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Runnymede
BOROUGH COUNCIL

Overview and Scrutiny Select Committee

Thursday, 5 October 2023 at 7.30 pm

Council Chamber - Civic Centre

Members of the Committee

Councillors: J Furey (Chairman), N Prescot (Vice-Chairman), A Balkan, T Burton, T Gates, L Gillham, E Kettle, A King and S Lewis

In accordance with Standing Order 29.1, any Member of the Council may attend the meeting of this Committee, but may speak only with the permission of the Chairman of the Committee, if they are not a member of this Committee.

(N.B PLEASE NOTE, THIS MEETING WILL COMMENCE UPON THE CONCLUSION OF THE CRIME AND DISORDER COMMITTEE MEETING WHICH COMMENCES AT 7.30.PM.)

AGENDA

1) Any report on the Agenda involving confidential information (as defined by section 100A(3) of the Local Government Act 1972) must be discussed in private. Any report involving exempt information (as defined by section 100I of the Local Government Act 1972), whether it appears in Part 1 or Part 2 below, may be discussed in private but only if the Committee so resolves.

2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr Andrew Finch, Democratic Services Section, Law and Governance Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425623). (Email: Andrew.Finch@runnymede.gov.uk).**

3) Agendas and Minutes are available on a subscription basis. For details, please contact Democratic.Services@runnymede.gov.uk or 01932 425620. Agendas and Minutes for all the Council's Committees may also be viewed on www.runnymede.gov.uk.

4) In the unlikely event of an alarm sounding, members of the public should leave the building immediately, either using the staircase leading from the public gallery or following other instructions as appropriate.

5) Filming, Audio-Recording, Photography, Tweeting and Blogging of Meetings

Members of the public are permitted to film, audio record, take photographs or make use of social media (tweet/blog) at Council and Committee meetings provided that this does not disturb the business of the meeting. If you wish to film a particular meeting, please liaise with the Council Officer listed on the front of the Agenda prior to the start of the meeting so that the Chairman is aware and those attending the meeting can be made aware of any filming taking place.

Filming should be limited to the formal meeting area and not extend to those in the public seating area.

The Chairman will make the final decision on all matters of dispute in regard to the use of social media audio-recording, photography and filming in the Committee meeting.

List of matters for consideration Page
Part I

Matters in respect of which reports have been made available for public inspection

Part II

Matters involving exempt or confidential information in respect of which reports have not been made available for public inspection.

No reports to be considered

Runnymede Borough Council

Overview and Scrutiny Select Committee

Thursday, 6 July 2023 at 8.25 pm

Members of the Committee present:	Councillors N Prescot (Vice-Chair, in the Chair), T Burton, T Gates, L Gillham, E Kettle, A King, S Lewis and J Wilson (In place of A Balkan).
Members of the Committee absent:	Councillor J Furey (Chairman)

1 **Minutes**

The minutes of the meetings held on 2 February 2023 and 12 April 2023 were confirmed and signed as a true record.

2 **Apologies for Absence**

Apologies were received from Cllr Furey.

3 **Declarations of Interest**

No declarations of interest were made.

4 **Overview and Scrutiny Function – Annual Report – 2022/23**

The Committee was provided with an overview of the topics covered over the past twelve months, which included treasury management and a call-in relating to the process of the appointment of a new chief executive.

The Committee was disappointed with the sparsity of the items covered, and made clear an intention to fully utilise meetings to build on good performance in addition to establishing lessons learned.

The Vice-Chair in the chair suggested scheduling additional meetings if required, and the Committee came up with proposals for a work plan for the coming year, which included:

- Integrated care partnership.
- Open spaces and grass cutting, which should include an invitation to Surrey County Council to attend.
- Statistics from the reporting side of the website to understand the most common matters reported by residents. This should include proactive communication to encourage residents to report the things that matter to them most.
- The role of the Runnymede SAG in approving community events to ensure an appropriate balance between the introduction of Martyn's Law and not imposing unnecessary barriers that would discourage community groups from hosting events.

The Committee agreed to recommend the annual report to Full Council, subject to confirmation that the breach of counterparty limits reported in September 2022 had been satisfactorily resolved. It was also asked that Members be provided with a copy of the Committee's terms of reference as set out in the Council's constitution.

Resolved that –

The Committee recommended the annual report to Council in July 2023.

(The meeting ended at 8.49 pm.) Chairman

Report title	**Treasury Management Annual Report 2022/23**
Report author	A Ismailov - Senior Accountant
Department	Finance
Exempt?	No
Exemption type	Not applicable
Reasons for exemption	Not applicable

Purpose of report:

For information

Synopsis of report:

This is the annual report on Council's treasury management activity and performance for the 2022/23 financial year covering financing and liquidity, cash management and risk management associated with these activities.

This report was presented to the Corporate Management Committee on 14 September and is now presented to this committee as part of its oversight role.

Recommendation(s):

None, this report is for information

1 Background Information

1.1 The Council's treasury management activity is underpinned by CIPFA's (Chartered Institute of Public Finance and Accountancy*)* Code of Practice on Treasury Management ("the Code"), and the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Prudential Code"). These require local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities quarterly from 2023/24.

1.2 The Council's Treasury Management Strategy for 2022/23 was approved at Full Council on 09 February 2022. This report sets out the Council's performance against the criteria in this report for 2022/23.

1.3 Treasury management is defined as: "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 No treasury management activity is without risk; The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.5 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by the members.

2 Prudential and Treasury Indicators and Compliance

2.1 In compliance with the requirements of the Code this report provides members with a summary report of the treasury management activity during 2022/23. Officers can confirm that during the year, the Council complied with all its legislative and regulatory requirements and its Treasury Management Statement and Treasury Management Practices.

2.2 During the year the Council operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy and in compliance with the Council's Treasury Management Practices with the exception of the item set out in 2.3 below, and a prudent approach was taken in relation to all investment activity with priority being given to security and liquidity over yield.

<u>Breach of Counterparty limits</u>

2.3 On Friday 30 September the Council invested in a £1million Certificate of Deposit (CD) with Credit Suisse for the duration of 3 months. Unfortunately, one of the three ratings agencies downgraded Credit Suisse's rating to bbb+ in August, which is below Council's minimum rating level for this type of institution, but the counterparty was not removed as expected when the new credit ratings were uploaded into Treasury Management System. As the Council's risk management policy is to take the lowest of the three credit ratings, this investment did not meet the Council's criteria at the time of the investment and therefore a breach occurred which was reported to Council Members in accordance with our treasury procedures.

2.4 Since this error was picked up, officers have been in contact with the Treasury Management System provider to see what, if any, amendments could be made to the system and new preventive controls and procedures were introduced to ensure that this does not happen again.

2.5 A full set of prudential and treasury indicators for 2022/23 are set out in Appendix A

3 Risk management

3.1 The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. The Treasury Management Strategy Statement ("TMSS") for 2022/23, which includes the Annual Investment Strategy, sets out the Council's investment priorities as being:

<u>Credit risk</u>
Counterparty credit quality is assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

<u>Liquidity risk</u>
In keeping with the DLUHC Guidance on Investments, the Council maintains a sufficient level of liquidity through the use of Money Market Funds and call accounts.

<u>Yield</u>
The Council seeks to optimise returns commensurate with its objectives of security and liquidity.

4 Economic background

4.1 The following section was provided by the Council's Treasury Advisors, Link Group and reflects the market position in April 2023:

4.2 Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

4.3 Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, Eurozone and US 10-year yields all rising by over 200 basis points (2%) in 2022.

4.4 Quarter 2 of 2022 saw UK GDP deliver growth of +0.1% quarter on quarter, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Quarter 4 GDP was positive at 0.1% quarter on quarter. Most recently, January saw a 0.3% month on month increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% quarter on quarter rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

4.5 Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

4.6 The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of circa. 500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by circa 500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% year on year in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

4.7 Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

4.8 In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their Government lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

4.9 As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EU and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

4.10 Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% quarter on quarter in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

4.11 The £ (GBP) has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

4.12 As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

4.13 In the meantime in the US, the flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%. In addition, the Fed is expected to continue to run down its balance sheet.

4.14 As for the US inflation, it is currently at ca 6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

4.15 Although the Eurozone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Similar to the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

5 Borrowing Activity in 2022/23

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement ("CFR"). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Government, through the Public Works Loan Board ("PWLB"), or the money markets, or utilising temporary cash resources within the Council.

