ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**EXECUTIVE COMMITTEE**
Date:	**24 OCTOBER 2023**
Subject:	**TREASURY MANAGEMENT QUARTER 1 UPDATE 2023/24**
Portfolio Holder(s):	**COUNCILLOR R WILLIAMS – DEPUTY LEADER & FINANCE PORTFOLIO HOLDER**
Head of Service / Director:	**R MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) & SECTION 151 OFFICER**
Report Author: Tel: E-mail:	**CLAIRE KLIMASZEWSKI / SIAN A JONES / JEMMA ROBINSON** **01248 752133** **claire.klimaszewski@ynysmon.llyw.cymru**
Local Members:	**n/a**

A –Recommendation/s and reason/s

To recommend that the Executive:-

- Note the report, the treasury activity and the prudential indicators as at 30 June 2023.
- That all future Quarter 1 and Quarter 3 Treasury Management reports are reviewed and accepted by the Portfolio Holder for Finance and reported to the Governance and Audit Committee for information only. The half yearly and annual review reports will continue to follow the same process i.e. reported to the Governance & Audit Committee, the Executive and full Council.

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

Report is for 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 / Senior 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**	The annual and half yearly report are subject to scrutiny by the Governance & Audit Committee. The Code does not require the first and third quarter reports to be subject to any additional scrutiny.
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.
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.
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 comply with 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 1 Report 2023/24
Appendix B – Economic Update
Appendix C – Prudential and Treasury Indicators tor 2023/24 as at 30 June 2023.

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

- Treasury Management Strategy Statement 2023/24 – see link below
- Treasury Management Outturn Report 2022/23 – see link below
  https://democracy.anglesey.gov.uk

APPENDIX A

1. Background

1.1 This report has been written in accordance with the requirements of CIPFA's Code of Practice for Treasury Management 2021 and CIPFA Prudential Code 2021 (The Code). The Code requires that Members be updated on forward-looking prudential indicators at least quarterly. This is a new requirement for the years 2023/24 and beyond. Previously, a mid-year report and outturn report was produced and reported to the Governance and Audit Committee, the Executive and full Council. The Code states that the quarterly reports are not required to be taken to full Council but should be part of the Authority's regular revenue and capital budget monitoring reports.

1.2 The Treasury Management Strategy Statement 2023/24 (TMSS) sets out all the Council's Treasury Management plans and strategies for the financial year 2023/24. There were no policy changes to the TMSS nor any breaches of TMSS requirements during quarter 1. The quarterly reports aim to outline the progress made on treasury management activities in accordance with the TMSS 2023/24.

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 organising the investment of surplus cash, over what is needed in the general account, in highly secure accounts, such as UK banks with high credit ratings. The Council prioritises security of its funds in line with the Code and ensuring that enough cash is instantly accessible so that the Council remains liquid. 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 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

2.3 The second main 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 because a large part of treasury management is borrowing to fund capital expenditure. 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 and the annual capital programme and TMSS all support the Council's key priorities in the Council Plan 2023/28.

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 first quarter, which can be found in Appendix B. Economic issues have since moved on, which will be reported in the mid-year report. Link Group has also recently provided the following interest rate forecast as at 5 October 2023:-

Table 1 – Forecast Bank Base Rate and PWLB Rates December 2023 to September 2025

	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025
Bank Rate (%)	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%
5yr PWLB rate (%)	5.10%	5.00%	4.90%	4.70%	4.40%	4.20%	4.00%	3.90%
10yr PWLB rate (%)	5.00%	4.90%	4.80%	4.60%	4.40%	4.20%	4.00%	3.80%
25yr PWLB rate (%)	5.40%	5.20%	5.10%	4.90%	4.70%	4.40%	4.30%	4.10%
50yr PWLB rate (%)	5.20%	5.00%	4.90%	4.70%	4.50%	4.20%	4.10%	3.90%

3.2 In the TMSS 2023/24 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. Inflation, including core inflation has remained higher than the Bank of England expected, and for longer. The Bank of England base rate is currently forecast to peak at 5.25%, however, if there is an increase in inflation this is likely to peak at a higher rate. In the TMSS, the forecasts of the base rate in 2024 and 2025 were lower than those shown above, although these are reducing, they are projected to be higher than the estimates reported in the TMSS. This is due to inflation not reducing quickly enough.

