ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**GOVERNANCE AND AUDIT COMMITTEE**
Date:	**8 FEBRUARY 2024**
Subject:	**TREASURY MANAGEMENT MID-YEAR REVIEW 2023/24**
Portfolio Holder(s):	**COUNCILLOR R WILLIAMS, DEPUTY LEADER AND FINANCE PORTFOLIO HOLDER**
Head of Service / Director:	**R MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) & SECTION 151 OFFICER**
Report Author: Tel: E-mail:	**CLAIRE KLIMASZEWSKI** **01248 752133** **claire.klimaszewski@ynysmon.llyw.cymru**
Local Members:	**n/a**

A –Recommendation/s and reason/s

To recommend that the Governance and Audit Committee:-

1. Review and note the report, the treasury activity and the prudential indicators as at 30 September 2023.

2. To forward any comments onto the Executive.

B – What other options did you consider and why did you reject them and/or opt for this option?

The report is for scrutiny and information and the consideration of options is not applicable.

C – Why is this a decision for the Executive?

To comply with regulations issued under the Local Government Act 2003 and the CIPFA Prudential Code 2021.

CH – Is this decision consistent with policy approved by the full Council?

The report gives an update on the treasury management position whereby borrowing and investments decisions have been taken in accordance with the Treasury Management Strategy that was approved by the Council in March 2023.

D – Is this decision within the budget approved by the Council?

No decision required in respect of this report which will impact on the budgetary position of the Council.

	DD – Who did you consult?	**What did they say?**
1	**Chief Executive / Leadership Team (LT)** (mandatory)	No additional comments.
2	**Finance / Section 151**(mandatory)	This is the Section 151 Officer’s report.
3	**Legal / Monitoring Officer** (mandatory)	No additional comments.
4	**Human Resources (HR)**	Not applicable
5	**Property**	Not applicable
6	**Information Communication Technology (ICT)**	Not applicable
7	**Procurement**	Not applicable
8	**Scrutiny**	This report is for scrutiny of the Governance and Audit Committee, 8 February 2024.
9	**Local Members**	Not applicable
10	**Other**	None

E – Assessing the potential impact (if relevant):		
1	**How does this decision impact on our long term needs as an Island**	Treasury management is key to facilitating sustainability for the long-term needs of the Island as borrowing plans help to fund capital expenditure to ensure assets are available now and into the future. Treasury plans must also be affordable to ensure that future generations are not disadvantaged by Treasury Management decisions taken in the short and medium term.
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority. If so, how:-**	The Treasury Management strategy and activity must be affordable to mitigate the impact on the future. Some capital expenditure funded by borrowing, such as Sustainable Communities for Learning, and other invest to save schemes funded by borrowing may help to reduce future costs.
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	Treasury Management activities often fund capital projects in partnership with other organisations, such as Welsh Government. The 21st Century Schools Programme / Sustainable Communities for Learning new schools / extensions were/are funded with significant funding from Welsh Government.
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	Anglesey Citizens are consulted each year about the annual capital programme some of which is dependent on Treasury Management activities. More in-depth consultation occurs on some capital projects, such as new school builds / school reorganisations.
5	**Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.**	Newly built assets funded by borrowing will be compliant the Equality Act and related regulations and guidance. Annual refurbishments and replacement programmes also help to increase accessibility and enable diversity.
6	**If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.**	This is statutory monitoring of Treasury Management activities, not a strategic decision.
7	**Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.**	Some of the projects funded by borrowing have a positive impact on the development and increase of the Welsh Language, such as the Welsh medium schools built as part of the 21 Century Schools Programme / Sustainable Communities for Learning Programme.

F - Appendices:

Appendix A –Treasury Management Quarter 2 Report 2023/24
Appendix B – Analysis of Isle of Anglesey County Council PWLB Loans by year of Maturity
Appendix C – Economic Analysis – Link Group
Appendix CH – PWLB Analysis – Link Group

FF - Background papers (please contact the author of the Report for any further information):

- Treasury Management Strategy Statement 2023/24 – Isle of Anglesey County Council 9 March https://democracy.anglesey.gov.uk/ieListDocuments.aspx?CId=127&MId=4049&Ver=4&LLL=0
- Treasury Management Quarter 1 Report 2023/24 – The Executive 24 October 2023 https://democracy.anglesey.gov.uk/ieListDocuments.aspx?CId=134&MId=4211&Ver=4&LLL=0

1. Background

1.1 The Treasury Management Strategy Statement (TMSS) 2023/24 provides the framework for day-to-day and medium-term treasury management. The TMSS is a key part of the Council's strategic planning processes to help identify what the Council's key priorities and objectives are for the next year and into the future.

