates elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.





High/ Low/ Average PWLB Rates for 1 April 2023 – 30 June 2023

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%

Date	6 April 2023	6 April 2023	6 April 2023	6 April 2023	5 April 2023
High	6.24%	5.71%	5.28%	5.44%	5.23%
Date	28 June 2023	28 June 2023	20 June 2023	30 May 2023	30 May 2023
Average	5.32%	4.87%	4.78%	5.09%	4.82%
Spread	1.59%	1.57%	1.08%	0.86%	0.96%

6. DEBT RESCHEDULING

6.1 Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

7. COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS

7.1 The prudential and treasury Indicators are shown in Appendix 1.

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

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

8. RECOMMENDATIONS

8.1 Recommendations are set out at the front of the report.

APPENDIX 1: Prudential and Treasury Indicators for 2023/24 as at 30 June 2023

Treasury Indicators	2023/24 Budget	2023/24 Forecast
Authorised limit for external debt	£2,771.458m	£2,718.074m
Operational boundary for external debt	£2,652.122m	£2,601.068m
Gross external debt as at 31 March 2024	£1,490.670	£1,494.031m
Investments as at 31 March 2024	£50.000m	£50.000m
Net borrowing as at 31 March 2024	£1,440.670m	£1,444.031m

Prudential Indicators	2023/24 Budget	2023/24 Forecast
Capital expenditure	£629.334m	£725.996m
Capital Financing Requirement (CFR)	£2,486.166m	£2,437.635m
Annual change in CFR	£78.325m	£91.660m
In year borrowing requirement	£124.587m	£100.000m
Ratio of financing costs to net revenue stream	16.7%	16.7%

APPENDIX 2: Investment Portfolio

Investments held as of 30 June 2023 compared to our counterparty list:

Institution	Instrument Type	Start	Maturity	Yield	Principal
Barclays Bank PLC (NRFB)	Call (Instant Access)			4.55%	£13,550,000
Debt Management Office	Fixed Term Deposit	30/06/2023	03/07/2023	4.88%	£8,300,000
Debt Management Office	Fixed Term Deposit	28/06/2023	03/07/2023	4.88%	£4,610,000
Leeds City Council	Call (7 Day Notice)			5.00%	£10,000,000
Eastleigh Borough Council	Call (7 Day Notice)			5.00%	£15,000,000
Eastleigh Borough Council	Call (7 Day Notice)			5.00%	£5,000,000
SMBC Bank International Plc	Fixed Term Deposit	18/04/2023	18/07/2023	4.52%	£10,000,000
Lloyds Bank Plc (RFB)	Certificate of Deposit	19/04/2023	19/07/2023	4.60%	£10,000,000
Leeds City Council	Fixed Term Deposit	29/03/2023	03/08/2023	4.50%	£10,000,000
Aberdeen City Council	Fixed Term Deposit	11/04/2023	11/08/2023	4.20%	£5,000,000
SMBC Bank International Plc	Fixed Term Deposit	18/04/2023	18/08/2023	4.55%	£10,000,000
SMBC Bank International Plc	Fixed Term Deposit	18/04/2023	18/08/2023	4.55%	£10,000,000
Standard Chartered Bank	Fixed Term Deposit	18/04/2023	18/09/2023	4.62%	£10,000,000
Cornwall Council	Fixed Term Deposit	05/04/2023	05/10/2023	4.20%	£10,000,000
Plymouth City Council	Fixed Term Deposit	13/04/2023	13/10/2023	4.25%	£10,000,000
Standard Chartered Bank	Fixed Term Deposit	18/04/2023	18/10/2023	4.71%	£10,000,000
Lloyds Bank Plc (RFB)	Fixed Term Deposit	18/04/2023	18/10/2023	4.87%	£6,500,000
Lancashire County Council	Fixed Term Deposit	21/04/2023	23/10/2023	4.25%	£5,000,000
Ashford Borough Council	Fixed Term Deposit	24/04/2023	24/10/2023	4.25%	£6,000,000
Central Bedfordshire Council	Fixed Term Deposit	27/04/2023	27/10/2023	4.21%	£10,000,000
Lancashire County Council	Fixed Term Deposit	28/04/2023	30/10/2023	4.45%	£15,000,000
Banks and Local Authorities					**£193,960,000**
MMF CCLA	Money Market Fund			4.49%	£25,000,000
MMF Aviva	Money Market Fund			4.57%	£25,000,000
MMF Federated Investors (UK)	Money Market Fund			4.60%	£8,400,000
MMF Aberdeen	Money Market Fund			4.43%	£24,950,000
MMF BlackRock	Money Market Fund			4.62%	£25,000,000
Money Market Funds					**£108,350,000**
Total					**£302,310,000**

APPENDIX 3: Approved countries for investments as of 30 June 2023

Based on lowest available rating

AAA

a) Australia
b) Denmark
c) Germany
d) Netherlands
e) Norway
f) Singapore
g) Sweden
h) Switzerland

AA+

a) Canada
b) Finland
c) U.S.A.

AA

a) Abu Dhabi (UAE)

AA-

a) Belgium
b) France (downgraded by Fitch on 9 May 2023)
c) Qatar
d) U.K.