3.3 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 June 2023

4.1 Borrowing PWLB – the Council's PWLB external borrowing remains the same as that presented in the TMSS in March 2023, with the exception of repayment of £5k 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 has to 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.

Table 2 - PWLB Loans Outstanding 30 June 2023

PWLB Loans at 30 June 2023			
	PWLB / PWLB Maturity £'000	PWLB EIP/ Annuity £	Total PWLB Loans at 30 June 2023 £'000
Loan Outstanding	119,400	173	119,573
Average life (years)	30.82	4.06	35
Average rate (%)	4.53	9.42	14

4.2 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 the loans from Salix fund. The Council held £5.261m of Salix loans at 30 June 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 June 2023

Other Loans at 30 June 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	350	158.4	1,873.7	2,748.7	**5,261.1**
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. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:-

- Security of capital
- Liquidity
- Yield

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 have continued to increase during the first quarter of 2023/24, which the Council has benefited from by investing in fixed term secure investments. However, unless inflation increases, the rates are expected to peak at the current rate of 5.25%.

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 June 2023 was £53.097m. The yield from these investments from 1 April 2023 to 30 June 2023, was £0.457m, with the total interest receivable on the below listed investments expected to be £1.287m 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.

Counterparty	Start Date	End Date	Interest Rate %	Principal at 30 June 2023 £	Estimated Interest earned for the period £	Estimated Total Interest 2023/24 on these investments £
Natwest Call Account	01/04/2023	Not applicable	1.25%	10,597,265	36,971	165,062
Bank of Scotland Call Account	18/04/2023	Not applicable	4.90%	7,500,000	73,500	350,384
National Westminster Bank Fixed Term	11/01/2023	11/07/2023	4.10%	10,000,000	101,096	113,452
Santander	10/02/2023	10/05/2023	4.00%	-	32,055	32,055
Santander	10/05/2023	10/11/2023	4.76%	7,500,000	49,882	180,945
Nationwide Building Society	06/04/2023	06/07/2023	4.17%	5,000,000	48,555	51,982
Goldman Sachs	22/12/2022	22/06/2023	3.83%	-	64,533	64,533

Counterparty	Start Date	End Date	Interest Rate %	Principal at 30 June 2023 £	Estimated Interest earned for the period £	Estimated Total Interest 2023/24 on these investments £
Goldman Sachs	22/06/2023	22/12/2023	5.52%	7,500,000	9,074	208,701
Wrexham County Borough Council	25/10/2022	25/04/2023	3.80%	-	12,493	12,493
Wrexham County Borough Council	25/04/2023	25/10/2023	4.30%	5,000,000	38,877	107,795
Total				**53,097,265**	**467,035**	**1,287,402**

5.7 The following is a summary of investment activity during quarter 1:-

- On 6 April 2023, the Isle of Anglesey County Council invested £5m with Nationwide Building Society with an interest rate of 4.17%. The investment matured on 06 July 2023 and was rolled over for a further 6 months with an interest rate of 5.47%.

- On 25 April 2023, a £5m investment with Wrexham County Borough Council matured and was rolled over for a further 6 months with an interest rate of 4.3%

- On 10 May 2023, a £7.5m investment with Santander matured and was rolled over for a further 6 months with an interest rate of 4.76%.

- On 22 June 2023, a £7.5m investment with Goldman Sachs matured and was rolled over for a further 6 months with an interest rate of 5.52%.

- The interest receivable budget of £1.424m that was set for 2023/24 was based on the increase in interest rates, hence providing more opportunities for investment of surplus cash. It is anticipated that the interest receivable budget can be met 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 June 2023.

6. Debt Rescheduling

Debt rescheduling opportunities have increased significantly in the current quarter 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.

