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INVESTMENT SUB COMMITTEE
FRIDAY, 19TH JANUARY, 2024 AT 10.00 AM

Supplementary Agenda

To Members of the Investment Sub Committee,

The following papers, which were not available for dispatch with the agenda, are attached. Please bring them with you to the meeting:-

Agenda No	Item
4.	**Summary Investment and Borrowing Position at 31st December 2023** **(Pages 3 - 18)**
8.	**Investment Property Update** **(Pages 19 - 26)**

Yours faithfully,

David Ford
Chief Executive

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Summary investment and borrowing position at 31 December 2023

Investment Sub Committee - Friday 19 January, 2024

Report of:	Director of Resources (Section 151)
Purpose:	For information
Publication status:	Unrestricted
Wards affected:	All

Executive summary:

This report updates the Investment Sub Committee on the Council's investment and borrowing position at 31st December 2023 and reports performance against the Council's approved Prudential Indicators for 2023/24.

This report supports the Council's priority of: Building a better Council/ Supporting economic recovery in Tandridge.

Contact officer Mark Hak-Sanders

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Recommendation to Committee:

That the Sub Committee notes:

A) The Council's Investment and Borrowing position at 31st December 2023 as set out in Appendix A & B.
B) The Council's actual performance against the Indicators set within the Treasury Management Strategy for 2023/24 in Appendix C
C) The commentary from Arlingclose on the external context for treasury management in Appendix D.
D) The update on the performance of the Council's long-term treasury investments

Reason for recommendation:

This report, which provides an update on the Council's investment and borrowing position, will be reviewed by the Investment Sub Committee.

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1. Introduction and background

1.1 The Capital, Investment and Treasury Management Strategy 2023/24 was reported to the Strategy and Resources Committee on 31st January 2023 and adopted by Full Council on 9th February 2023. This covered the borrowing and investment plans for the Council. As detailed in this strategy, part of the Treasury Management function is to ensure that the cashflow is adequately planned and surpluses are invested while allowing for cash to be available when needed. Additionally, the treasury management function ensures that the Council can meet its capital spending plans. This requires the management of longer-term cash which will involve the use of long or short-term loans, or cash flow surpluses.

1.2 Tandridge District Council's contract for expert Treasury Management Advice is held with Arlingclose Ltd. Commentary on the external context for treasury management activity is provided in Appendix D.

2. Summary Investment and Borrowing Position

2.1 A summary of the Council's investment and borrowing at 31st December 2023 is set out in Appendix A.

- Total long term treasury investments (over 12 months) amount to £10.8 million.

- Short term investments (less than 12 months) amount to £20.5 million.

- The Council also has £16.5 million in non-treasury investments which is made up of capital loans to specific service providers and limited companies.

- The total amount of Public Works Loan Board (PWLB) loans at 31st December 2023 is £99.4 million. This is made up of £43.4 million General Fund loans and £56.0 million Housing Revenue Account loans.

3. Update on Long Term Treasury investments

3.1 In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31st March 2025 but no other changes have been made. Whether the override will be extended beyond the new date is unknown, but commentary to the consultation outcome suggests not. At present, with the override in place, Councils remove the impact of fair value movements on these funds from their budgets and record them in an unusable reserve on the Balance Sheet.

3.2 An Investment Performance Equalisation reserve of £447k was created using surplus investment income earned during 2022/23 as a mitigation to the removal of the override. Surpluses held in the reserve can be released to the General Fund if and when confidence in the assets' market value recovers. For context, the current carrying loss is £1.3m. This has improved from Q2 by £0.2m. This improvement is due to the impact of market expectations of interest rate reductions being bought forward earlier than previously expected, which positive impacts on the valuation of bond holdings within the pooled funds. It is currently uncertain that market values will fully recover by the time the current override has elapsed.

3.3 Investment income is forecast to be £649k better than budget in 2023/24, as set out in Appendix A. At year end, Investment Sub Committee will consider whether it is appropriate to use this surplus to increase the Investment Performance Equalisation Reserve to increase the Council's mitigation against carrying losses in the event that the override is removed.