5.3 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, the CFR, was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

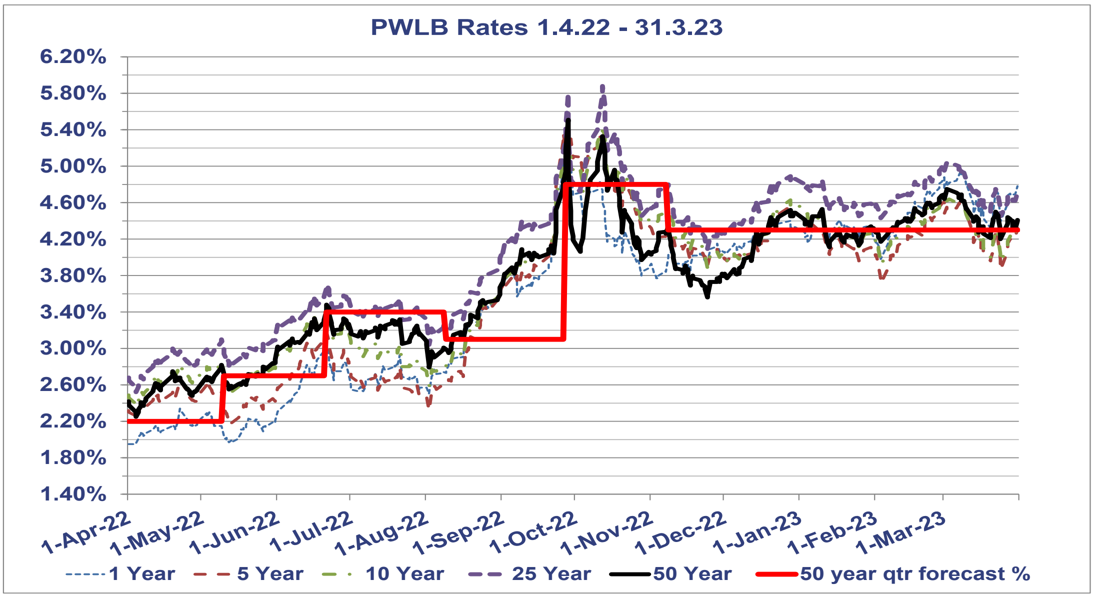
5.4 Table 1 sets out the borrowing activity for the year.

Table 1 – Borrowing activity in 2022/23				
	Opening Balance £'000	New borrowing £'000	Borrowings repaid £'000	Closing balance £'000
HRA – PWLB	100,000	0	0	100,000
General Fund - PWLB	499,000	0	0	499,000
General Fund – Other	54,731	0	10,550	44,181
	653,731	**0**	**10,550**	**643,181**

5.5 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers.

5.6 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Federal Reserve, European Central Bank and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

5.7 The actual PWLB rates during the year were as follows:



5.8 Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25% and are expected to stay high over the course of next one to two years.

5.9 The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng government in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The impact of the policy is yet to be seen.

5.10 There are strict criteria set out that forbid councils from borrowing more than, or in advance of, their needs purely in order to profit from the investment of the extra sums borrowed. The Council has undertaken no such borrowing.

6 Interest rates in 2022/23

6.1 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for. Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

6.2 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

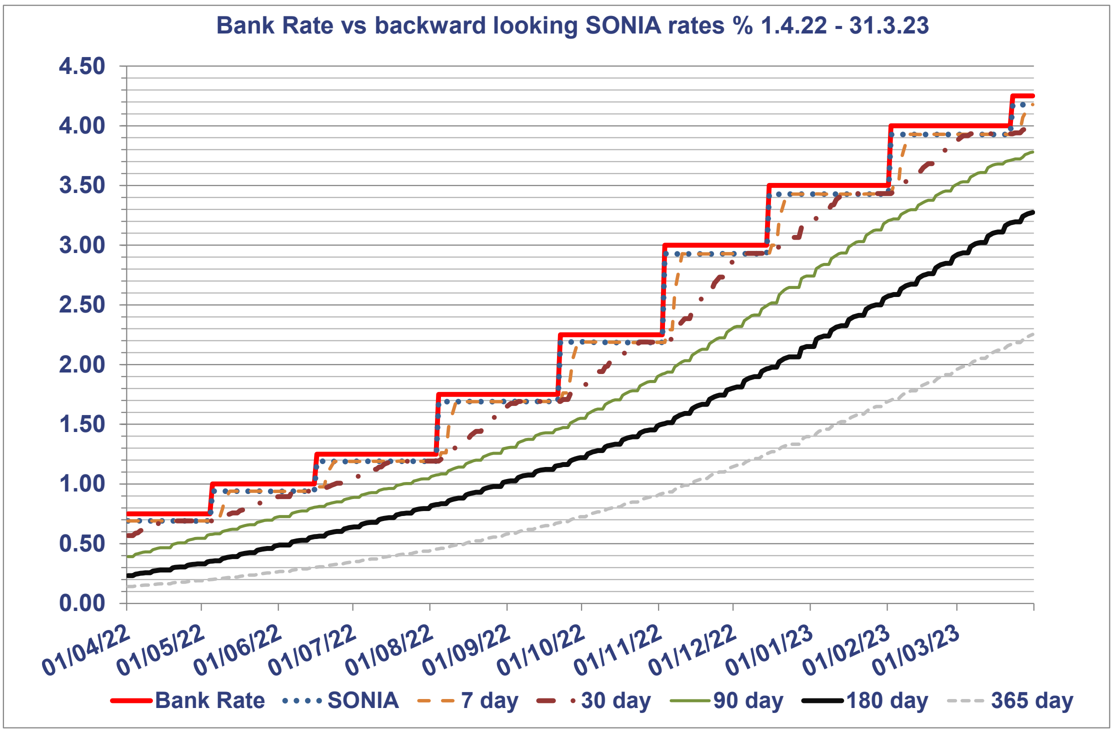
6.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

6.4 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

Interest rate benchmark

6.5 LIBOR (the London Inter-bank Offered Rate) a globally accepted key benchmark interest rate for over 35 years, was replaced by the reformed Sterling Overnight Index Average (SONIA) from 31 December 2021. SONIA is published daily and measures the cost of overnight borrowing on a backward looking basis.

6.6 The SONIA (backward-looking) rates during the period were as follows:



FINANCIAL YEAR TO QUARTER ENDED 31/03/2023							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	4.25	4.18	4.18	4.00	3.78	3.27	2.25
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	2.30	2.24	2.20	2.09	1.81	1.42	0.90
Spread	3.50	3.49	3.49	3.43	3.39	3.04	2.11

6.7 The Council's actual annualised interest rate performance during the year was 2.16%. The Council's overall performance compares favourably with the new average SONIA rates as can be seen in the above table.

6.8 The Council's Treasury Management Strategy sets out a lower rate of interest for the Housing Revenue Account based on the risk free nature of the account. This lower rate is achieved by deducting the credit risk margin from the actual rate achieved by the Council. The resulting interest rate applicable to the HRA during 2022/23 was 1.84%.

6.9 The Council invests in two Pooled Funds (operated by CCLA (Churches, Charities and Local Authorities) Investment Management Limited). These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long term horizons they provide investors with relatively strong levels of interest (in the form of dividends). However, the capital values of these assets can be subject to large fluctuations (both up and down) over relatively short time frames.

6.10 The movement of the Council's two CCLA pooled funds is as follows:

Table 2 – Pooled Funds in 2022/23				
	Original Investment £	**Value 31 March 2022 £**	**Value 31 March 2023 £**	**Annual Return %**
CCLA Property Fund	2,000,000	2,710,240	2,263,467	5.6
CCLA Diversified Income Fund	2,000,000	2,079,227	1,894,514	2.9

The differences between the Original Sums invested and the Values at 31 March 2023 are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account.