7. Compliance with Treasury and Prudential Limits

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

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

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

APPENDIX B

Economic Update & Forecasts

- The first quarter of 2023/24 saw:-

  - A 0.2% m/m rise in real GDP in April, partly due to fewer strikes;
  - CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
  - Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
  - A tighter labour market in April, as the 3 month average of annual rate (3myy) growth of average earnings rose from 6.1% to 6.5%;
  - Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
  - 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.

- 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, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April 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 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.

- The fall in the composite Purchasing Managers Index (PMI) from 54.0 in May to a three-month low of 52.8 in June (>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 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.

- Meanwhile, the 0.3% m/m rise in retail sales volumes in May 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. 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.

- 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. Our 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.

- 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 to +250,000 in April. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April. 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%.
- The tighter labour market supported wage growth in April, although the 9.7% rise in the National Living Wage on 1st April (compared to the 6.6% increase in April last year) 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 UK wage growth remains much faster than in the 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 and regular private sector wage growth was well above the Bank's forecast.
- CPI inflation stayed at 8.7% in May (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 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 1st July, 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.
- This suggests the Bank may have more work to do than the Fed or ECB. Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the MPC's 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.
- 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%. Our 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.

- 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, 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.
- The pound strengthened from $1.24 at the start of April to a one-year high at $1.26 in early May, 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, before rising again to $1.28 in the middle of June 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.
- In early April, 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 FTSE 100 has fallen by 4.8% since 21st April, from around 7,914 to 7,553, reversing part of the 7.9% rise since 17th March. 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.

Monetary Policy Committee (MPC) meetings 11 May and 22 June 2023

- On 11th May, the Bank of England's MPC increased Bank Rate by 25 basis points to 4.50%, and on 22nd June 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.
- 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.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US 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.

An extract from advice received from: Link Asset Services

APPENDIX C

Prudential and Treasury Indicators for 2023/24 as of 30 June 2023

		2022/23 out-turn	2023/24 estimate	2024/25 proposal	2025/26 proposal
Affordability					
1,2	**Estimates of [or actual] ratio of financing costs to net revenue stream:**				
	Council Fund	2.78%	2.29%	2.73%	2.86%
	Housing Revenue Account (inclusive of settlement)	7.18%	21.14%	26.12%	29.36%
	Total	3.27%	4.30%	5.26%	5.85%
Prudence					
3	**Gross debt and the Capital Financing Requirement (CFR)**	✓	✓	✓	✓
	Is the gross external debt < the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?		✓	✓	✓
Capital Expenditure					
4,5	**Estimates of [or actual] capital expenditure**	**£'000**	**£'000**	**£'000**	**£'000**
	Council Fund	29,510	36,596	8,450	4,959
	Housing Revenue Account	11,180	19,888	34,351	27,659
	Total	**40,690**	**56,484**	**42,801**	**32,618**

6,7	**Estimates of [or actual] Capital Financing Requirement**	**£'000**	**£'000**	**£'000**	**£'000**
	Council Fund	105,824	113,940	117,679	118,377
	Housing Revenue Account	38,287	38,158	63,324	82,183
	Total	**144,111**	**152,098**	**181,003**	**200,560**

8	**Authorised Limit**	**£'000**	**£'000**	**£'000**	**£'000**
	: General Borrowing	175,000	182,000	210,000	230,000
	: Other long term liabilities	5,000	5,000	5,000	5,000
	: Total	**180,000**	**187,000**	**215,000**	**235,000**

9	Operational Boundary	£'000	£'000	£'000	£'000
	: General Borrowing	170,000	177,000	205,000	225,000
	: Other long term liabilities	5,000	5,000	5,000	5,000
	: Total	**175,000**	**182,000**	**210,000**	**230,000**
10	**Actual External Debt**	**123,800**			
	Treasury Management	**2022/23 out-turn**	**2023/24 estimate**	**2024/25 proposal**	**2025/26 proposal**
11	**The limit for total principal sums invested for periods longer than 364 days**	15,000	15,000	15,000	15,000