Agenda Item No:

Report to: **Audit Committee**

Date of Meeting: **09 November 2023**

Report Title: **Treasury Management Update – 2023/24 Quarter 2**

Report By: **Mufutau Gbadamosi (Corporate Finance Officer, on behalf of Deputy Chief Finance Officer)**

Purpose of Report

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 Council is implementing best practice in accordance with the Code.

Recommendation(s)

The Cabinet is asked to recommend the following to Full Council:

1. Note the report, the treasury activity and recommend approval of any changes to the prudential indicators.

Reasons for Recommendations

To ensure that Members are fully aware of the activities undertaken in the last quarter, that the Codes of Practice have been complied with and that the Council's Treasury Management strategy is effective and does not need revising.

Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be further reports on Treasury Management for 2023/24, the Quarter 3 Update Report, and an Outturn Report.

Introduction

1. The following economic update and interest rate forecasts have been provided by the Council's Treasury Management Advisors, Link Group.

Economics update

2. The first half of 2023/24 saw:

   - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and the possible 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.

3. 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).

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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).

12. 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.

13. 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.

MPC meetings 20 September 2023

14. In its latest monetary policy meeting on 20th 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.

15. 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."

16. 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.

Interest rate forecasts

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

18. The latest forecast on 25th September sets out a view that short, medium, 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.

19. Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

The Link forecast 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.

PWLB RATES

20. 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%.

21. Link 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.

Annual Investment Strategy

22. The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Full Council on 8 February 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

23. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council'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.

24. As shown by the charts below and the interest rate forecasts above, 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.

Creditworthiness.

25. 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.

Investment counterparty criteria

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

Investment balances

27. The average level of funds available for investment purposes during the quarter was £31.7m. 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. The Council holds £3.8m core cash balances for investment purposes (i.e., funds available for more than one year).

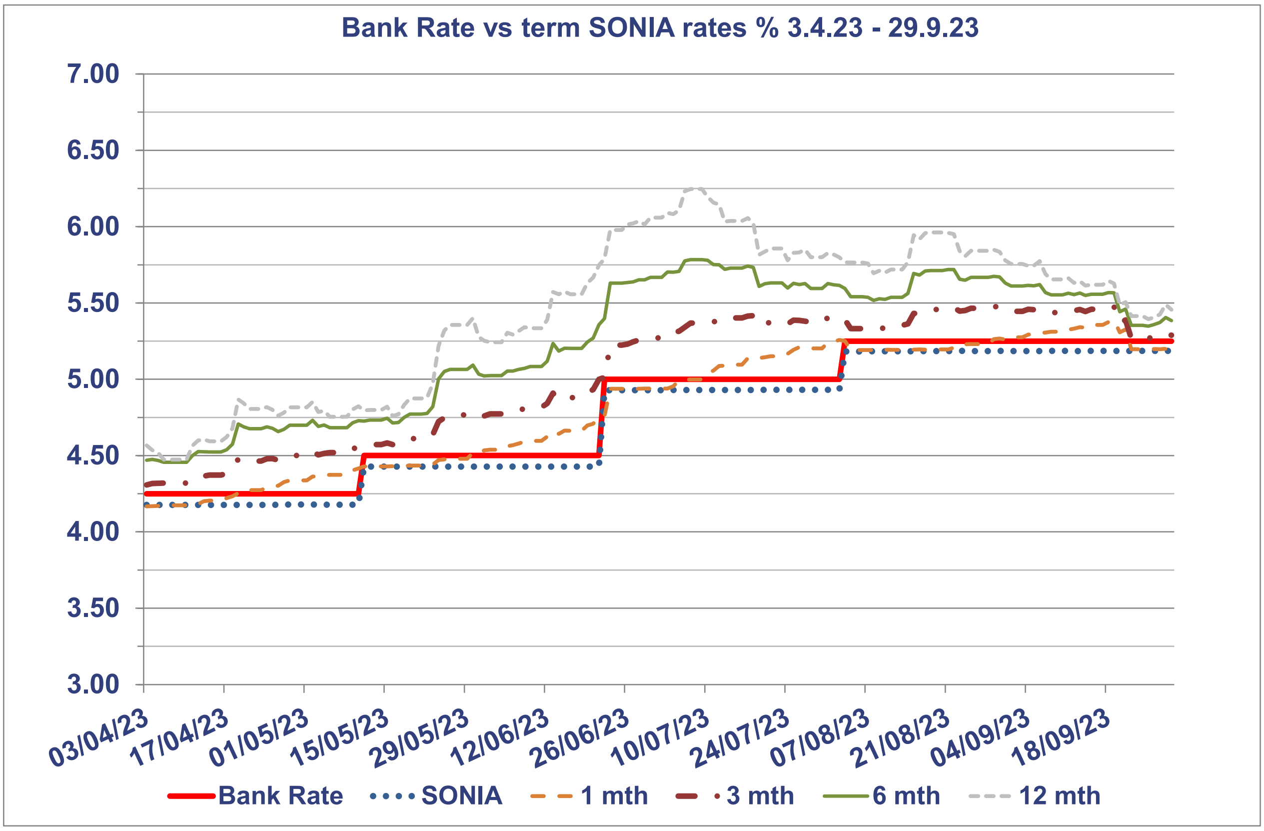
28. The table below provides a snapshot of the investments/deposits held at 29th September 2023 (excluding those with CCLA).