3.4 The CCLA are proposing to merge its Diversified Income Fund (DIF) with another existing fund under its management, the Better World Cautious Fund (BWCF). The proposition will create a technical change in the fund structure which will allow the CCLA to permit its large client base of Parish Councils and small charities to invest in the fund. This will grow the fund size which is likely to have a positive impact on diversification of client base and fund yield. Arlingclose have advised that they do not foresee any major changes in the risk or return as a result of the conversion.

4. Performance against Prudential & Treasury Indicators

4.1 Following the publication of the 2021 CIPFA Treasury Management in the Public Services Code of Practice, the Council reports quarterly to Committee its performance against its treasury and other prudential indicators. Performance against these indicators is outlined in Appendix C.

4.2 These include indicators reporting on the Council's external borrowing portfolio. As outlined in the 2023/24 Capital, Investment and Treasury

Management Strategy, the Council's primary objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.3 A new PWLB HRA rate, which is 0.4% below the certainty rate, was made available from 15th June 2023 to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans. Initially provided for one year, the Autumn Statement confirmed that the discounted rate will be extended until the end of June 2025. This provides a window of opportunity for HRA-related borrowing at a discounted rate, however it is possible that the underlying rate will decrease by more than 0.4% before further borrowing is necessary. Table 2 of Appendix C shows that the Council is currently internally borrowed (where the underlying need to borrow to finance the capital programme exceeds the level of existing borrowing). The council is currently able to maintain this level of internal borrowing but advice will be taken from Arlingclose and the Centre of Expertise on the appropriate timing of new HRA borrowing.

Key implications

5. Comments of the Chief Finance Officer

5.1 The outturn forecast is for investment income of £649k better than budget. This is mainly due to the performance of the Council's short-term treasury investments, as funds have reacted to the increases in the Bank of England Base Rate. General Fund loan interest payable is in accordance with budget. HRA loan interest payable is £119k under budget due to the Council's cash position allowing us to avoid the immediate re-financing of maturing loans through internal borrowing. This underspend will be reduced by the recharge from the General Fund which will be determined based on prevailing rates.

5.2 All investments carry a degree of risk. The Council manages these risks by holding diversified investments and through seeking expert advice from its Treasury Management Advisors and through the Finance Joint Working Agreement with the Orbis Centre of Expertise. The Council will continue to monitor the value of its investments in context of the regulatory environment.

6. Comments of the Head of Legal Services

6.1 The Council's Capital, Investment and Treasury Management Strategy Statement follows the latest codes of practice and the DLUHC and CIPFA guidance.

6.2 The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

7. Equality

7.1 The proposals within this report do not have the potential to disadvantage or discriminate against different groups with protected characteristics in the community.

8. Climate change

8.1 There are no significant environmental/sustainability implications associated with the report. It is however recognised that some Council investments may be in companies that are considered to have a detrimental impact on the climate, for example oil companies. The Climate Change Action Plan that is currently being draw up will have an action included to consider our current investment approach and determine if changes can or should be made.

Appendices

Appendix A – Summary of Investments and Borrowing

Appendix B – Market Value of Long Term Investments

Appendix C – Q3 Prudential Indicator Update

Appendix D – External Context for Treasury Management Activity

Background papers

Investment Sub-Committee Papers 16th June 2023 and 3rd November 2023

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Summary of Investments and Borrowing **Appendix A**