1.2 Treasury management activity, in line with the TMSS, is key for implementation of the priorities of the Council Plan 2023/28 and the Capital Strategy 2023/24, and several related strategic and operational plans. Capital expenditure is fundamental to ensure the Council has long-term assets, such as Council offices, schools, social care facilities, Council dwellings, ICT infrastructure, software and equipment, vehicles and equipment needed to deliver Council services and functions, and to help achieve the priorities of the Council Plan 2023/28. This includes ensuring the Council's current assets are refurbished, extended or replaced as needed and new assets built to deliver Council priorities, such as new schools.

1.3 Capital funding is limited, therefore, the Council funds some capital projects by means of supported borrowing, for which the Council receives funding in the annual revenue support grant from Welsh Government, or unsupported borrowing, where the annual financing costs are funded in full by the Council. Borrowing is usually fulfilled by taking out loans from the Public Works Loans Board (PWLB). This is a key part of treasury management, hence the important link to the Capital Strategy 2023/24 and implementation of the capital programme.

1.4 The Treasury Management Code of Practice 2021, which is statutory guidance defines treasury management as:-

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

2. Introduction

2.1 Treasury management involves tasks which ensure that there is enough cash in the Council general account to pay day-to-day bills and the investment of surplus cash, over what is needed in the general account. These investments must be in highly secure accounts, such as UK banks with high credit ratings as defined in the TMSS. The Council prioritises security of its funds, in line with the Code, and ensures that enough cash is instantly accessible so that the Council is able to pay suppliers, staff and benefits, at the required payment dates. The last consideration is yield, the Council invests to get the highest interest rate possible within the pool of organisations that are secure and meet the criteria in the TMSS 2023/24. The final element of Treasury Management is managing the Council's loan portfolio, to ensure that the Council's borrowing is not too high and that the revenue costs of borrowing are affordable.

2.2 A key function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially, the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses and, on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives. The Capital Strategy 2023/24, Capital Programme 2023/24 and quarterly capital budget monitoring reports are closely linked to the Council's treasury management activity. In accordance with legislation, the Council is only able to borrow for capital expenditure, not revenue costs, with the exception of when Welsh Government provides a capitalisation directive for specific exceptional revenue expenditure, such as the capitalisation of equal pay back pay. The capital strategy, the annual capital programme and TMSS all support the Council's key priorities in the Council Plan 2023/28. This report is part of the monitoring of treasury management activities during the period 1 April 2023 to 30 September 2023 to help ensure that the TMSS is complied with.

3. Economic Update

3.1 The Council's external treasury management advisers, Link Group, sends several updates, such as economic and credit reports, each week, to help Council officers and Members to make the best decisions on treasury management activities. Link Group provided an economic update for the second quarter, which can be found in Appendix C. Link Group has also recently provided the following interest rate forecast:-

Table 1 – Forecast Bank Base Rate, inflation and PWLB Rates January 2024 to September 2025.

	15 Jan 2024	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025
Bank Rate (%)	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%
CPI Inflation – Capital Economics	Dec - 3.7%	3.8%	2.9%	0.80%	0.70%	0.90%	0.6%	1.2%
5yr PWLB annuity rate (%)	4.63%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%
10yr PWLB annuity rate (%)	4.86%	4.70%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%
25yr PWLB annuity rate (%)	5.43%	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%
50yr PWLB annuity rate (%)	5.24%	5.00%	4.90%	4.70%	4.60%	4.40%	4.20%	4.10%

3.2 The Bank of England's target inflation set by the Government, is 2%. Inflation started to creep up beyond this from August 2021, with the CPI rate reaching a high of 11.1% in October 2022 due to the impact of the invasion of Ukraine, which caused significant energy and food price increases. Inflation remained high for longer than anticipated, but started to decrease in April 2023 to 8.7%, with CPI reducing to 7.9% at the end of the first quarter. Inflation rates continued to decrease in the second quarter, with CPI at 6.7% at 30 September 2023.