7 Investment Outturn for 2022/23

7.1 The Council's investment policy is governed by DLUHC investment guidance and is reflected in the Annual Investment Strategy approved by the Council each year. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

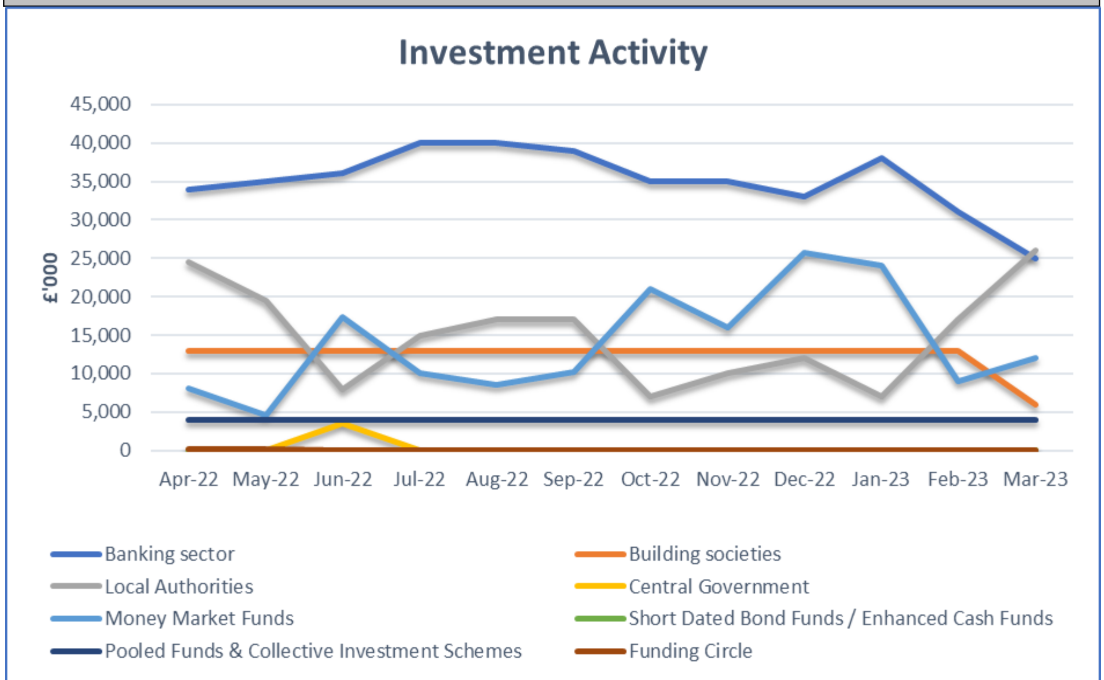
7.2 Investments of £73.0million were held by the Council at 31 March 2023 with investment turnover principally driven by the availability of counterparties that meet the criteria set out in the Annual Investment Strategy. Table 3 summarises investment activity during the course of the year, split between the sectors of the counterparties that the funds were invested with.

Table 3 - Investment activity in 2022/23

	Opening Balance	New Investments	Investments Recalled	Closing Balance
	£000	£000	£000	£000
Specified Investments				
Banking sector	23,000	81,000	79,000	25,000
Building societies	16,000	41,000	51,000	6,000
Local Authorities	24,500	45,000	43,500	26,000
Central Government	0	3,500	3,500	0
Money Market Funds	9,820	116,950	114,770	12,000
Unspecified Investments				
Short Dated Bond Funds & Cash Funds	0	0	0	0
Pooled Funds & Investment Schemes	4,000	0	0	4,000
Funding Circle	104	0	62	42
	77,424	287,450	291,832	73,042

7.3 The monthly movement in balances between these categories is set out in Table 4 below and reflects the available counterparties and investment rates at that time.

Table 4 - Movement between investments during 2022/23



7.4 A full list of investments held at 31 March 2023 is set out in Appendix C.

7.5 In addition to the normal money markets, the Council also invests in its own companies by way of loans provided to them for the purchase of assets from the Council (that the Council cannot hold itself) and via working capital loans. All such Loan Agreements have been approved by Full Council at rates set in accordance with competition rules. The table below sets out these loans and the income to the Council.

Loan Type	**Original Investment £**	**Annual Interest £**	**Interest Rate %**
Development Loans - AddlestoneOne	25,326,054	1,276,433	5.04
Development Loans – Magna Square	11,837,595	320,430	4.22
Development Loans - Other	1,000,000	48,600	4.86
Working Capital Loans	445,000	33,553	7.54
Working Capital Loans	300,000	22,080	7.36
Working Capital Loans	2,100,000	137,153	7.40
Totals	**41,008,649**	**1,838,249**	

7.6 The Council's cash balances comprise revenue and capital resources and cash flow monies (creditors etc). Interest earned on these balances is derived from in-house managed investments. The table below shows gross investment income achieved in 2022/23 alongside the interest paid on borrowings:

Table 7 – Net investment income / Debt interest 2022/23

	Original Estimate £'000	Revised Estimate £'000	Outturn £'000
Investment income earned	443	2,907	1,646
Dividend income earned	120	120	171
Interest on loans to RBC companies	1,862	1,806	1,859
Gross investment income	**2,425**	**4,833**	**3,676**
Management expenses	(27)	(28)	(22)
Interest paid on deposits and other balances	(1)	(6)	(10)
Debt interest	(16,859)	(16,848)	(16,283)
Net Investment Income / (Debt interest)	**(14,462)**	**(12,049)**	**(12,638)**

This is broken down between services as follows:

General Fund	(11,179)	(9,408)	(9,920)
Housing Revenue Account	(3,283)	(2,641)	(2,718)
Net Investment Income / (Debt interest)	**(14,462)**	**(12,049)**	**(12,638)**

7.7 The revised estimate for investment income assumed a higher level of interest rates over the last 6 months of the year than actually materialised. Officers also decided not to take out replacement borrowing for a maturity, instead choosing to run down investment balances to generate a net betterment for the Council. It should be noted that this is only a temporary measure until such time that the current high borrowing rates return to levels in line with medium term market predictions.

7.8 Aside from the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income are the level of interest rates, cash flow and the level of reserves and balances. The impact of capital cash flows – receipts from sales and timing of capital projects – also has a significant impact on cash flows.

8 Legal Implications

8.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code, the Government Investments Guidance and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their treasury management functions.

9 Environmental/Sustainability/Biodiversity implications

9.1 Ethical or Sustainable investing is becoming a more commonplace discussion within the wider investment community. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products however the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities.

9.2 The Council does not invest directly in any companies – other than our own - and our investments are limited to investments with the banking sector (term deposits etc) and investments in property (our investment properties). We do have £4million split between two pooled funds both managed by the CCLA and their approach to ESG can be found on their website: https://www.ccla.co.uk/sustainability/corporate-governance/approach-esg

10 Council Policy

10.1 This is set out in the Treasury Management Policy Statement, the Annual Investment Strategy, and associated Practices and Schedules.

10.2 The Council's treasury management policy statement states:

> *"The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks."*

10.3 It is the security of investments that has always been the main emphasis of our treasury strategy. In balancing risk against return, Officers continue to place emphasis on the control of risk over yield.

11 Conclusions

11.1 The financial year continued the challenging investment environment of previous years. The management of counterparty risk remains our primary treasury management priority. The criteria in the Annual Investment Strategy are continuously reviewed to minimise risk as far as reasonably possible whilst retaining the ability to invest with secure institutions.

FOR INFORMATION

12 Appendices

- Appendix A – Treasury Indicators 2022/23
- Appendix B – Borrowings as at 31 March 2023
- Appendix C – Investments as at 31 March 2023

Treasury Indicators 2022/23

Capital Expenditure – This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	**2021/22 Actual £000s**	**2022/23 Estimate £000s**	**2022/23 Revised £000s**	**2022/23 Actual £000s**
HRA	5,696	15,350	9,187	6,459
General Fund	29,688	19,088	19,213	18,048
Non-Financial Investments				
- Investment Properties	0	0	0	0
- Capital Loans	0	6,200	11,838	11,838
Total	**35,384**	**40,638**	**40,238**	**36,345**
Financed by:				
Capital Receipts	2,279	14,943	20,654	13,949
Earmarked Reserves	331	1,374	9,872	355
Capital Grants & Contributions	1,203	652	4,105	3,838
Revenue	5,029	14,830	607	5,908
Total	**8,842**	**31,799**	**35,238**	**24,089**
Net financing need for the year	**26,542**	**8,839**	**5,000**	**12,256**

The net financing need for non-financial investments included in the above table against expenditure is shown below:

	2021/22 Actual £000s	**2022/23 Estimate £000s**	**2022/23 Revised £000s**	**2022/23 Actual £000s**
Capital expenditure	0	6,200	11,838	11,838
Financing costs met	0	6,200	11,838	11,838
Net financing need for the year	**0**	**0**	**0**	**0**
Percentage of total net financing need	0%	0%	0%	0%

The Council's borrowing need (the Capital Financing Requirement) - The Council's Capital Financing Requirement (CFR), is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

	2021/22 Actual £000s	2022/23 Estimate £000s	2022/23 Revised £000s	2022/23 Actual £000s
CFR: - HRA	101,956	100,000	100,000	100,000
- General Fund	144,322	191,122	157,221	157,221
- Non-Financial Investments	432,661	429,740	442,178	442,178
CFR at 1 April	**678,939**	**720,862**	**699,399**	**699,399**
Net financing need for the year	26,542	8,839	5,000	12,256
Less MRP/VRP and other financing movements	(6,082)	(4,586)	(4,324)	(4,291)
CFR at 31 March	**699,399**	**725,115**	**700,075**	**707,364**

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

Current Portfolio Position - The Council's treasury portfolio position is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2021/22 Actual £000s	2022/23 Estimate £000s	2022/23 Revised £000s	2022/23 Actual £000s
External Debt at 1 April	-	673,827	654,084	-
Expected change in Debt	-	6,883	-6,009	-
Actual gross debt at 31 March	**654,084**	**680,710**	**648,075**	**643,573**
Capital Financing Requirement	699,399	725,115	700,075	707,364
Under / (over) borrowing	**45,315**	**44,405**	**52,000**	**63,791**

The under borrowed position is due to internal borrowing. This is temporary funding of capital expenditure using positive cash flows and internal balances. A small part of this difference (approximately £450,000) represents the value of balances held on behalf of local trusts (e.g. Cabrera Recreation Ground Trust, Runnymede Pleasure Ground Trust etc). This gives the Trusts certainty of income and quick access if needed.

