APPENDIX A

TREASURY MANAGEMENT MID YEAR REVIEW FOR 2023/24

A1. SUMMARY OF TREASURY MANAGEMENT INDICTORS

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 31st December was as follows:

Table 1: Council's Debt

Prudential Indicator	**Approved 23/24** £m	**Actual** £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	1,176	736
Operational Boundary Limit - the maximum amount of borrowing that is expected	1,143	736
Capital Financing Requirement	1,143	997

- The Council's actual borrowing is £736m

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

Table 2: Council's Mature Fixed Rate Debt

	Under 1 Year	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**11 to 20 Years**	**21 to 30 Years**	**31 to 40 Years**	**41 to 50 Years**
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:

Table 3: Council's Mature Variable Rate Debt

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
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%	11%	24%	26%	13%	15%

Surplus cash invested for periods longer than 365 days on 31st December was:

Table 4: Council's Surplus Cash beyond 365 days

	Limit £m	Quarter 3 Actual £m
Maturing after 31/3/2024	130	10
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 31st December 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.

Table 5: PWLB is the Public Works Loans Board

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

At the latest Bank of England's monetary policy meeting on 14th December 2023 interest rates were left unchanged for the third time in a row, maintaining its anti-inflationary stance. The Bank of England interest rate is seen to have peaked and is not anticipated to rise above 5.25% and Link now expects that interest rates will fall to 4.25% by the end of 2024 and 3% by the end of 2025.

The Bank of England needs to continue to manage inflation volatility that could be caused by contributing factors such as Geopolitical issues and the general election. The crisis in the Middle East could broaden and then impact both oil prices and shipping costs affecting both supply chains and consumer prices. With the forthcoming UK General Election, the Spring Budget on 6th March 2024 is likely to focus on spending and taxation policy decisions.

A4. BORROWING ACTIVITY

The Council's capital financing requirement (CFR) for 2023/24 is now estimated to be £997m. This denotes the Council's underlying need to borrow for capital purposes. Table 1 above shows the Council has borrowings of £736m and it will need to utilize £261m 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 requires ongoing monitoring as interest rates start to fall.

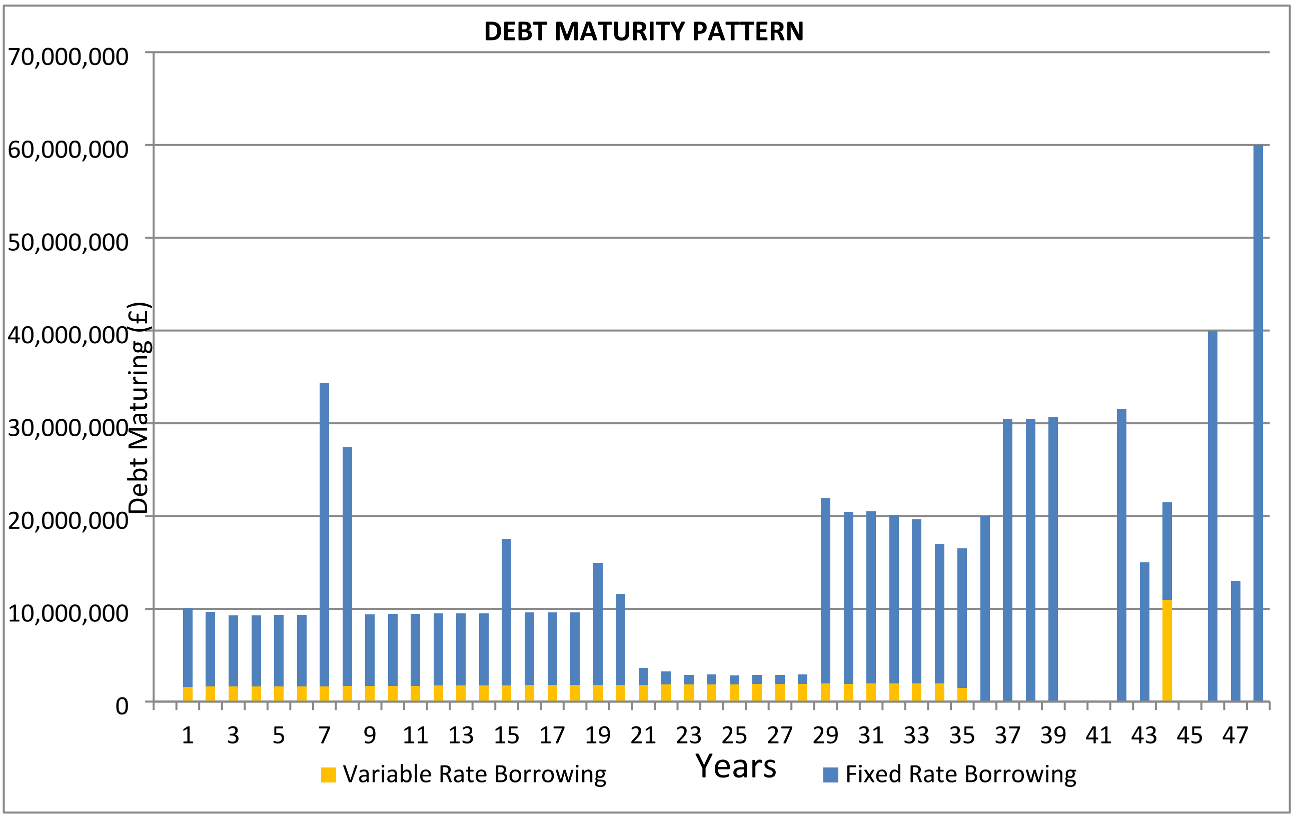
No borrowing was undertaken during 2023/24 and it is anticipated that further borrowing will not be undertaken this financial year.