3.3 At the start of the pandemic, the base rate was reduced to its lowest point at 0.1% in support of the economy. In December 2021, the Bank of England increased the rate to 0.25%, and then increased the base rate at each meeting of the Monetary Policy Committee (MPC) between 0.25% to 0.75% at its highest increase. In August 2023, the MPC increased the base rate to 5.25%, in September 2023 the rate of 5.25% remained unchanged for the first MPC meeting since December 2021. The MPC also voted for no change to the 5.25% at its meetings in November and December 2023.

3.4 The TMSS 2023/24 reported in March 2023, the bank base rate was expected to peak at 4.5% in the summer and that rates would reduce slowly in 2024 and 2025. In the treasury management review for quarter 1, it was highlighted that the Bank of England base rate was forecast to peak at 5.25%. The above analysis shows that the rate of 5.25% has remained unchanged for four consecutive MPC Committees. However, there is a risk of increased inflation due to supply issues resulting from the conflict in Gaza and shipping issues in the Red Sea which has resulted in wider conflict. There is now an increased risk that the base rate might peak at a higher rate in efforts to control inflation.

3.5 The Council benefits from a higher base rate for investment of surplus cash, which has helped the Council earn more than £1m in interest receivable. However, loans to the Council are more expensive since the Bank of England started raising interest rates to try to control inflation. External borrowing is, therefore, delayed until cash balances can no longer sustain the use of council balances to fund capital expenditure (internal borrowing).

4. The Council's Position 30 September 2023.

4.1 Borrowing PWLB – The Council's PWLB external borrowing remains the same as that presented in the TMSS in March 2023, except for repayment of £8k of principal on annuity loans. This is due to the need to avoid borrowing while interest rates are increasing. Instead, Council cash balances have been used to fund capital expenditure. This is in line with Link Group's advice on borrowing in the current economic climate. The opportunity cost of this is that there are less balances to invest, however, borrowing costs are higher than investment yields. To ensure the Council has enough cash to pay creditors and salaries, sufficient cash must remain in instant call accounts. Typically, the interest rates on these are much lower, so the Council is still able to make reasonable savings on interest payable while using cash balances.

4.2 Appendix B shows the full list of PWLB loans taken out and still payable. The oldest loan dates back to 1969, and the majority of the loans have higher interest rates than the current rates, despite the recent rise in interest rates. These are organised by the financial year the loans are due to be repaid. In addition, the present value of the loans is included in the last column to take into account that the value of money reduces over time. This shows a more realistic impact the loans will have in the future. The loans total £119.564m, but the value of these loans discounted to their present value, amount to £47.666m. The loan for £15m, which is due to be repaid in 2068/2069, is estimated at £3.190m at today's prices, using the discount rate of 3.5% for the public sector.

Table 2a- PWLB Loans Outstanding - 30 September 2023

PWLB Loans at 30 September 2023			
	PWLB / PWLB Maturity £'000	PWLB EIP/ Annuity £ '000	Total PWLB Loans at 30 September 2023 £'000
Loan Outstanding	119,400	164	119,564
Average life (years)	30.82	4.06	35
Average rate (%)	4.53	9.42	14

Table 2b – Maturity Profile of PWLB Loans Outstanding 30 September 2023

Number of Years until Loan Matures	Principal £'m	Present Value of Principal £'m
<1	2	2
1 i 3	1	1
4 i 6	4	3
7 i 10	3	3
11 i 14	2	2
15 i 22	23	12
23 i 33	42	15
34 i 50	41	10
	120	**48**

4.3 Borrowing Salix – Salix is a Welsh Government organisation which provides interest free loans and, more recently grants for projects which support the environment and to help public sector bodies in Wales to work towards achieving their net zero target by 2030. The TMSS 2023 showed that, in February 2023, the Council had £3.099m of interest free loans outstanding with Salix. Since this time, the Council has received more of the borrowing approved by Salix due to more progress with the projects funded by loans from Salix. The Council held £4.035m of Salix loans at 30 September 2023. These loans are repaid over a period of 8 or 10 years, depending on the agreement, with 2 repayments made per year, per loan. These loans have funded LED street lighting, LED lighting in schools and leisure centres and various other sustainable projects.

