

**APPENDIX A**

**TREASURY MANAGEMENT MID YEAR REVIEW FOR 2023/24**

**A1. SUMMARY OF TREASURY MANAGEMENT INDICATORS**

The City Council approved the authorised limit (the maximum amount of borrowing permitted by the Council) and the operational boundary (the maximum amount of borrowing that is expected) when it considered the budget on 28 February 2023. The Council's debt on 30<sup>th</sup> September was as follows:

<b>Prudential Indicator</b>	<b>Approved £m</b>	<b>Actual £m</b>
Authorised Limit - the maximum amount of borrowing permitted by the Council	1,100	740
Operational Boundary Limit - the maximum amount of borrowing that is expected	1,067	740
Capital Financing Requirement	1,067	925

The maturity structure of the Council's fixed rate borrowing was:

	<b>Under 1 Year</b>	<b>1 to 2 Years</b>	<b>3 to 5 Years</b>	<b>6 to 10 Years</b>	<b>11 to 20 Years</b>	<b>21 to 30 Years</b>	<b>31 to 40 Years</b>	<b>41 to 50 Years</b>
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	10%	20%	30%	40%	40%	40%
Actual proportion of loans maturing	1%	1%	4%	13%	15%	8%	31%	27%

The maturity structure of the Council's variable rate borrowing was:

	<b>Under 1 Year</b>	<b>1 to 2 Years</b>	<b>3 to 5 Years</b>	<b>6 to 10 Years</b>	<b>11 to 20 Years</b>	<b>21 to 30 Years</b>	<b>31 to 40 Years</b>	<b>41 to 50 Years</b>
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	20%	20%	30%	40%	40%	40%
Actual proportion of loans maturing	2%	2%	7%	12%	24%	26%	13%	15%

Surplus cash invested for periods longer than 365 days on 30 September 2023 was:

	<b>Limit</b>	<b>Quarter 2 Actual</b>
	£m	£m
Maturing after 31/3/2024	130	14
Maturing after 31/3/2025	50	8
Maturing after 31/3/2026	50	5

## **A2. GOVERNANCE**

The Treasury Management Policy approved by the City Council on 14 March 2023 provides the framework within which treasury management activities are undertaken.

There have been no breaches of these policies during 2023/24 up to the quarter ending 30<sup>th</sup> September 2023.

### A3. INTEREST RATE FORECASTS

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates.

The latest forecasts are shown below.

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
<b>BANK RATE</b>	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

PWLB is the Public Works Loans Board

The Bank of England base rate started the preceding quarter at 4.25% but this has risen to 5.25% and possibly now peaked. At the latest Bank of England's monetary policy meeting on 2nd November, interest rates were left unchanged. Link expect the Bank of England to keep interest rates at this level until the second half of 2024, indicating that the Bank of England does not want the markets to decide that a peak in rates will soon be followed by a cut in interest rates, undermining the Banks' attempts to stop inflation pushing upwards.

The latest forecast on 25 September 2023 sets out a view that short, medium and long-dated interest rates will be elevated for some little while the Bank of England seeks to squeeze inflation out of the economy. Financial support packages provided by the government during the energy crisis are now being phased out.