Within the Actual gross debt at 31 March figures shown above, the level of debt relating to non-financial investments is:

	2021/22 Actual £000s	2022/23 Estimate £000s	2022/23 Revised £000s	2022/23 Actual £000s
Debt at 31 March	442,178	429,740	433,724	433,724
Percentage of total external debt	68%	64%	67%	67%

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. **The authorised limit for external borrowing.** – A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under Section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

	2022/23 £000s
Operational Boundary	695,710
Authorised Limit	720,710
Actual Borrowings	**643,573**

This limit includes a "cushion" to allow for the non repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing). This was not required during the year.

Interest Rate exposure - The upper limits on variable interest rate exposure indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget.

	2021/22 Actual £000s	**2022/23 Estimate £000s**	**2022/23 Revised £000s**	**2022/23 Actual £000s**
Upper limits on **fixed** interest rates based on net debt	585,488	693,570	632,109	643,181
Upper limits on **variable** interest rates based on net debt	0	0	0	(73,042)

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit/Actual borrowing) less Fixed Term investments.

The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. As most of the Council's investments mature within the financial year, GBP73.0mln are classed as variable rate investments. The Council has no variable rate borrowings to offset these against, hence the negative figure in the table above.

Investment Treasury Indicator and Limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	2021/22 Actual £000s	**2022/23 Estimate £000s**	**2022/23 Revised £000s**	**2022/23 Actual £000s**
Upper limits on Principal sums invested for over 365 days	0	3,000	3,000	0

There were no investments made for a period of greater than 365 days at the 31 March 2023.

Maturity structure of fixed interest rate borrowing (Upper Limit)

	2021/22 Actual %	2022/23 Estimate %	2022/23 Revised %	2022/23 Actual %
Under 12 months	2	25	25	2.42
12 months to 2 years	2	25	25	1.65
2 years to 5 years	5	25	25	4.95
5 years to 10 years	12	50	50	12.20
10 years and above	79	100	100	78.78

As the Council does not borrow at variable rates of interest, the upper limit on this type of debt will always be nil, therefore no table has been produced for variable interest rate borrowing.

Appendix B

Borrowings as at 31 Mar 2023

	Principal Sum £'000	Original Term (Years)	Annual Interest £	MATURITY	%
Housing Revenue Account					
PWLB - 500495	10,000	15	301,000	28 Mar 2027	3.01%
PWLB - 500498	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500500	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500501	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500493	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500496	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500503	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500494	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500497	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500499	10,000	30	350,000	28 Mar 2042	3.50%
	100,000		**3,379,000**	**Average Rate:**	**3.38%**
General Fund					
PWLB - 507919	10,000	5	195,000	17 Oct 2023	1.95%
Sheffield Combined Authority	5,000	2	25,000	19 Oct 2023	0.50%
PWLB - 507920	10,000	6	205,000	17 Oct 2024	2.05%
PWLB - 504312	10,000	10	256,000	17 Aug 2025	2.56%
PWLB - 506855	10,000	10	219,000	23 Jan 2028	2.19%
PWLB - 505012	4,000	12	86,400	08 Jun 2028	2.16%
PWLB - 507919	6,000	9	150,000	22 Dec 2028	2.50%
PWLB - 504520	15,000	15	414,000	04 Dec 2030	2.76%
PWLB - 176998	10,000	11	226,000	30 Mar 2031	2.26%
PWLB - 410351	10,000	11	167,000	28 Sep 2032	1.67%
PWLB - 505233	10,000	30	244,000	12 Jul 2046	2.44%
Phoenix Life Limited	39,181	40	1,141,830	02 May 2061	2.88%
PWLB - 505335	20,000	45	376,000	01 Sep 2061	1.88%
PWLB - 508328	10,000	43	247,000	31 Dec 2061	2.47%
PWLB - 508377	10,000	43	249,000	18 Jan 2062	2.49%
PWLB - 505968	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505969	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505972	20,000	46	470,000	05 Apr 2063	2.35%
PWLB - 505433	10,000	47	207,000	29 Sep 2063	2.07%
PWLB - 508192	10,000	45	243,000	12 Dec 2063	2.43%
PWLB - 508226	10,000	45	239,000	13 Dec 2063	2.39%
PWLB - 505434	14,000	48	289,800	29 Sep 2064	2.07%
PWLB - 505668	20,000	48	514,000	20 Jan 2065	2.57%
PWLB - 507420	40,000	47	980,000	29 May 2065	2.45%
PWLB - 507145	10,000	48	228,000	27 Mar 2066	2.28%
PWLB - 507416	40,000	48	984,000	25 May 2066	2.46%
PWLB - 505611	20,000	50	524,000	16 Dec 2066	2.62%
PWLB - 506991	10,000	50	240,000	05 Mar 2067	2.40%
PWLB - 507425	20,000	49	480,000	30 May 2067	2.40%
PWLB - 506125	10,000	50	230,000	12 Jun 2067	2.30%
PWLB - 506887	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 506888	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 507407	20,000	50	490,000	23 May 2068	2.45%
PWLB - 177081	40,000	50	932,000	30 Mar 2070	2.33%
PWLB - 434500	10,000	50	167,000	09 Nov 2071	1.67%
	543,181		**12,689,030**	**Average Rate:**	**2.34%**
Total Borrowings	**643,181**		**16,068,030**	**Annual Interest**	**2.50%**

Appendix C

Investments as at 31 Mar 2023					
	£'000		ORIGINAL TERM	MATURITY	%
Banks					
Term Deposits					
Goldman Sachs International Bank	5,000		6 mth	11 Apr 2023	4.320
SMBC	3,000		3 mth	23 May 2023	4.120
National Bank of Kuwait	4,000		3 mth	29 Jun 2023	4.400
Handelsbanken	5,000		6 mth	17 Jul 2023	4.200
DBS Bank	1,000		9 mth	20 Nov 2023	4.450
Certificates of Deposit					
Nordea Bank Abp	1,000		3 mth	12 Apr 2023	3.800
Standard Chartered Bank	5,000		1 yr	13 Apr 2023	1.910
NatWest Bank	1,000		9 mth	17 Nov 2023	4.340
Total Banks	**25,000**	**34%**			
Building Societies					
Coventry BS	3,000		3 mth	24 Apr 2023	3.580
Yorkshire BS	3,000		3 mth	04 May 2023	3.850
Total Building Society	**6,000**	**8%**	(50% Limit)		
Local Authorities					
Derby City Council	3,000		1 mth	24 Apr 2023	4.600
Sandwell Metropolitan BC	5,000		2 mth	30 May 2023	4.500
North Lanarkshire	5,000		11 mth	12 Jun 2023	1.900
Gloucestershire Police	3,000		3 mth	21 Jun 2023	4.600
Suffolk County Council	5,000		5 mth	28 Jul 2023	4.250
London Borough of Newham	5,000		6 mth	17 Aug 2023	4.300
Total Local Authorities	**26,000**	**36%**			
Money Market Funds					
Aberdeen Liquidity Sterling Fund	-		********** On Call **********		Variable
Aviva Investors Sterling Liquidity Fund - Class 3	10,000		********** On Call **********		Variable
CCLA - Public Sector Deposit Fund	2,000		********** On Call **********		Variable
Deutsche Global Liquidity Managed GBP - Class B	-		********** On Call **********		Variable
Goldman Sachs Sterling Liquid Reserves Institutional	-		********** On Call **********		Variable
Insight Liquidity Fund PLC	-		********** On Call **********		Variable
Total Money Market Funds	**12,000**	**16%**			
Pooled Funds & Collective Investment Schemes					
CCLA Property Fund	2,000		**** 3 mth settlement ****		Variable
CCLA Diversified Income Fund	2,000		**** 3 mth settlement ****		Variable
Total Pooled Funds	**4,000**	**5%**			
Funding Circle					
Lending to small and medium sized companies	42		**** up to 5 years ****		Variable
Total Other Investments	**42**	**0%**	(with the ability to sell loans)		
Total Investments	**73,042**				

Report title	**Treasury Management Report – First Quarter of 2023/24**
Report author	A. Ismailov - Senior Accountant
Department	Finance
Exempt?	No
Exemption type	Not applicable
Reasons for exemption	Not applicable

Purpose of report:

For information

Synopsis of report:

This is the report on Council's treasury management activity and performance in the first quarter of the 2023/24 financial year focusing on financing and liquidity, cash management and risk management.