Table 3 – Other Loans Outstanding at 30 September 2023

Other Loans at 30 September 2023							
	Salix Loan 1 £'000	Salix Loan 2 £'000	Salix Loan 3 £'000	Salix Loan 4 £'000	Salix Loan 5 £'000	Salix Loan 6 £'000	TOTAL £'000
Outstanding Balance	16.5	114.0	349.8	158.4	1,873.7	1,522.9	**4,035.3**
Repayment Date	2024/25	2025/26	2027/28	2029/30	2031/32	2035/36	
Interest rate (%)	-	-	-	-	-	-	**-**

5. Annual Investment Strategy

5.1 The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 9 March 2023.

5.2 The Council continues to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite.

5.3 Investment rates continued to increase during the first quarter of 2023/24, which the Council has benefitted from by investing in fixed term secure investments. In August 2023, the Bank of England increased the base rate to 5.25% and it has remained at 5.25%. There is an increased risk that the base rate might peak beyond 5.25% due to the current conflict in the Middle East and impact of supply issues arising from ships being targeted in the Red Sea.

5.4 **Creditworthiness –** 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.

5.5 **Investment Counterparty Criteria –** The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

5.6 **Investment Balance –** The total balance of investments at 30 September 2023 was £45.345m, as shown in Table 4 below. The yield from these investments from 1 April 2023 to 30 September 2023 was £1.088m, with the total interest receivable on the below listed investments expected to be £1.752m for 2023/24. This figure is likely to be higher as new investments are made when these mature, however, cash balances are reducing as the financial year progresses, so not all these investments will be viable to renew on maturity.

Table 4 - Investments held 1 April 2023 to 30 September 2023

Counterparty	Start Date	End Date	Interest Rate %	Investment Amounts 1 April to 30 September 2023	Investment Principal at 30 September 2023	Estimated Interest earned for the period £	Estimated Total Interest 2023/24 on these investments £
NatWest Call Account - estimate for period	01/04/2023	31/03/2024	1.70%	2,844,585	2,844,585	93,176	174,649
Bank of Scotland Call Account	18/04/2023	31/03/2024	5.14%	7,500,000	7,500,000	156,591	349,341
National Westminster Bank Fixed Term	11/01/2023	11/07/2023	4.10%	10,000,000	-	113,452	113,452
National Westminster Bank Fixed Term	11/07/2023	11/01/2024	5.88%	10,000,000	10,000,000	130,488	296,416
Santander	10/02/2023	10/05/2023	4.00%	7,500,000	-	32,055	32,055
Santander	10/05/2023	10/11/2023	4.76%	7,500,000	7,500,000	139,866	179,967
Nationwide Building Society	06/04/2023	06/07/2023	4.17%	5,000,000		51,982	51,982
Nationwide Building Society	06/07/2023	08/01/2024	5.47%	5,000,000	5,000,000	64,441	139,373
Goldman Sachs	22/12/2022	22/06/2023	3.83%	7,500,000	-	64,533	64,533
Goldman Sachs	22/06/2023	22/12/2023	5.52%	7,500,000	7,500,000	113,425	207,567
Wakefield Council	22/08/2023	22/09/2023	5.23%	5,000,000	-	22,210	22,210
Wrexham County Borough Council	25/10/2022	25/04/2023	3.80%	5,000,000	-	12,493	12,493
Wrexham County Borough Council	25/04/2023	25/10/2023	4.30%	5,000,000	5,000,000	93,068	107,795
Total					**45,344,585**	**1,087,779**	**1,751,832**

5.7 The Council set a budget of £1.036m and, after transferring the interest due on school balances and the HRA, it is still estimated that this budget target will be exceeded in 2023/24.

5.8 **Approved Limits –** Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2023.

6. Prudential Indicator for Capital Expenditure

6.1 The Council's Capital Position

Table 5 below shows the revised estimates for capital expenditure in comparison to the capital budget at quarter 2:-

Table 5 – Capital Expenditure

	Original Estimate 2023/24 £'000	Approved Revised Budget 2023/24 £'000	Budget to 30 September 2023 £'000	Expenditure to September 2023 £'000	Quarter 2 Estimate for Total Expenditure 2023/24 £'000
Council Fund	24,405	40,030	11,997	10,760	36,431
HRA	13,557	19,988	7,003	7,943	21,878
Total	**37,962**	**60,018**	**19,000**	**18,703**	**58,309**

6.1.1 The original budget was prepared in January 2023 before the slippage from 2022/23 was known. The approved revised budget includes £13.477m of slippage from 2022/23, approved by the Executive on 27 June 2023. An additional £8.579m capital budget was approved by the Executive during the year. £7.044m of the additional schemes during the year are funded by grants. The in-year changes show that unsupported borrowing is expected to reduce by £2.797m, though supported borrowing is expected to increase by £1.661m. Supported borrowing is funded by Welsh Government in the annual RSG.