Investment	Original Value - Long Term Treasury Investments £	Net Asset Value 31/03/23 £	Net Asset Value 31/12/23 £	Yield Rate Note 1 %	Forecast Return 2023/24 £	Previous Year Actual Return £
Treasury Investments (Non-specified)- Long Term (over 12 mths)						
CCLA Property Fund	4,000,000	4,082,278	3,949,303	4.87	192,303	173,997
Schroders Bond Fund	3,000,000	2,550,204	2,693,929	4.91	132,221	149,038
UBS Multi Asset Fund	3,000,000	2,208,433	2,093,694	6.50	136,031	145,657
CCLA Diversification Fund	2,000,000	1,864,707	1,924,265	3.16	60,847	56,357
Funding Circle (Note 4)		142,398	148,766	-	6,371	20,249
Sub Total Non-specified (Treasury Investments)	**12,000,000**	**10,848,020**	**10,809,957**		**527,773**	**545,299**
Treasury Investments (Specified)-Short Term (less than 12 mths)						
Liquidity Plus Funds		1,994,226	1,995,710	5.25	104,787	37,475
Money Market Funds		4,000,000	18,500,000	5.01	566,695	394,562
Total Specified Investments		**5,994,226**	**20,495,710**		**671,482**	**432,037**
Total Treasury Investments		**16,842,246**	**31,305,667**		**1,199,255**	**977,336**
Non-Treasury Investments (Non-Specified)- Long Term (over 12 mths)						
Gryllus Property Company Loan - Maidstone		2,394,000	2,394,000	5.81	139,023	139,023
Freedom Leisure- Loan (TLP)		387,429	242,143	5.50	21,309	31,963
Freedom Leisure- Loan (de Stafford)		248,286	155,179	7.58	18,820	28,230
Gryllus Property Company Loan - 80-84 Station Rd East		1,012,500	1,012,500	5.43	54,979	54,979
Gryllus Property Company Loan - Castlefield		11,664,000	11,664,000	6.10	711,504	711,504
Gryllus Property Company Share Capital Note 2		994,100	994,100	-	-	-
Sub Total Non-Treasury Investments		**16,700,314**	**16,461,922**		**945,634**	**965,699**
Total Investments (Treasury & Non-Treasury)		**33,542,561**	**47,767,589**		**2,144,890**	**1,943,035**
Total Investment Income Budget 2023/24					1,495,700	1,495,700
Over/(under) budget					**649,190**	**447,335**

Borrowing	Balance as at 30/09/23 £	Interest %	Forecast Cost 2023/24 £	Period to maturity (years)	Previous Year Cost £
General Fund Borrowing					
Gryllus Loan	3,420,000	2.46	84,132	44	84,132
Freedom Leisure Loan	2,225,000	2.45	54,513	44	54,513
Village Health Club	938,678	2.38	22,341	44	22,341
Linden House	4,175,000	2.69	112,308	25	112,308
Linden House	254,000	2.42	6,147	26	6,147
Quadrant House	15,340,000	2.41	369,694	45	369,694
Quadrant House	800,000	2.28	18,240	46	18,240
Gryllus - 80-84 Station Road	724,400	2.28	16,516	46	16,516
Gryllus - Castlefield	15,549,000	2.91	452,476	46	452,476
Sub Total General Fund Borrowing	**43,426,078**		**1,136,366**		**1,136,366**
Total GF PWLB Budget 2023/24			**1,137,000**		**1,137,000**
Over/(under) budget			**(634)**		**(634)**
HRA Borrowing					
Public Works Loan Board	55,989,000	2.72	1,520,196	13	1,596,258
Sub Total HRA Borrowing	**55,989,000**		**1,520,196**		**1,596,258**
Total HRA PWLB Budget 2023/24			**1,639,600**		**1,639,600**
Over/(under) budget			**(119,404)**		**(43,342)**
Total Borrowing	**99,415,078**		**2,656,562**		**2,732,624**
Total Budget 2023/24			**2,776,600**		**2,776,600**
Total Over/(under) budget			**(120,038)**		**(43,976)**

Net borrowing balance at 31 December 2023 (Total Borrowing less Treasury Investments)	**82,572,832**

Notes:

1. Yield Rate:
For Specified and Non specified Investments, this is the forecast return divided by net asset value as at 31/12/23;
For Specified investments, this is the forecast return divided by the average investment value during the year

2. Gryllus share capital comprises of equity shares arising from loans granted

3. The period to maturity included for HRA borrowing is the weighted average for all loans outstanding.

4. The Funding Circle balance reflects the balance and yield as at 30 September 2023

Market Value of Long Term Investments at 30/09/2023 **Appendix B**

Carrying Value	2017/18 Carrying Value 31.3.2018	2018/19 Carrying Value 31.3.2019	2019/20 Carrying Value 31.03.2020	2020/21 Carrying Value 31.03.2021	2021/22 Carrying Value 31.03.2022	2022/23 Carrying Value 31.03.2023	2023/24 Carrying Value 31.12.2023
	£	£	£	£	£	£	£
CCLA Property Fund	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Schroders Bond Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
UBS Multi Asset Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
CCLA Diversification Fund	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**