This report was presented to the Corporate Management Committee on 14 September and is now presented to this committee as part of its oversight role.

Recommendation(s):

None, this report is for information.

1. Background Information

1.1. The Council's treasury management activity is underpinned by CIPFA's (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management ("the Code"), and the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Prudential Code"). These require local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities quarterly from 2023/24.

1.2. The Council's Treasury Management Strategy for 2023/24 was approved at Full Council on 09 February 2023. This report sets out the Council's performance against the criteria in this report in first quarter of 2023/24.

1.3. Treasury management is defined as: "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4. No treasury management activity is without risk. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.5. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report, therefore, provides details of the treasury activities and highlights compliance with the Council's policies previously approved by the members.

2. Prudential and Treasury Indicators and Compliance

2.1. In compliance with the requirements of the Code this report provides members with a summary report of the treasury management activity during first quarter of financial year of 2023/24 ("Q1 2023/24"). Officers can confirm that during the quarter, the Council complied with all its legislative and regulatory requirements and its Treasury Management Statement and Treasury Management Practices.

2.2. During the quarter the Council operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy and in compliance with the Council's Treasury Management Practices and a prudent approach was taken in relation to all investment activity with priority being given to security and liquidity over yield.

2.3. A full set of prudential and treasury indicators for Q1 2023/24 are set out in Appendix A

3. Risk management

3.1. The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. The Treasury Management Strategy Statement ("TMSS") for 2023/24, which includes the Annual Investment Strategy, sets out the Council's investment priorities as being:

Credit risk
Counterparty credit quality is assessed and monitored with reference to credit ratings including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Liquidity risk
In keeping with the DLUHC Guidance on Investments, the Council maintains a sufficient level of liquidity using Money Market Funds and call accounts.

Yield
The Council seeks to optimise returns commensurate with its objectives of security and liquidity.

4. Economic update

4.1. The following section was provided by the Council's Treasury Advisors, Link Group and reflects the market position in July 2023:

4.2. The first quarter of 2023/24 saw:

- a 0.2% month on month 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 year on year growth of average earnings rose from 6.1% to 6.5%;
- interest rates rise by a further 0.75% over the quarter, taking the Bank of England's base rate from 4.25% to 5.0%;

- 10-year gilt yields nearing the “mini-Budget” peaks, as inflation surprised to the upside.

4.3. The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% month on month rise in real GDP in April, following March’s 0.3% month on month contraction will further raise hopes that the economy will escape a recession this year. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% month on month) and the meagre 0.1% month on month increase in public administration.

4.4. 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% quarter on quarter rise in GDP in Q1 2023 being followed by a 0.2% quarter on quarter gain in Q2 2023.

4.5. Meanwhile, the 0.3% month on month rise in retail sales volumes in May was far better than the consensus forecast of a 0.2% decline and followed the robust 0.5% rise in April. Some of the rise was due to the warmer weather. Indeed, the largest move was a 2.7% month on month 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% 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.

4.6. 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 0.2percentage points bigger than over the past year.

4.7. 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%

4.8. 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 3-month (year on year) 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, private sector wage growth increased from 7.1% to 7.6%, which left it well above the Bank of England’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.

4.9. 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.

4.10. This suggests the Bank of England may have more work to do. Indeed, the Bank sounded somewhat hawkish in the June meeting. This came through most in the decision to step up the pace of hiking from the 0.25% 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.

4.11. That said, the Bank has not committed to raising rates again or suggested that 0.5% 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.

4.12. 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 say in the US. 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 ca.5.20% to 5.00% by the end of 2023 and to 4.20% by the end of 2024.

4.13. The pound sterling 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 US Federal Reserve or European Central Bank 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.

4.14. 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.

5. Borrowing Activity in Q1 2023/24

5.1. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement ("CFR"). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the Q1 2023/24 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2. Part of the Council's treasury activities is to monitor cash position and organise financing against the borrowing needs. Financing sourced through combination of external borrowing from external bodies, such as the Government, through the Public Works Loan Board ("PWLB"), or the money markets, or utilising temporary cash resources within the Council.

5.3. During Q1 2023/24, the Council continued to maintain an under-borrowed position. This meant that the capital borrowing need, the CFR, was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure in the sharply rising interest rates environment and the period of relatively low capital spend.

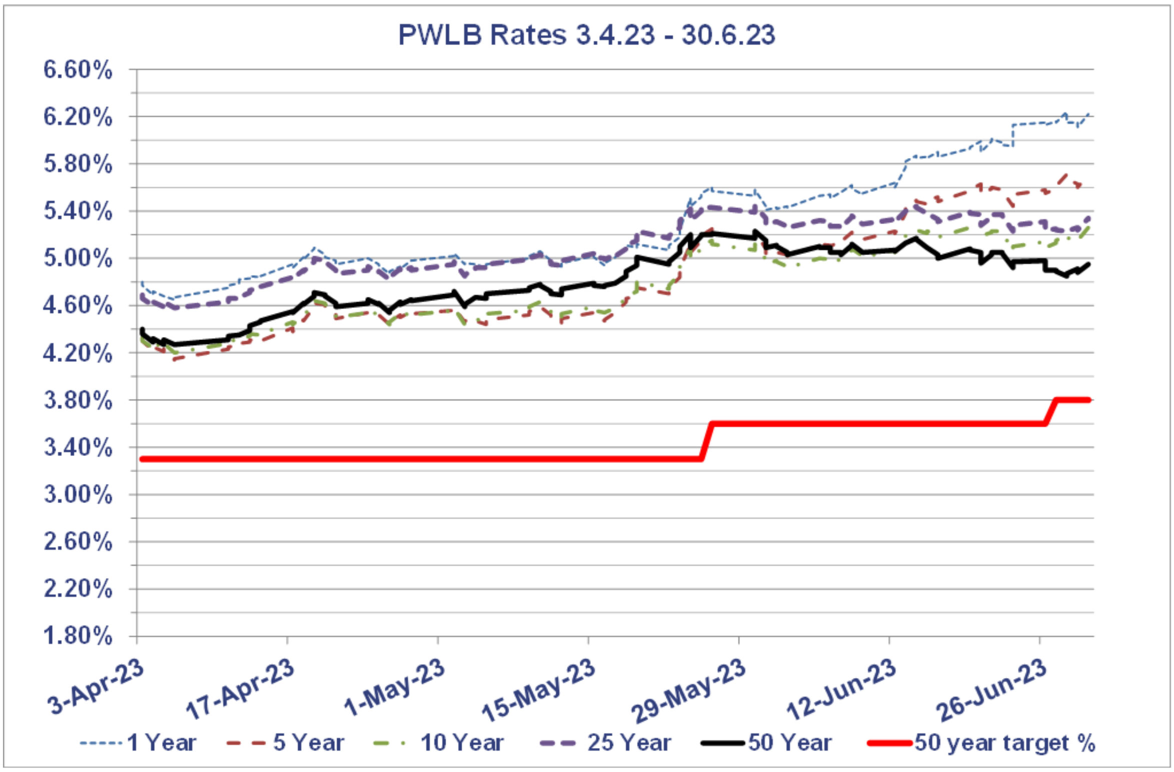
5.4. Table 1 sets out the borrowing activity in Q1 2023/24.

Table 1 – Borrowing activity in Q1 2023/24

	Opening Balance £'000	New borrowing £'000	Borrowings repaid £'000	Closing balance £'000
HRA – PWLB	100,000	0	0	100,000
General Fund - PWLB	499,000	0	0	499,000
General Fund – Other	44,181	0	281	43,900
	643,181	**0**	**281**	**642,900**

5.5. PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Hence, gilt yields and PWLB rates were on a rising trend between 1st April and 30th June.

5.6. The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.30% before increasing to a peak of 3.80% in June. As can be seen, with rates elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable. (Please also note that from 15th June, HRA borrowing is 0.4% lower than the Certainty Rate). The actual PWLB rates during the year were as follows:



6. Interest rates in Q1 2023/24

6.1. Bank rates continued to increase during Q1 2023/24. On 11th May, the Bank of England's Monetary Policy Committee (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%.

6.2. Nonetheless, the Bank of England 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.

6.3. Of course, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Reserve has already hiked short-term rates to a range of 5.00%-5.25% (with more to come), whilst the European Central Bank looks likely to raise its Deposit rate at least once more to 3.75%, with upside risk of higher to come.