6.1.2 The revised budget for 2022/23 is £60.018m, and £58.309m of this was expected to be spent by 31 March 2024, as reported in the capital monitoring report Q2, presented to the Executive on 28 November 2023. During the period 1 April 2023 to 30 September 2023, £18.7m of actual expenditure had been incurred against a £19m profiled budget, which showed that spend was very close to the budget as at 30 September 2023.

6.2 Changes to the Financing of the Capital Programme

6.2.1 There are some changes to the financing of the capital programme, as can be seen in Table 6 below, due to the changes to the capital budget noted in 6.1.1 and 6.1.2 above.

6.2.2 Table 6 below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original funding of the capital programme, and the expected funding arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements. The source of funding for projects might also change at year end as funding is allocated in the most cost-effective way to mitigate capital financing pressures. This also allows increased flexibility to respond to later offers of external grant funding where the Council is asked to displace the funding in year but to ensure there is funding in the next year to fulfill the conditions of the grant being offered.

Table 6 – Estimated Funding of Capital Expenditure

Capital Financing	**2023/24 Original Estimate £'000**	**2023/24 Revised Estimate £'000**
Capital Grants	22,367	35,229
Capital Receipts	500	443
Reserves	0	4,096
Revenue Contribution	9,221	11,635
Supported Borrowing	3,077	8,500
Unsupported Borrowing	2,797	38
Loan	0	77
Total	**37,962**	**60,018**

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

6.3.1 Prudential Indicator – External Debt Limits

The below table shows that, at 30 September 2023, the Council was well within the debt limits set by the Treasury Management Strategy Statement (TMSS) 2023/24 and is forecast to be £50m within the maximum limit on borrowing (authorised limit) and £45m within the operational boundary at 31 March 2024.

The authorised limit is the absolute maximum the Council is permitted to borrow. This can be changed only if affordable and with the permission of full Council. Other options should be considered first such as reviewing the projects funded by borrowing or considering alternative funding sources. The operational boundary is the level of borrowing which must trigger the review of options for funding projects or other actions to ensure that the authorised limit is not breached.

Table 7 – External Debt compared to Borrowing Limits

Prudential Indicator – External Debt Limits	TMSS 2023/24 £'000	Amount within the TMSS Debt Limits at 30 September 2023 £'000	Estimated Borrowing Position 31 March 2023 £'000	Estimated Amount within the TMSS Debt Limits at 31 March 2024 £'000
Authorised Limit - general borrowing	175,000	51,400	175,000	49,851
Operational Boundary - general borrowing	170,000	46,400	170,000	44,851
Actual general borrowing 30 September 2023	123,600	N/A	125,149	N/A
Other long-term liabilities	5,000	5,000	-	-

6.4. Prudential Indicator – Capital Financing Requirement (CFR)

6.4.1 Table 8 below shows the CFR, which is the underlying need to incur borrowing to fund capital expenditure. The CFR is expected to be £1.451m higher than the original estimate. This relates to the Council fund CFR and relates to slippage from 2022/23 capital programme. This masks that there is an increase of £4.133m relating to unsupported borrowing which is allocated to slipped projects to 2023/24 and there is a decrease in unsupported borrowing by £2.759m relating to the Band B schools programme. There is also £0.077m slippage on the Salix loan funded project. Changes are expected as the TMSS is produced before the capital programme for the year has been finalised. Capital projects can also slip due to a variety of reasons or alternative funding is found to reduce the amount of borrowing needed.