Market Value	2017/18 Market Value 31.3.2018	2018/19 Market Value 31.3.2019	2019/20 Market Value 31.03.2020	2020/21 Market Value 31.03.2021	2021/22 Market Value 31.03.2022	2022/23 Market Value 31.03.2023	2023/24 Market Value 31.12.2023
	£	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,276,854	4,276,005	4,188,063	4,158,183	4,888,056	4,082,278	3,949,303
Schroders Bond Fund	2,912,837	2,865,130	2,539,938	2,908,911	2,775,151	2,550,204	2,693,929
UBS Multi Asset Fund	2,918,160	2,868,479	2,520,713	2,777,398	2,639,592	2,208,433	2,093,694
CCLA Diversification Fund (indicative market value)	1,921,257	1,982,167	1,804,193	1,955,874	2,046,513	1,864,707	1,924,265
Total	**12,029,108**	**11,991,781**	**11,052,907**	**11,800,366**	**12,349,313**	**10,705,622**	**10,661,191**

Surplus/(Deficit)	2017/18 Surplus/ (Deficit) 31.3.2018	2018/19 Surplus/ (Deficit) 31.3.2019	2019/20 Surplus/ (Deficit) 31.03.2020	2020/21 Surplus/ (Deficit) 31.03.2021	2021/22 Surplus/ (Deficit) 31.03.2022	2022/23 Surplus/ (Deficit) 31.03.2023	2023/24 Surplus/ (Deficit) 31.12.2023
	£	£	£	£	£	£	£
CCLA Property Fund	276,854	276,005	188,063	158,183	888,056	82,278	(50,697)
Schroders Bond Fund	(87,163)	(134,870)	(460,062)	(91,089)	(224,849)	(449,796)	(306,071)
UBS Multi Asset Fund	(81,840)	(131,521)	(479,287)	(222,602)	(360,408)	(791,567)	(906,306)
CCLA Diversification Fund	(78,743)	(17,833)	(195,807)	(44,126)	46,513	(135,293)	(75,735)
Total	**29,108**	**(8,219)**	**(947,093)**	**(199,634)**	**349,313**	**(1,294,378)**	**(1,338,809)**

Gross Revenue Yield	Yield 2017/18	Yield 2017/18	Yield 2018/19	Yield 2018/19	Yield 2019/20	Yield 2019/20	Yield 2020/21	Yield 2020/21	Yield 2021/22	Yield 2021/22	Yield 2022/23	Yield 2022/23	Full Year forecast at 31.12.2023 Yield 2023/24	Full Year forecast at 31.12.2023 Yield 2023/24
	£	%	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	4.33%	158,867	3.82%	173,997	4.26%	192,303	4.87%
Schroders Bond Fund	105,413	3.62%	120,508	4.21%	124,418	4.90%	125,529	4.32%	128,455	4.42%	149,038	5.84%	132,221	4.91%
UBS Multi Asset Fund	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	5.05%	120,654	4.34%	145,657	6.60%	136,031	6.50%
CCLA Diversification Fund	62,732	3.27%	67,030	3.38%	66,284	3.67%	62,069	3.17%	48,871	2.50%	56,357	3.02%	60,847	3.16%
Total	**508,691**		**488,040**		**513,473**		**507,679**		**456,847**		**525,050**		**521,402**	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2020/21	Surplus/ (Deficit) 2020/21	Surplus/ (Deficit) 2021/22	Surplus/ (Deficit) 2021/22	Surplus/ (Deficit) 2022/23	Surplus/ (Deficit) 2022/23	Full Year forecast at 31.12.2023 Surplus/ (Deficit) 2023/24	Full Year forecast at 31.12.2023 Surplus/ (Deficit) 2023/24
	£	%	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%	729,873	14.93%	(805,778)	-19.74%	(132,975)	-3.37%
Schroders Bond Fund	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%	(133,760)	-4.82%	(224,947)	-8.82%	143,725	5.34%
UBS Multi Asset Fund	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%	(137,805)	-5.22%	(431,159)	-19.52%	(114,739)	-5.48%
CCLA Diversification Fund	(78,743)	-4.10%	60,910	3.07%	(177,974)	-9.86%	151,682	7.76%	90,639	4.43%	(181,806)	-9.75%	59,558	3.10%
Total	**(36,146)**		**(37,327)**		**(938,874)**		**747,460**		**548,946**		**(1,643,691)**		**(44,431)**	