Counterparty	Yield (%)	Start Date	End Date	Principal (£)	Term
DBS Bank Ltd, London	4.97	17/05/2023	17/11/2023	5,000,000	Fixed
Goldman Sachs	5.24	01/06/2023	01/12/2023	5,000,000	Fixed
Helaba Landesbank Hessen	5.20	06/07/2023	06/10/2023	5,000,000	Fixed
West Dunbartonshire Council	5.20	31/07/2023	31/10/2023	5,000,000	Fixed
Invesco	daily change – 5.32	07/03/2023		5,000,000	Call
Northern Trust	daily change – 5.31	13/02/2023		1,500,000	Call
Morgan Stanley	daily change – 5.32	20/03/2023		1,500,000	Call
Barclays	1.00			23	Call
NatWest	1.00			6,147	Call
Lloyds Gen	1.74			1,215,460	Call
			Total	**29,221,630**	

29. The weighted average return of the portfolio at 29th September 2023 was 5.06%.

30. Investment performance can be compared against the Sterling Overnight Index Averages to evaluate performance. There is a choice of using the forward looking (term) benchmarks and the backward-looking benchmarks.

31. The forward-looking benchmark reflects where the market has moved to over time, whereas the backward-looking benchmark reflects where the market was positioned when investments were placed.



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32. The following table covers the first half of 2023/24

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	29/09/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.81	4.74	4.83	5.03	5.26	5.45
Spread	1.00	1.01	1.22	1.17	1.33	1.77

33. The Council has outperformed the benchmark backward looking SONIA rate of 4.74% by 32 bps. The Council's budgeted investment return for 2023/24 is £899,000 with forecast performance for the year expected to exceed budget.

34. The interest received as at 30th September 2023 was £858,000, with an annual forecast of £1,086,000. The interest receivable budget for 2022/23 was £503,000 actual interest received was £1,141,000. We are unlikely to achieve this level of interest income this year as cash available to invest decreases as work on the capital programme progresses.

CCLA Investments: Property Fund & Diversified Income Fund (DIF)

35. The Council also had longer term investments with CCLA in a Property Fund and Diversified Income Fund.

36. The value of the Diversified Income Fund as 30th August 2023 was £1,978,013.59 comprising 1,918,776.7385 units (current market value of £2,666,332.16). The dividend yield on the net asset value is 3.26% (3.04 as June 2023).

37. The value of the Property Fund as 30 September 2023 was £1,855,334 (being 651,063 units at a 284.97) with a dividend yield of 4.49% (4.4% as at June 2023).

Loans to Other Organisations

38. As at 30th September 2023 the following longer-term loans made to other organisations were outstanding:

3rd Party Organisations	Rate/ Return (%)	Start Date	End Date	Principal Outstanding as at 30th September 2023 (£)	Type
Amicus Horizon	3.78	04/09/2014	02/09/2044	1,788,235	Maturity
The Foreshore Trust	1.66	21/03/2016	20/03/2026	95,262	Annuity
The Source	2.43	17/12/2015	17/12/2025	22,763	Annuity
			Sub-Total	**1,906,260**	
Hastings Housing Company					
Hastings Housing Company Loan 1	4.48			784,676	Maturity
Hastings Housing Company Loan 1	4.84			344,810	Maturity
Hastings Housing Company Loan 1	4.84			4,359,912	Maturity
			Sub-Total	**5,489,398**	
			Total	**7,395,658**	

Approved limits

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

Borrowing

40. No borrowing was undertaken during the quarter ended 30th September 2023.

41. The Council has outstanding external debt of £65.1m comprising of 22 individual loans from the PWLB with an average rate of interest of 2.81%.