6.4. While the Council continues to take a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

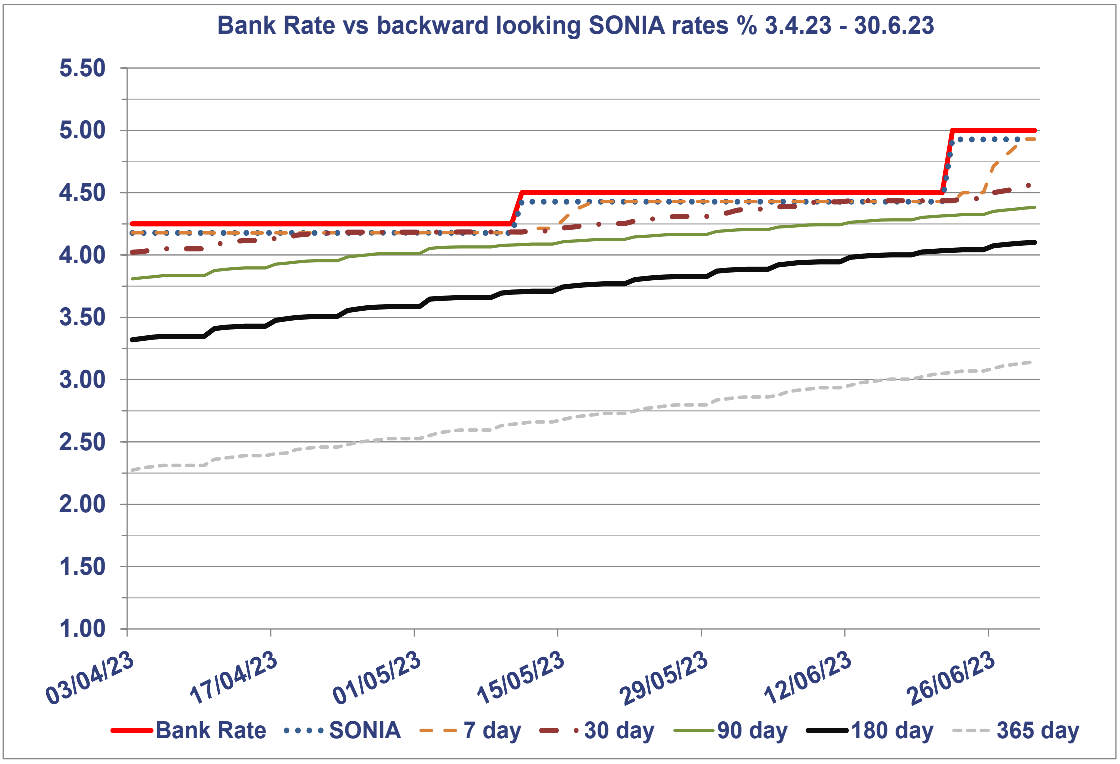
6.5. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. This also provides benefits of reducing counterparty risk exposure, by fewer investments in the financial markets.

<u>Interest rate benchmark</u>

6.6. LIBOR (the London Inter-bank Offered Rate) a benchmark interest rate was replaced by the reformed Sterling Overnight Index Average ("SONIA") from 31 December 2021.

SONIA is published daily and measures the cost of overnight borrowing on a backward-looking basis.

6.7. The SONIA (backward-looking) rates during the Q1 2023/24 were as follows:



FINANCIAL YEAR TO QUARTER ENDED 30/06/2023

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.00	4.93	4.93	4.57	4.38	4.10	3.14
High Date	22/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	4.44	4.37	4.34	4.27	4.11	3.74	2.70
Spread	0.75	0.75	0.75	0.55	0.57	0.78	0.87

6.8. The Council's actual interest rate performance during Q1 2023/24 was 4.31%. The Council's overall performance compares favourably with the new average SONIA rates (given the current environment of continuous bank rate increases) as can be seen in the above table.

6.9. The Council's Treasury Management Strategy sets out a lower rate of interest for the Housing Revenue Account based on the risk-free nature of the account. This lower rate is achieved by deducting the credit risk margin from the actual rate achieved by the Council. The resulting interest rate applicable to the HRA during Q1 2023/24 was 4.11%.

6.10. The Council invests in two Pooled Funds (operated by CCLA (Churches, Charities and Local Authorities) Investment Management Limited). These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long termhorizons they provide investors with relatively strong levels of interest (in the form of dividends). However, the capital values of these assets can be subject to large fluctuations (both up and down) over relatively short time frames.

6.11. The movement of the Council's two CCLA pooled funds is as follows:

Table 2 – Pooled Funds in Q1 2023/24				
	Original Investment £	**Value 31 Mar 2023 £**	**Value 30 Jun 2023 £**	**Annualised Return %**
CCLA Property Fund	2,000,000	2,263,467	2,260,326	5.26
CCLA Diversified Income Fund	2,000,000	1,894,514	1,884,849	4.13

The differences between the Original Sums invested and the Values at 30 Jun 2023 are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account.

7. Investments in Q1 2023/24

7.1. The Council's investment policy is governed by DLUHC investment guidance and is reflected in the Annual Investment Strategy approved by the Council each year. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the first quarter of financial year of 2023/24 conformed to the approved strategy, and the Council had no liquidity difficulties.

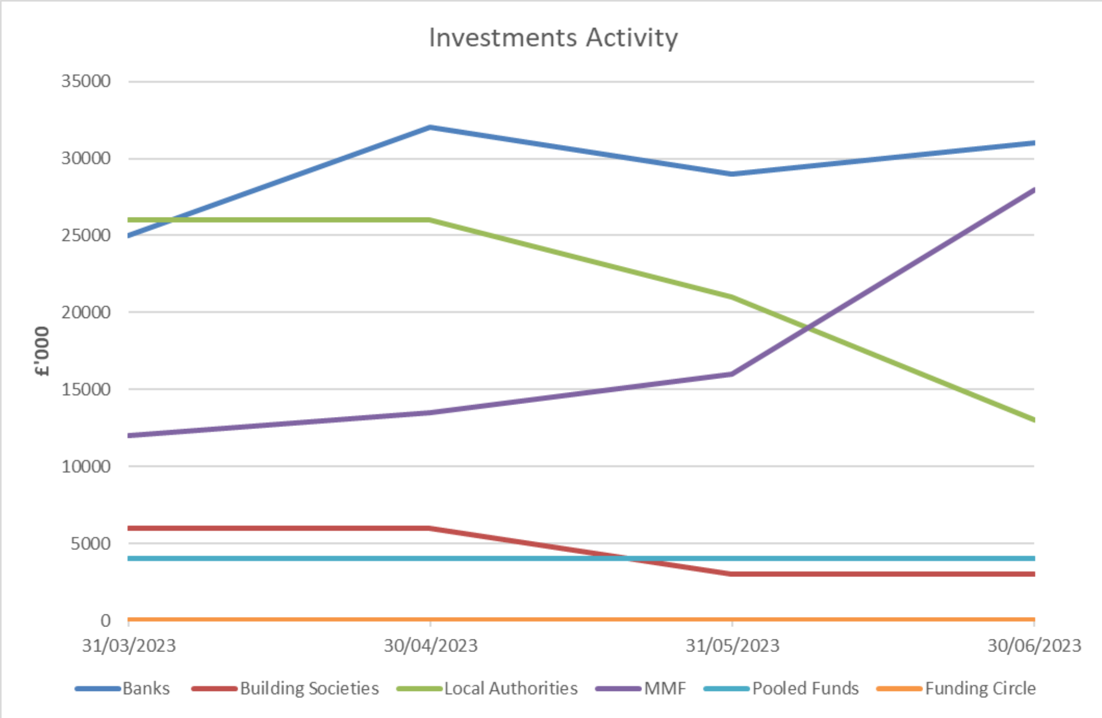
7.2. Investments of £79.0million were held by the Council as of 30 June 2023 with investment turnover principally driven by the availability of counterparties that meet the criteria set out in the Annual Investment Strategy. Table 3 below summarises investment activity during this quarter, split between the sectors of the counterparties that the funds were invested with.

Table 3 - Investment activity in Q1 2023/24				
	Opening Balance	**New Investments**	**Investments Recalled**	**Closing Balance**
	£000	£000	£000	£000
Specified Investments				
Banking sector	25,000	24,000	18,000	31,000
Building societies	6,000	3,000	6,000	3,000
Local Authorities	26,000	3,000	16,000	13,000
Central Government	0	0	0	0
Money Market Funds	12,000	41,500	25,500	28,000
Unspecified Investments				
Short Dated Bond Funds & Cash Funds	0	0	0	0
Pooled Funds & Investment Schemes	4,000	0	0	4,000
Funding Circle	42	0	0	42
	73,042	71,500	65,500	79,042

7.3. Aside from the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income are the level of interest rates, cash flow and the level of reserves and balances. The impact of capital cash flows – receipts from sales and timing of capital projects – also has a significant impact on cash flows.