Net Yield	Net Yield 2017/18	Net Yield 2017/18	Net Yield 2018/19	Net Yield 2018/19	Net Yield 2019/20	Net Yield 2019/20	Net Yield 2020/21	Net Yield 2020/21	Net Yield 2021/22	Net Yield 2021/22	Net Yield 2022/23	Net Yield 2022/23	Full Year forecast at 31.12.2023 Net Yield 2023/24	Full Year forecast at 31.12.2023 Net Yield 2023/24
	£	%	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%	888,740	18.18%	(631,781)	-15.48%	59,328	1.50%
Schroders Bond Fund	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,503	17.00%	(5,305)	-0.19%	(75,909)	-2.98%	275,946	10.24%
UBS Multi Asset Fund	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	396,856	14.29%	(17,152)	-0.65%	(285,502)	-12.93%	21,292	1.02%
CCLA Diversification Fund	(16,011)	-0.83%	127,940	6.45%	(111,690)	-6.19%	213,751	10.93%	139,510	6.82%	(125,449)	-6.73%	120,405	6.26%
Total	**472,545**		**450,713**		**(425,401)**		**1,255,139**		**1,005,794**		**(1,118,641)**		**476,971**	

Peer to Peer Investment	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	31.12.2023 2023/24	31.12.2023 2023/24
Funding Circle	£	%	£	%	£	%	£	%	£	%	£	%	£	%
Carrying Value	**2,075,341**		**2,056,664**		**1,831,028**		**863,160**		**391,191**		**142,398**		**148,766**	
Interest Paid by Borrowers	181,014		184,654		193,170		127,982		66,749		28,664		6,519	
Less FC Service fee	(19,668)		(19,729)		(19,611)		(12,462)		(6,279)		(2,531)		(528)	
Promotions/Transfer payment					470		0		0		0		0	
Bad Debts	(61,288)		(111,152)		(127,649)		(80,881)		(36,103)		(20,941)		(4,400)	
Recoveries	14,780		27,428		30,253		42,431		62,769		15,057		4,780	
Net Yield	**114,838**	**5.53%**	**81,201**	**3.95%**	**76,634**	**4.19%**	**77,070**	**8.93%**	**87,136**	**7.12%**	**20,249**	**4.03%**	**6,371**	**8.57%**
Provisions for future losses	**0**		**(10,000)**											

Appendix C: Prudential Indicators – Q3 2023/24

The 2021 Prudential and Treasury Management Codes require the Council to report on prudential indicators on a quarterly basis. These indicators report on capital expenditure, borrowing and commercial and service investments in light of overall organisational strategy and resources, and ensure that decisions are being made with sufficient regard to the long-run financing implications and potential risks to the Council.

Table 1 – Estimates of Capital Expenditure

Capital expenditure refers to Council spending on assets such as infrastructure, property or vehicles that will be used for more than one year. In Local Government this includes spending on assets owned by other bodies and loans and grants to other bodies, enabling them to buy assets.

At Month 8 the Council was forecasting total capital expenditure for 2023/24 of £19.8m. This is a variance of £0.6m compared to what was reported in the 2023/24 Capital, Investment and Treasury Management Strategy. This is the result of unspent budget carry forwards from 2022/23 agreed since the Strategy was published, offset by forecast underspends in-year on Council House Building (£3.9m), Croydon Road Regeneration (£2.3m) and capital contributions to third parties from CIL (£2.1m).

	2022/23 Actual £m	2023/24 Estimate (Capital Strategy) £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	Total – 2023/24 to 2025/26 £m
General Fund services	4.9	3.8	3.7	6.4	2.9	13.0
Council Housing (HRA)	11.5	15.4	16.1	19.1	26.2	61.4
Total	**16.4**	**19.2**	**19.8**	**25.5**	**29.1**	**74.4**

Table 2 – Capital Financing Requirement

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure on service delivery and on investments and reduces with MRP and capital receipts used to replace debt.