The Council's gross borrowing on 31st December 2023 of £736m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council in December 2023) of £1,176m and within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £1,143m.

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).

Table 6: Debt Maturity Pattern



Early Redemption of Borrowing

No debt rescheduling or early repayment of debt has been undertaken during 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.

Currently, most of the Council's new investments are being kept short in preparedness for the acquisition of the Housing Stock from the Clarion Housing

Association, which is expected to happen by the end of this financial year. 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' credit ratings are monitored weekly to ensure that they continue to meet the Council's minimum requirements set in the Treasury Management Strategy. Whilst there have been a few changes to counterparties' ratings during the current quarter, there have been no breaches of the Treasury Policy approved by Council in investments placed with them.

The average level of funds available for investments was £416m in the 9 months to 31 December 2023. The funds invested made an average annualized return of 4.86% during this period. This is compared with the performance to earlier in the year in Table 7 below.

Table 7: Debt Maturity Pattern

	Average Value (Proportion) of Portfolio	Annual Return at 31 March 2023	Annualised Return at 30 September 2023	Annualised Return at 31 December 2023
Externally Managed Funds -Tradable Instruments	£11M (3%)	-6.52%	-1.44%	7.57%
Tradable Structured Interest-Bearing Deposit	£10M (2%)	-0.10%	5.28%	6.96%
Vanilla Interest Bearing Deposits	£395M (95%)	1.72%	4.50%	4.73%
Overall Return	**100%**	**1.42%**	**4.37%**	**4.86%**