Table 8 – Change in the Capital Financing Requirements 2023/24 at 30 September 2023

Prudential Indicator – Capital Financing Requirement (CFR)	2023/24 Original Estimate £'000	2023/24 Revised Estimate £'000
CFR – Council Fund	111,697	113,148
CFR – HRA	38,286	38,286
Total CFR	149,983	151,434
Net movement in CFR	-	1,451

6.4.2 Analysis of borrowing

The table above shows the revised forecast CFR for 2023/24 is £151.434m. This is comprised of £123.600m of external borrowing, predominantly from the PWLB with Salix interest free loans for low carbon and energy efficiency projects. The difference between the CFR, which is the amount of capital expenditure to be funded by borrowing, and the external / actual borrowing taken out, is the internal borrowing. This is where the Council has used cash balances to fund capital expenditure to delay the actual borrowing for as long as possible, to save interest payable charges. This is in line with the TMSS 2023/24 and is the approach recommended by the Council's treasury management consultants, Link Group, due to impact of the economy on interest rates and gilts which PWLB interest rates are based on. When cash balances become too low, this borrowing will be externalised by taking out new loans from the PWLB. To reduce the capital financing charges, it is likely that shorter-term loans up to five years would be taken out.

Table 9 – Profile of borrowing between external borrowing and internal borrowing (use of cash balances)

	Current Position at 30 September 2023 £'000	Revised Estimated CFR 31 March 2024 £'000
External Borrowing	123,600	125,154
Internal Borrowing	27,834	26,280
Other long-term liabilities	-	-
(year-end position)	**151,434**	**151,434**

7. Debt Rescheduling

7.1 Debt rescheduling opportunities have increased significantly in the current period, where gilt yields, which underpin PWLB rates and market loans, have risen materially. An exercise was completed in June 2023, which demonstrated that replacing existing loans with new loans would attract discounts but, due to higher interest rates, total interest payable until the loans mature would be significantly higher and would, therefore not be affordable as revenue capital financing costs would increase.

8. Compliance with Treasury and Prudential Limits

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

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

9. Conclusion

9.1 During the period 1 April 2023 to 30 September 2023, the Council has been proactive with depositing surplus cash balances in secure UK banks and local authorities. The Council has benefitted from the interest rate increases during the period, with £1.088m in interest receivable on these deposits. The estimated interest receivable for the full year on the investments active during the period is forecast at £1.752m. Three deposits have been arranged since 30 September 2023, which will be reported subsequently. It should be noted that the HRA, schools and amounts the Council holds on behalf of others will receive a share of the interest receivable based on their balances at 31 March 2024 and the average interest rate from all deposits. Also of note, is the Council's cash balances are reducing, therefore, future interest receivable might not achieve the levels in 2023/24.

9.2 The Council has not applied for any PWLB loans during the period to minimise interest payable and defer the borrowing identified for funding specific capital projects until necessary. The Council has borrowed interest free loans from Salix for energy efficiency / low carbon capital projects.

9.3 In summary, the Council's Treasury Management position remains stable, with better than forecast investment returns and all prudential indicators remaining within the boundaries and targets set in the Treasury Management Strategy Statement for 2023/24. No new external borrowing has taken place with the Council's strategy continuing to use internal borrowing to fund capital expenditure, but as cash reserves are utilised (balance the budget, winding down of school balances, use of HRA reserve to fund capital expenditure) the amount of surplus cash reduces which has reduced the sums available to invest and the level of internal borrowing than can be supported. This will invariably require a change in strategy in the future, with additional external borrowing having to be undertaken.

MARC JONES
DIRECTOR OF FUNCTION (RESOURCES)
& SECTION 151 OFFICER

APPENDIX B

Maturity Financial Year	PWLB Loan Reference	Principal £	Rate of Interest %	Present Value of Loan Principal at 3.5% £
2023/2024	475890	1,000,000	8.5	
	473692	569,200	7.875	
	475927	284,600	8.5	
2023/2024 Total		1,853,800		1,853,800
2026/2027	474962	853,800	8.625	
	503948	527,601	3.67	
2026/2027 Total		1,381,401		1,245,945
2027/2028	473954	674,502	7	
	493424	1,000,000	5.2	
	503949	490,601	3.73	
2027/2028 Total		2,165,103		1,886,762
2028/2029	400773	20,064	9.5	
	503950	262,440	3.8	
2028/2029 Total		282,504		237,861
2029/2030	401356	5,903	9.25	
	401772	3,934	9.25	
	402384	5,962	9.375	
	402971	1,156	9.125	
	403625	7,149	9.25	
	406721	12,590	9.25	
	474795	853,800	8.625	
	503951	684,697	3.85	
2029/2030 Total		1,575,192		1,281,419
2030/2031	407327	8,981	9.375	
	408828	5,651	9.25	
	409994	7,992	9.75	
	410218	4,879	9.75	
	410734	2,153	9.625	
	410915	8,782	9.75	
	411471	7,912	9.25	
	503952	450,706	3.91	
2030/2031 Total		497,055		390,681
2031/2032	475733	1,280,700	8.625	
	503953	660,449	3.96	
2031/2032 Total		1,941,149		1,474,131
2032/2033	422775	26,935	9.25	
	423932	33,446	9.5	
	426595	1,252	9.875	
	503954	314,886	4.01	
2032/2033 Total		376,518		276,263
2033/2034	503955	636,565	4.05	
2033/2034 Total		636,565		451,273
2034/2025	503956	623,834	4.09	
2034/2025 Total		623,834		427,292
2035/2036	503957	611,357	4.13	
2035/2036 Total		611,357		404,586