The current estimated CFR for 2023/24 is £5.1m lower than what was estimated in the 2023/24 Capital, Investment and Treasury Management Strategy. This is based on forecast capital expenditure at Month 8, and is a result of forecast underspends on capital schemes, including those referenced in Table 1, which reduce the anticipated underlying need to borrow to finance them.

	31/03/2023 Actual £m	31/03/2024 Estimate (Capital Strategy) £m	31/03/2024 Forecast £m	31/03/2025 Budget £m	31/03/2026 Budget £m
General Fund services	46.9	47.6	47.6	48.1	47.7
Council Housing (HRA)	61.7	71.5	66.4	74.0	87.3
Total CFR	**108.5**	**119.1**	**114.0**	**122.1**	**135.0**

Table 3 – Gross Debt and the Capital Financing Requirement

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

The current estimated level of gross debt is £6.1m less than what was estimated in the 2023/24 Capital, Investment and Treasury Management Strategy. This is based on forecast capital expenditure at M8, and is a result of forecast underspends on the schemes referenced in Table 1 which reduce the anticipated requirement to borrow to finance them.

	31/03/2023 Actual £m	31/03/2024 Estimate (Capital Strategy) £m	31/03/2024 Forecast £m	31/03/2025 Budget £m	31/03/2026 Budget £m	Debt at 30/12/2023 £m
Debt (incl. PFI & leases)	99.4	112.7	109.4	117.0	130.3	99.4
Capital Financing Requirement	108.5	119.1	114.0	122.1	135.0	

Table 4 – Debt and the Authorised Limit and Operational Boundary

The Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. These limits were set in the 2023/24 Capital, Investment and Treasury Management Strategy. The Council has complied with the limits at Q3 2023/24.

	Maximum Debt Q3 2023/24 £m	Debt at 30/12/2023 £m	2023/24 Authorised Limit £m	2023/24 Operational Boundary £m	Complied?
Borrowing	99.4	99.4	150.0	140.0	✓
PFI and Finance Leases	-	-	-	-	
Total debt	**99.4**	**99.4**	**150.0**	**140.0**	

Table 5 – Net Income from Commercial and Service Investments to Net Revenue Stream

The Council's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below. This is unchanged from the 2023/24 Capital, Investment & Treasury Management Strategy.

	2022/23 Actual £m	2023/24 Estimate (Capital Strategy) £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m
Total net income from service and commercial investments	1.7	1.7	1.7	1.7	1.7
Proportion of net revenue stream	15%	14%	14%	13%	13%

Table 6 – Proportion of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The proportion of financing costs to net revenue stream is expected to rise compared to what was reported in the 2023/24 Capital, Investment & Treasury Management Strategy.

	2022/23 Actual £m	2023/24 Estimate (Capital Strategy) £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund – Financing costs	2.3	2.0	2.4	2.4	2.7
Proportion of net revenue stream	20%	17%	20%	19%	21%

Table 7 – Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing are as below, all of which the Council complied with at Q3 of 2023/24.

	Upper Limit 2023/24 %	Lower Limit 2023/24 %	Actual at 30/09/23 %	Complied?
Under 1 year	15	-	3%	
1 to 2 years	15	-	3%	
2 to 5 years	25	-	13%	
5 to 10 years	50	-	20%	Yes
More than 10 years	50	-	4%	
Over 20 years	70	-	56%	
Total			**100%**	

Table 8 – Long-term Treasury Management Investments

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term. The prudential limits on the long-term treasury management limits are as below, and the Council has complied with these as at Q3 of 2023/24.

	2023/24 £m	2024/25 £m	No fixed date £m
Limit on principal invested beyond year end	16	16	16
Actual principal invested beyond year end	-	-	10.8
Complied?	Yes	Yes	Yes

Appendix D

Arlingclose commentary on the External Context for Treasury Management activity

Economic background

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong, but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

Credit outlook

Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

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