7.4. The monthly movement in balances between these categories during Q1 2023/24 is set out in Table 4 below and reflects the available counterparties and investment rates at that time.

Table 4 - Movement between investments during Q1 2023/24



7.5. A full list of investments held as of 30 June 2023 is set out in Appendix C.

8. Non-treasury Investments

8.1. The Prudential Code, TM Code and DLUHC regulations include guidance on what is termed "non-treasury" investments. These are predominantly investments for commercial return such as:

- commercial loans to companies and other organisations, and
- holding property for a financial return (investment property).

The Council owns a significant investment property portfolio which is now managed through its developing Asset Management Strategy and provided loans to its wholly owned companies and local community groups.

Commercial Loans

8.2. The Council has funded its three wholly owned companies via Loan Facilities (that have been approved by the Full Council at rates set in accordance with the competition rules) which enabled them to buy some of the properties resulting from the Council's regeneration schemes. There are no plans in the current Capital Programme to increase investments in these areas. The table below sets out the list of loan facilities and movements in their balances in Q1 2023-24.

Loan Type	31/03/2023 Investment £'000	Q1 2023/24 Movement £'000	30/06/2023 Investment £'000	Interest Rate %
Development Loans - AddlestoneOne	25,326		25,326	5.04
Development Loans – Magna Square	11,838		11,838	4.22
Development Loans - Other	1,000		1,000	4.86
Working Capital Loans	445		445	7.54
Working Capital Loans	300		300	7.36
Working Capital Loans	2,100	400	2,500	7.40

Totals	41,009	400	41,409	

8.3. The Working Capital Loan Facilities Agreement approved in October 2020 allowed a sum of £3m available to draw down as required. Of this amount £500,000 is still available to drawdown. It is anticipated that this will be required before the end of this financial year.

Property performance measurement

8.4. As part of both the Annual Asset Management Strategy and the Capital & Investment Strategy, a set of performance reporting measures were approved.

8.5. To better describe the role the investment property portfolio plays in the Council's capital and revenue strategies, the following table sets out the key performance indicators in Q1 2023-24:

KPI	Metric Description	YTD 30/06/2023
Investment Property Income	Variance from target income	£0
Investment Property Rent Arrears	As a percentage of the total portfolio income – taken prior to Quarterly due dates	3.31%
Vacancy Rates	As a percentage of the total portfolio area in SQ FT	5.87%
Tenant Retention	Number of renewals completed and tenant breaks not exercised	91%
Income Return (Proportionality)	Investment income as a percentage of all general fund income (excluding Taxation)	42%
Capital Value	Difference in annual valuation figures, annually. (March 2022 – March 2023)	-£24.8m

These measures and KPIs will be further developed in 2023-24 using benchmarking analysis relative to the broader market, based on frequent data via a subscription to MSCI Analytics. Work on uploading data to MSCI is currently being undertaken.

8.6 With regard to the Capital values; the figures of -£24.8M reflects the fact that our investment property portfolio is heavily weighted in the office sector (approximately 64%), the majority of which have a shortening income profile which in turn leads to a yield swing affecting the capital return. The office sector has undergone a significant shift since October 2022 with persistent high inflation, interest rate hikes and volatility in the financial sector causing investor caution which adds to cautious valuations. In addition to the challenging market conditions particularly in the south east office sector, occupation activity remains sensitive to economic headwinds which include rising energy costs, the new rates revaluation, and ongoing build-cost inflation which have impacted the all-in occupational cost of space which has resulted in occupiers taking less space.

8.7 As with the treasury information, the provision of economic data helps to put some of the above metrics into perspective. An update on property related economic matters provided by local agents Vail Williams reflecting the market position in July 2023 is set out in Appendix D.

9. Legal Implications

9.1. The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code, the Government Investments Guidance and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their treasury management functions.

10. Environmental/Sustainability/Biodiversity implications

10.1. Ethical or Sustainable investing is becoming a more commonplace discussion within the wider investment community. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products however the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities.

10.2. The Council does not invest directly in any companies – other than our own – and our investments are limited to investments with the banking sector (term deposits etc) and investments in property (our investment properties). We do have £4million split between two pooled funds both managed by the CCLA and their approach to ESG can be found on their website.

11. Council Policy

11.1. This is set out in the Treasury Management Policy Statement, the Annual Investment Strategy, and associated Practices and Schedules.

11.2. The Council's treasury management policy statement states:

"The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks."

11.3. It is the security of investments that has always been the main emphasis of our treasury strategy. In balancing risk against return, Officers continue to place emphasis on the control of risk over yield.

12. Conclusions

12.1. The first quarter of 2023/24 continued the challenging investment environment with counterparty risk remaining our primary treasury management priority. The criteria in the Annual Investment Strategy are continuously reviewed to minimise risk as much as practicable whilst retaining the ability to invest with secure institutions.

13. Appendices

- Appendix A – Treasury and Prudential Indicators 2023/24 as of 30 June 2023
- Appendix B – Borrowings as of 30 June 2023
- Appendix C – Investments as of 30 June 2023
- Appendix D – Economic commentary for property as of 30 June 2023

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

Treasury Indicators	2023/24 Budget (Year End) £'000	30.06.23 Actual £'000
Authorised limit for external debt	700,613	700,613
Operational boundary for external debt	675,613	675,613
Gross external debt	650,613	642,900
Investments	53,756	79,042
Net borrowing	596,857	563,858

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	25%	2.42%
12 months to 2 years	25%	3.20%
2 years to 5 years	25%	4.03%
5 years to 10 years	50%	11.59%
10 years to 20 years	100%	10.69%
20 years to 30 years	100%	3.36%
30 years to 40 years	100%	17.42%
40 years to 50 years	100%	47.29%

Upper limit for principal sums invested over 365 days *(split by financial years beyond current year end):* **Year 1**	5,000	0

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

The authorised limit for external borrowing. – A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under Section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

This limit includes a "cushion" to allow for the non-repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing). This was not required during the quarter.

Maturity structure of fixed interest rate borrowing (Upper Limit). The table above relates to fixed rate borrowing only. As the Council does not borrow at variable rates of interest, the upper limit on variable debt will always be nil, therefore no table has been produced for variable interest rate borrowing.

Investment Treasury Indicator and Limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

There were no investments made for a period of greater than 365 days as of 30 June 2023.

Prudential Indicators	2023/24 Budget £'000	30.06.23 Actual £'000
Capital expenditure	46,479	1,178
Capital Financing Requirement (CFR)	703,066	703,066
In-year borrowing requirement	7,603	7,603

Capital Expenditure – This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements. Any shortfall of resources results in a funding borrowing need.

The Council's borrowing need (the Capital Financing Requirement) - The Council's Capital Financing Requirement (CFR), is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

In-year borrowing requirement for non-financial investments is any capital expenditure that has not been financed in the year.

APPENDIX B

Borrowings as at 30 Jun 2023

	Principal Sum £'000	Original Term (Years)	Annual Interest £	MATURITY	%
Housing Revenue Account					
PWLB - 500495	10,000	15	301,000	28 Mar 2027	3.01%
PWLB - 500498	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500500	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500501	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500493	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500496	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500503	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500494	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500497	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500499	10,000	30	350,000	28 Mar 2042	3.50%
	100,000		**3,379,000**	**Average Rate:**	**3.38%**
General Fund					
PWLB - 507919	10,000	5	195,000	17 Oct 2023	1.95%
Sheffield Combined Authority	5,000	2	25,000	19 Oct 2023	0.50%
PWLB - 507920	10,000	6	205,000	17 Oct 2024	2.05%
PWLB - 504312	10,000	10	256,000	17 Aug 2025	2.56%
PWLB - 506855	10,000	10	219,000	23 Jan 2028	2.19%
PWLB - 505012	4,000	12	86,400	08 Jun 2028	2.16%
PWLB - 507919	6,000	9	150,000	22 Dec 2028	2.50%
PWLB - 504520	15,000	15	414,000	04 Dec 2030	2.76%
PWLB - 176998	10,000	11	226,000	30 Mar 2031	2.26%
PWLB - 410351	10,000	11	167,000	28 Sep 2032	1.67%
PWLB - 505233	10,000	30	244,000	12 Jul 2046	2.44%
Phoenix Life Limited	38,900	40	1,125,858	02 May 2061	2.88%
PWLB - 505335	20,000	45	376,000	01 Sep 2061	1.88%
PWLB - 508328	10,000	43	247,000	31 Dec 2061	2.47%
PWLB - 508377	10,000	43	249,000	18 Jan 2062	2.49%
PWLB - 505968	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505969	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505972	20,000	46	470,000	05 Apr 2063	2.35%
PWLB - 505433	10,000	47	207,000	29 Sep 2063	2.07%
PWLB - 508192	10,000	45	243,000	12 Dec 2063	2.43%
PWLB - 508226	10,000	45	239,000	13 Dec 2063	2.39%
PWLB - 505434	14,000	48	289,800	29 Sep 2064	2.07%
PWLB - 505668	20,000	48	514,000	20 Jan 2065	2.57%
PWLB - 507420	40,000	47	980,000	29 May 2065	2.45%
PWLB - 507145	10,000	48	228,000	27 Mar 2066	2.28%
PWLB - 507416	40,000	48	984,000	25 May 2066	2.46%
PWLB - 505611	20,000	50	524,000	16 Dec 2066	2.62%
PWLB - 506991	10,000	50	240,000	05 Mar 2067	2.40%
PWLB - 507425	20,000	49	480,000	30 May 2067	2.40%
PWLB - 506125	10,000	50	230,000	12 Jun 2067	2.30%
PWLB - 506887	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 506888	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 507407	20,000	50	490,000	23 May 2068	2.45%
PWLB - 177081	40,000	50	932,000	30 Mar 2070	2.33%
PWLB - 434500	10,000	50	167,000	09 Nov 2071	1.67%
	542,900		**12,673,058**	**Average Rate:**	**2.33%**
Total Borrowings	**642,900**		**16,052,058**	**Annual Interes**	**2.50%**