Maturity Financial Year	PWLB Loan Reference	Principal £	Rate of Interest %	Present Value of Loan Principal at 3.5% £
2036/2037	503958	599,130	4.16	
2036/2037 Total		599,130		383,086
2037/2038	503959	587,147	4.18	
2037/2038 Total		587,147		362,729
2038/2039	503960	225,467	4.2	
2038/2039 Total		225,467		134,579
2039/2040	493437	5,000,000	4.95	
2039/2040 Total		5,000,000		2,883,530
2040/2041	493438	3,500,000	4.95	
2040/2041 Total		3,500,000		1,950,213
2042/2043	503961	999,781	4.25	
2042/2043 Total		999,781		520,042
2043/2044	503962	1,020,120	4.25	
2043/2044 Total		1,020,120		512,678
2044/2045	503963	1,009,718	4.25	
2044/2045 Total		1,009,718		490,290
2045/2046	503964	11,464,215	4.25	
2045/2046 Total		11,464,215		5,378,444
2050/2051	490892	2,000,000	4.15	
2050/2051 Total		2,000,000	4.15	790,024
2052/2053	491677	6,800,000	4.2	
	492220	5,000,000	4.05	
	492698	6,000,000	4.25	
	493722	5,000,000	4.55	
	493723	1,138,400	4.55	
	493906	4,300,000	4.55	
2052/2053 Total		28,238,400		10,412,858
2054/2055	474612	3,000,000	8.375	
2054/2055 Total		3,000,000		1,032,691
2055/2056	476679	1,500,000	8	
	476783	2,000,000	7.875	
2055/2056 Total		3,500,000		1,164,064
2056/2057	478340	2,000,000	7.875	
	479464	3,000,000	7.125	
2056/2057 Total		5,000,000		1,606,714
2057/2058	479465	3,000,000	7.125	
	479802	3,000,000	6.875	
	480214	2,000,000	6.5	
	480215	512,854	6.5	
2057/2058 Total		8,512,854		2,643,037
2059/2060	483423	1,763,308	4.25	
2059/2060 Total		1,763,308		511,064
2064/2065	508920	10,000,000	2.24	
2064/2065 Total		10,000,000		2,357,791
2066/2067	505939	6,200,000	2.2	
2066/2067 Total		6,200,000		1,412,397
2068/2069	508376	15,000,000	2.49	
2068/2069 Total		15,000,000		3,189,889
Grand Total		**119,564,619**		**47,666,132**

APPENDIX C

Economic Update & Forecasts

- The first half of 2023/24 saw:-
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium, and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and, in the Euro,-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and / or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment / lower wage increases).
- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