42. It is anticipated that borrowing of £24.8m will be required this financial year to fund expenditure on the capital programme. This figure is however dependant on progress made on the capital programme, any capital receipts received within the year from asset sales and the availability of cashflows and reserve balances to facilitate internal borrowing.

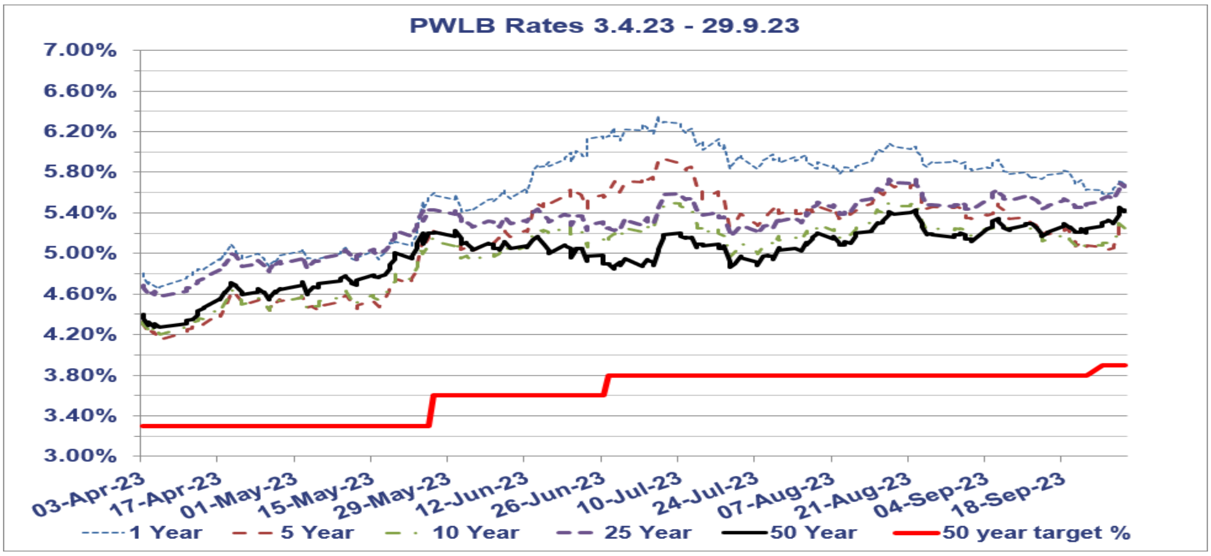
PWLB maturity certainty rates (gilts plus 80bps) year to date to 29th September 2023

43. 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%.

44. 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.

45. Link, our advisors, 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.

PWLB RATES 01.04.23 - 29.09.23 (30th Sept and 1st Oct was a weekend)



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%

Debt rescheduling

46. 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 however given the need to borrow to fund the capital programme this is unlikely without receiving significant capital receipts.

Compliance with Treasury and Prudential Limits

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

48. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th 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 Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

Timetable of Next Steps

50. List of key actions and the scheduled dates:

Action	Key milestone	Due date (provisional)	Responsible
Treasury Management Update Q3	Report	January 2024	Chief Finance Officer
Treasury Management Outturn Report 23/24	Report	April 2024	Chief Finance Officer

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Wards Affected

None.

Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No
Climate Change	No

Additional Information

Treasury Management and Annual Investment Strategy 2023/24
CIPFA - Treasury Management Code of Practice
CIPFA - The Prudential Code

Appendix 1 – Prudential Indicators
Appendix 2 – Approved countries for investments as of 29th September 2023
Appendix 3 – Abbreviations used in this report.

Officer to Contact

Officer Name: Mufutau Gbadamosi - Corporate Finance Officer (on behalf of Deputy Chief Finance Officer)
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Appendix 1 - Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget but updated with the latest forecasts) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	110,000	110,000	135,000	135,000	135,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	140,000	140,000	140,000
Operational Boundary for external debt					
borrowing	105,000	105,000	130,000	130,000	130,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	135,000	135,000	135,000

The Council's external borrowing at 30th Sept 2023 amounted to £65,094,179 which is well within approved borrowing limits.