### A4. BORROWING ACTIVITY

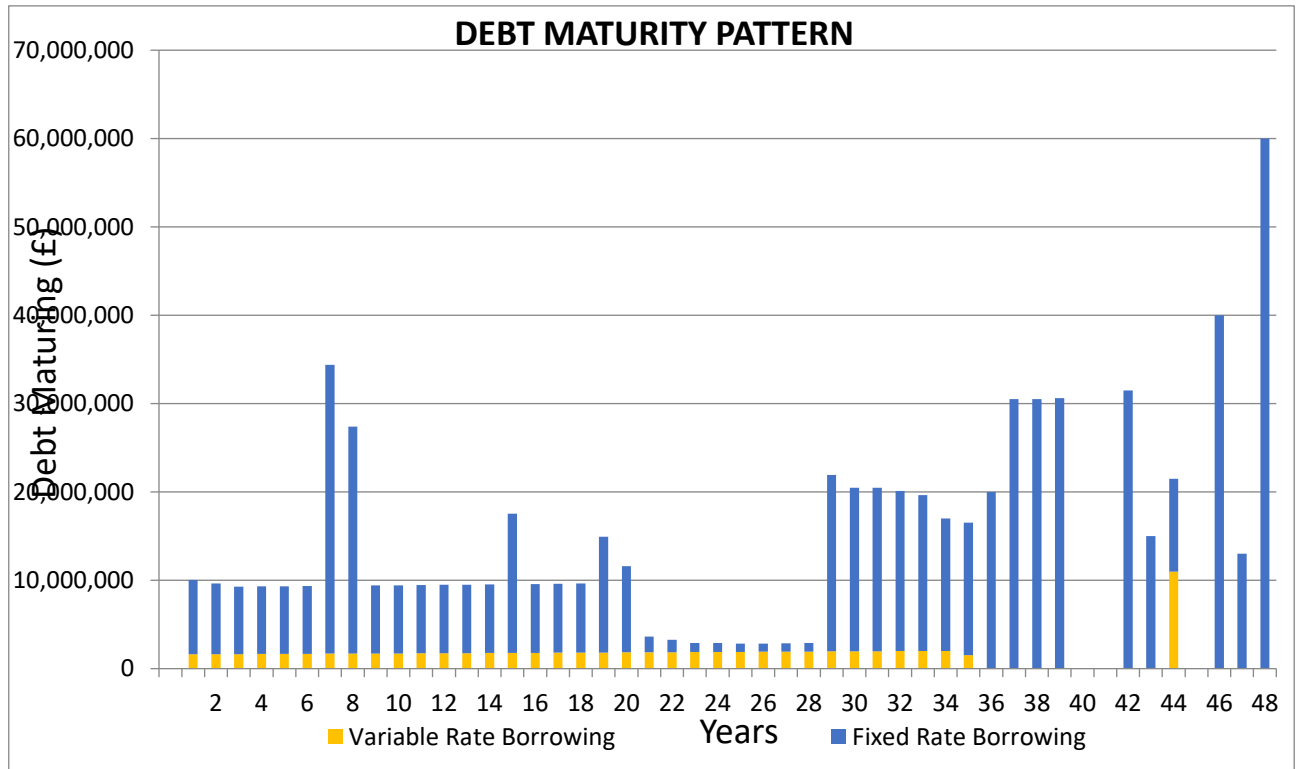
The Council's capital financing requirement (CFR) for 2023/24 is now estimated to be £925m. This denotes the Council's underlying need to borrow for capital purposes. Table A1 shows the Council has borrowings of £740m and it will need to utilize £185m of cash flow funds in lieu of borrowing during this year. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if further upside risk to yields continues.

No borrowing was undertaken during the first half of 2023/24 and it is anticipated that further borrowing will not be undertaken during this financial year.

The Council's gross borrowing on 30 September 2023 of £740m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council) of £1,100m and within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £1,067m.

The Council plans for gross borrowing to have a reasonably even maturity profile. This is to ensure that the Council does not need to replace large amounts of maturing borrowing when interest rates could be unfavourable.

The actual maturity profile of the Council's borrowing is within the limits contained within the Council's Treasury Management Policy (see paragraph A1).



### Early Redemption of Borrowing

No debt rescheduling or early repayment of debt has been undertaken during the first half of 2023/24 as it has not been financially advantageous for the Council to do so.

## A5. INVESTMENT ACTIVITY

In accordance with the Annual Investment Strategy which forms part of the Treasury Management Policy Statement approved by the Council on 14 March 2023, the investment priorities of security first, portfolio liquidity second and then yield are followed. The aim is to achieve the optimum yield that is commensurate with proper levels of security and liquidity within the Council's appetite for risk.