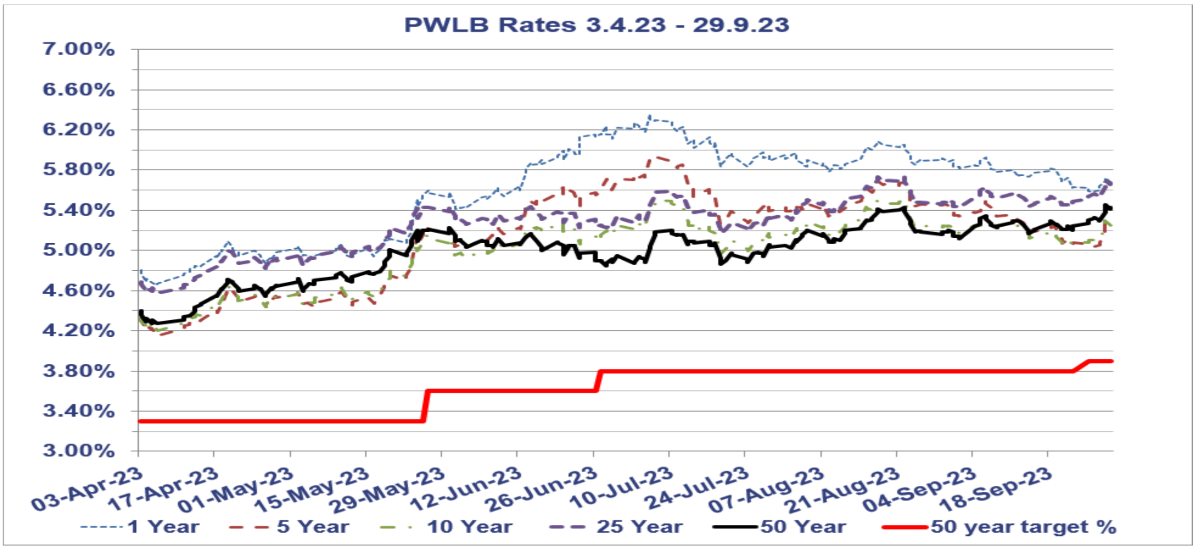
PWLB Rates Analysis 1 April 2023 to 30 September 2023

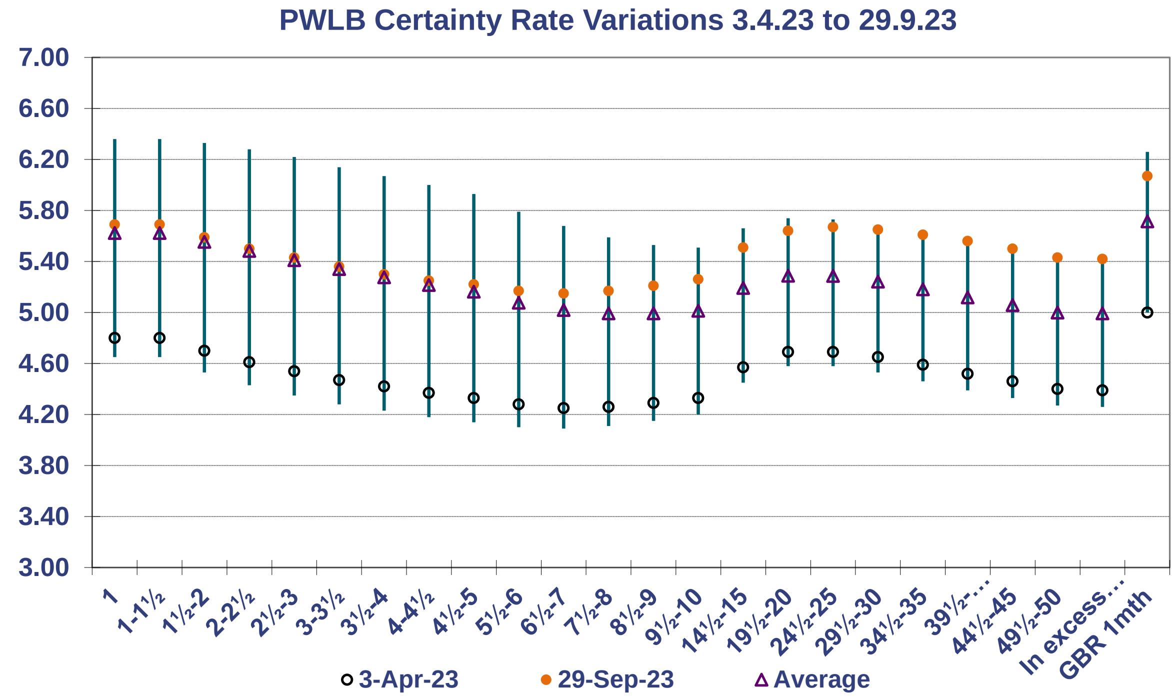
While the Council did not require any new PWLB loans during the period, the below information provides the information about changes in PWLB rates in the context of increasing interest rates and gilts.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 29th September 2023
Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14%, whilst the 25-year rate was relatively expensive at 4.58%.

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

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





HIGH / LOW / AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

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

- The current PWLB rates are set as margins over gilt yields as follows:-

  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate (GF)** is gilt plus 80 basis points (G+80bps)
  - **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
  - **PWLB Certainty Rate (HRA)** is gilt plus 40 basis points (G+40bps)

- The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).