It is however worth noting that although the Council has the ability to borrow up to £135m it is especially important to consider affordability. Borrowing to this level would only be possible if the capital schemes invested in were to generate a sufficient level of income to cover the MRP and interest costs at a level within the Council's risk appetite.

To reduce pressure on the revenue budget it would be preferable for the Council to look to fund the capital programme via capital receipts from asset disposals rather than additional borrowing.

Interest Rate Exposures	2022/23 Upper	2023/24 Upper	2024/25 Upper
Limits on fixed interest rates based on **net** debt	100%	100%	100%
Limits on variable interest rates based on **net** debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%

Maturity Structure of fixed interest rate borrowing 2023/24	Lower	Upper
Under 12 Months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Maturity Structure of variable interest rate borrowing 2023/24	Lower	Upper
Under 12 Months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years to 20 years	0%	10%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

Based on the current budget position and the forecast outturn there is no need to increase the Authorised Limit or the Operational Boundary at the current time. Likewise, there is no need to make any amendments to the Council's interest rate exposures or debt maturity structures at the current time.

Affordability Prudential Indicator - Ratio of financing costs to net revenue stream.

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Prudential Indicator: Financing Cost to Net Revenue Stream	2021/22 Actual	2022/23 Actual	2023/24 Budget	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,825	1,862	2,811	2,435	3,681	3,665
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-	-
4. Interest and Investment Income	(540)	(1,141)	(824)	(900)	(618)	(618)
5. Amounts payable or receivable in respect of financial derivatives	-	-		-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,668	870	1,950	904	939	976
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-		-	-	-
Total	2,953	1,591	3,937	2,439	4,002	4,023
Net Revenue Stream Amount to be met from government grants and local taxpayers	14,253	13,370	14,821	13,637	13,910	14,188
Ratio **Financing Cost to Net Revenue Stream**	**21%**	**12%**	**27%**	**18%**	**29%**	**28%**

Note: Outturn figures for 2021/22 and 2022/23 are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing over time. This is not unexpected given that the Council has had an income generation strategy that has resulted in increased Capital expenditure over the period 2017/18 to 2021/22 and that the Council agreed a programme for over £54m of Capital expenditure over the period 2020/21 to 2023/24 - thus increasing borrowing costs. The above ratio does not take into account the income being generated from some of the initiatives and commercial property acquisitions as these are not treated as investment income.

It should be noted that due to lower than budgeted interest and MRP charges and greater than budgeted investment income the ratio of financing costs to the net revenue stream for 2023/24 has reduced from 27% at the time of setting the budget (and included in the Treasury Management strategy) to 18% now.

Other Prudential Indicators

Internal Borrowing and Gearing ratios for the authority are included in the Capital Strategy.

Gearing Calculation	Actual 2020-21 £'000	Actual 2021-22 £'000	Actual 2022-23 £'000	Budget 2023-24 £'000	Estimate 2023-24 £'000	Estimate 2024-25 £'000	Estimate 2025-26 £'000	Operational Boundary £'000
Capital Expenditure			9,661	29,322	29,322	15,324	2,591	
New Borrowing			-	24,837	24,837	11,471	485	
Net Assets	88,861	108,409	118,070	156,610	147,392	162,715	165,306	211,291
Long Term Assets	182,088	185,420	195,081	233,621	224,403	239,726	242,317	288,302
Capital Financing Requirement	72,683	71,970	71,100	97,524	95,033	105,337	104,535	135,000
RATIOS:								
Debt: Net Assets	**82%**	**66%**	**60%**	**62%**	**64%**	**65%**	**63%**	**64%**
Debt: Long Term Assets	**40%**	**39%**	**36%**	**42%**	**42%**	**44%**	**43%**	**47%**

The forecast ratio of debt to net assets for 2023/24 has increased from 62% at the time of setting the budget to a forecast of 64% now. This is due to a lower level of assets being used in the calculation as not all the capital expenditure plans of the 2022/23 budget were achieved in the year.

Appendix 2 - Approved countries for investments as of 30th September 2023

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France (downgraded by Fitch on 9th May 2023)
- Qatar
- **U.K.**

Appendix 3 – COMMON ABBREVIATIONS USED FINANCE REPORTS

CE: Capital Economics - is the economics consultancy that provides Link Group, Treasury solutions, with independent economic forecasts, briefings, and research.

CFR: Capital Financing Requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency.

Fed: The Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. The Congress created it to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the

United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).