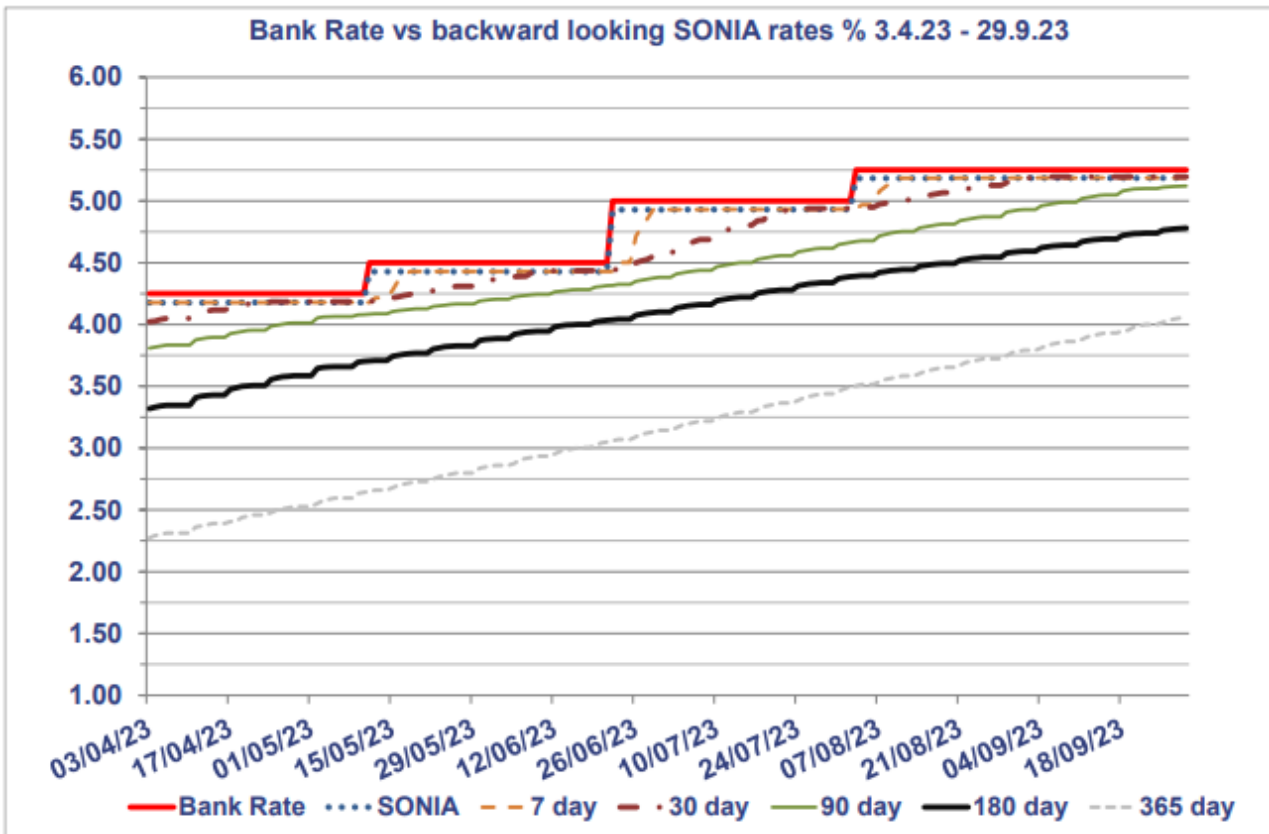
In the current climate, once sufficient investments are kept short-term to cover cashflow requirements, there is a benefit to seek out value available in periods up to 12 months with highly creditworthy counterparties. These counterparties are monitored weekly to ensure that they continue to meet the Council's minimum

requirements and there have been few changes to counterparties during the current quarter. There have been no breaches of the Treasury Policy approved by Council in investments placed with counterparties this quarter.

The average level of funds available for investments was £418m in the 6 months to 30 September 2023. The funds invested made an average annualized return of 4.37% in the first half of the year. This is compared with the performance in prior years in the table below.

	<b>Average Value (Proportion) of Portfolio</b>	<b>Annual Return at 31 March 2023</b>	<b>Annualised Return at 30 June 2023</b>	<b>Annualised Return at 30 September 2023</b>
Externally Managed Funds -Tradable Instruments	£11M (3%)	-6.52%	-8.15%	-1.44%
Tradable Structured Interest-Bearing Deposit	£10M (2%)	-0.10%	2.60%	5.28%
Vanilla Interest Bearing Deposits	£395M (95%)	1.72%	4.15%	4.50%
<b>Overall Return</b>	<b>100%</b>	<b>1.42%</b>	<b>3.75%</b>	<b>4.37%</b>

The above returns can be compared to the backward-looking rates in the graph below which reflects where average market rates were positioned when investments were placed.



As market interest rates increased over the period, the returns achieved on the Council's "Vanilla Interest Bearing Deposits" have also followed a steady upward trend in the second quarter of 2023/24.

With the increases in the base rate, new investments made in the first half of this financial year have had higher returns, and this has helped to increase the overall rate of return on the Council's investments. This is expected to continue in the immediate future as more of the Council's investments, which were made when interest rates were lower, reach maturity and any surplus funds can be reinvested at current rates, subject to considerations around the security and liquidity of the funds.

When interest rates are increasing, the returns on long-term managed funds and tradable structured notes often move in the opposite direction. This is shown by a negative return on the externally managed funds held by the Council, due to the investments trading at a discount below their face value in the period, as the investments were made when rates were lower than they are at present. However, by the end of this second quarter, the value of the tradable structures notes has improved considerably when compared with the values reported at the end of quarter one. This improvement was further enhanced due to one of these notes (£10m), maturing in June with the full value of the investment and the return on the investment being realised, therefore contributing to the improved, positive return achieved in the first half of this year.

## A6. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

The Councils net debt position on 30 September 2023 is summarised in the table below.

	<b>Principal</b>	<b>Average Interest Rate</b>	<b>Interest to 30 September 2023</b>
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£740m	3.46%	£12.82m
Investments	(£401m) *	(4.37%)	(£9.09m)
Net Debt / Net Interest	£339m		£3.73m

\*Although the Council's investments were £401m on 30 September 2023, the average sum invested over this period was £418m.