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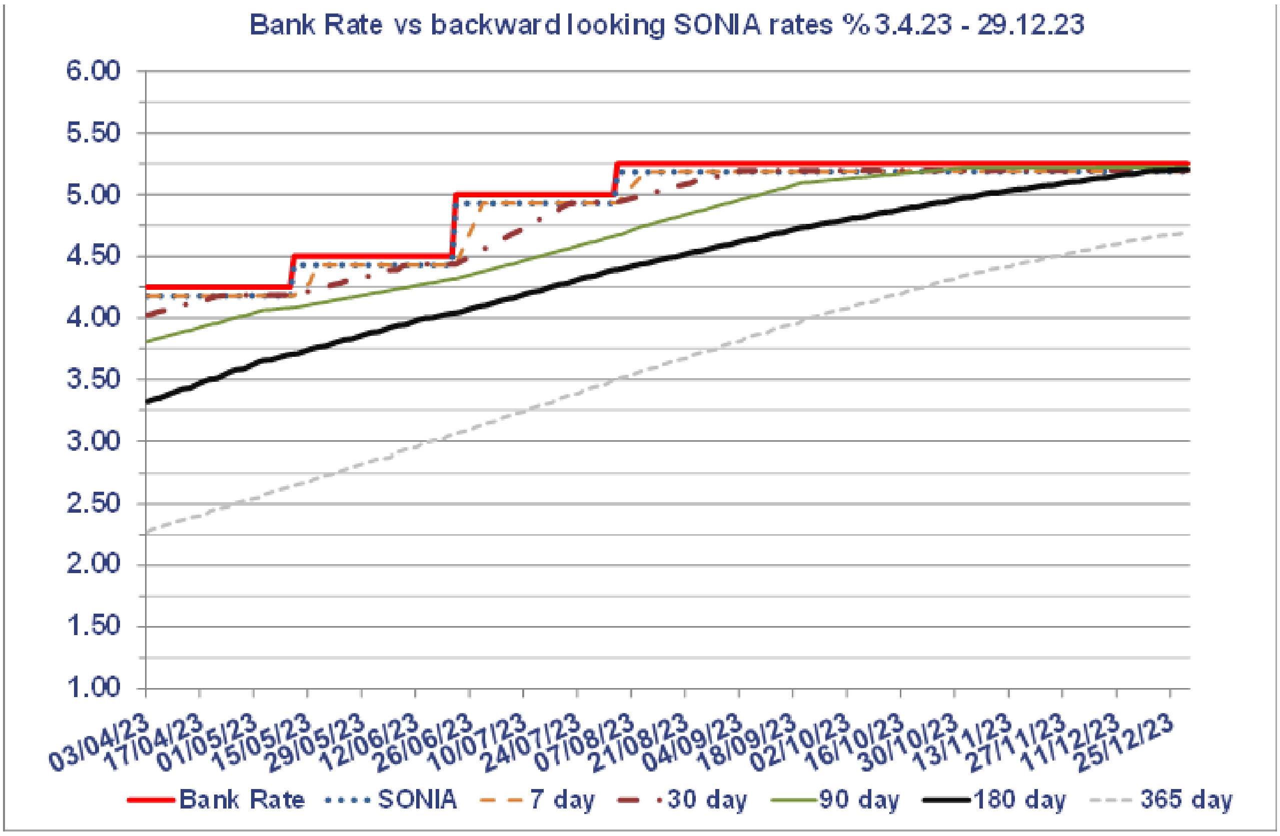
By the end of this third quarter, the value of the tradable structures notes has improved when compared with the values reported at the mid-year review. When interest rates are increasing, the returns on long-term managed funds and tradable structured notes often move in the opposite direction but as interest rates are now considered to have peaked, these investments are starting to see more positive returns. The tradable Investment returns are based on market prices if sold but the Council's intention is not to sell but hold until they reach their maturity when we will receive the full repayment of the investment.

The above returns in Table 7, can be compared to the backward-looking rates in the graph below, Table 8, which reflects where average market rates were positioned when investments were placed.

Table 8: Bank Overnight Rates



As market interest rates have stabilised over the period, the returns achieved on the Council's "Vanilla Interest Bearing Deposits" have levelled off for new investments in the third quarter of 2023/24 but are still higher than in quarter 2 and earlier in the year.

With the increases in the base rate, new investments made in the first nine months 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.

A6. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

The Councils net debt position on 31st December is summarised in the table below.

Table 9: Combined Borrowing and Investments

	Principal	Average Interest Rate	Interest to 31st Dec 2023
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£736m	3.36%	£18.57m
Investments	(£390m) *	(4.86%)	(£15.18m)
Net Debt / Net Interest	£346m		£3.39m

*Although the Council's investments were £390m on 31st December 2023 the average sum invested over this period was £416m.

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[i] Externally Managed Funds are traded on the open market and managed by an external asset management company
Tradable Structured Interest Bearing Deposit - are placed with financial institutions are deposit accounts and may include complex structured financial instruments
Vanilla Interest Bearing Deposits are cash deposits that just earn interest and easily accessible making them less complex