APPENDIX C

Investments as at 30 Jun 2023					
	£'000		**ORIGINAL TERM**	**MATURITY**	**%**
Banks					
Term Deposits					
Santander UK Plc	5,000		3 mth	06 Jul 2023	4.370
Handelsbanken	5,000		6 mth	17 Jul 2023	4.200
First Abu Dhabi Bank	1,000		3 mth	28 Sep 2023	5.380
National Bank of Kuwait	5,000		3 mth	29 Sep 2023	5.450
Qatar National Bank	1,000		6 mth	06 Oct 2023	5.020
Goldman Sachs International Bank	5,000		6 mth	11 Oct 2023	4.700
DBS Bank	1,000		9 mth	20 Nov 2023	4.450
Certificates of Deposit					
NatWest Bank	1,000		9 mth	17 Nov 2023	4.340
Toronto Dominion Bank	2,000		1 yr	12 Apr 2024	5.100
Standard Chartered Bank	3,000		1 yr	12 Apr 2024	5.040
Skandinaviska Enskilda Banken (SEB)	2,000		1 yr	12 Apr 2024	5.040
Total Banks	**31,000**	**39%**			
Building Societies					
Leeds BS	3,000		3 mth	01 Aug 2023	4.340
Total Building Society	**3,000**	**4%**	(50% Limit)		
Local Authorities					
Lancashire County Council	3,000		3 mth	24 Jul 2023	4.350
Suffolk County Council	5,000		5 mth	28 Jul 2023	4.250
London Borough of Newham	5,000		6 mth	17 Aug 2023	4.300
Total Local Authorities	**13,000**	**16%**			
Money Market Funds					
Aberdeen Liquidity Sterling Fund	10,000		********** On Call **********		Variable
Aviva Investors Sterling Liquidity Fund - Class 3	10,000		********** On Call **********		Variable
CCLA - Public Sector Deposit Fund	2,000		********** On Call **********		Variable
Deutsche Global Liquidity Managed GBP - Class B	-		********** On Call **********		Variable
Goldman Sachs Sterling Liquid Reserves Institutional	-		********** On Call **********		Variable
Insight Liquidity Fund PLC	6,000		********** On Call **********		Variable
Total Money Market Funds	**28,000**	**35%**			
Pooled Funds & Collective Investment Schemes					
CCLA Property Fund	2,000		**** 3 mth settlement ****		Variable
CCLA Diversified Income Fund	2,000		**** 3 mth settlement ****		Variable
Total Pooled Funds	**4,000**	**5%**			
Funding Circle					
Lending to small and medium sized companies	42		**** up to 5 years ****		Variable
Total Other Investments	**42**	**0%**	(with the ability to sell loans)		
Total Investments	**79,042**				

APPENDIX D

Economic Commentary provided by local agents Vail Williams

Office Commentary

Receding pandemic restrictions and more employees returning to offices have helped bring about a steady rebound in office leasing in recent quarters. Office take-up reached its highest level in four years in November 2022 and then jumped again in March 2023, following a brief winter lull. Markets like London, Oxford and Cambridge have driven the rebound, while notable deals have been signed in Birmingham, Milton Keynes and Leeds in recent months. The overall demand picture remains subdued, however.

National net absorption remained negative over the past year, as firms continue to release space onto the market. While demand losses were lighter than in 2021, weak demand and rising net deliveries continue to push the national office vacancy rate upwards. It currently stands at 7.6%, its highest level in nearly a decade.

There is 30.3 million SF of new office space under construction nationally, which is a decade high. Much of this space is due to deliver over the next 12 months, which, allied to ongoing subdued demand, should cause the national office vacancy rate to increase further. London's vacancy rate will likely rise more sharply than the national average, given the capital accounts for more than half of office construction underway nationally.

Average asking rents have remained relatively resilient since the pandemic began, supported by continued rent growth at the prime end of the market and by landlords offering more generous incentive packages. Prime buildings should outperform secondary ones in the coming years as firms continue to pivot to better-quality space — to attract staff, welcome clients and meet growing environmental commitments — even as many take less space overall amid a pivot to hybrid working. This should lead to the accelerated removal of older stock. New energy performance regulations that come into force from April 2023 could do likewise.

Supply-constrained markets with a strong TMT, life science or professional services demand base and a highly educated workforce have outperformed during the pandemic and should continue to do well over the forecast. The likes of Bristol, Cambridge and Edinburgh fall into this category, with markets such as Milton Keynes, Brighton and Leeds also likely to fare relatively well.

UK office investment slumped to its lowest level in more than a decade in Q4 2022 and picked up only mildly in Q1 2023. Rising interest rates and market volatility have cooled momentum built up in the opening months of the year, when a host of blockbuster deals in London, Cambridge and the “Big Six” regional cities threatened to make 2022 a record year.

Prime yields for major regional cities (single let, 15 years) currently stand at 5.75%, a softening from May 2022 where they were between 4.50% - 5.00%. Multi-let offices with a WAULT of 5 years are attracting yields of between 6.50% - 7.00%, whereas good secondary office investments in regional cities are attracting yields of 9.50%.

Deteriorating sentiment, higher borrowing costs and weakening fundamentals are likely to continue to weigh on office prices in the coming months, although the market should be cushioned to an extent by the relative lack of debt when compared with the 2008 crisis.

Industrial Commentary

The main driver for the UK industrial and logistics property market is the rapid rise of e-commerce, which fuels demand for warehousing and distribution accommodation and for regional and local delivery centres. The Coronavirus pandemic placed an even greater focus on home shopping/home delivery and the supply chain for food and other key goods.

Despite a decline in UK manufacturing over the last 40 years, the UK manufacturing sector remains a significant and important part of the economy and a major factor in the industrial/logistics market. The UK is the ninth largest manufacturing nation in the world, employing 2.7m workers and accounting for 11% of UK GVA.

Flash UK manufacturing purchasing managers’ index (PMI) dropped to 46.9 in May 2023 from 47.8 in the previous month, and below market expectations of 48, a preliminary estimate showed. The latest reading pointed to the steepest deterioration in the manufacturing sector for five months, as output declined for a third consecutive period due in part to subdued order books and customer destocking. New orders fell at a faster pace, with exports declining the most in four months, amid subdued global demand, Brexit-related trade headwinds, and intensifying competition for new orders in overseas markets.

The value of goods imports decreased by £1.4 billion (2.8%) in March 2023; after removing the effect of inflation, imports of goods fell by £0.8 billion (2.1%). The value of goods exports decreased by £0.7 billion (2.3%) in March 2023; after removing the effect of inflation, exports of goods fell by £0.7 billion (2.7%). The monthly falls in both imports and exports of goods were primarily because of decreases in trade with non-EU countries, while trade with the EU remained stable.

According to the latest monthly Confederation of British Industry industrial trends survey Manufacturing output volumes fell modestly in the three months to May (weighted balance of -10%, from -15% in the three months to April) and are expected to fall moderately again in the three months to August (-5%), ending four consecutive months of positive expectations. Output fell in 9 out of 17 sub-sectors in the three months to May. The decrease was driven by the motor vehicles & transport equipment, chemicals, and food, drink & tobacco sub-sectors. Total order books were reported as below "normal" in May, to a broadly similar extent as in April (-17% from -20%) and were marginally weaker than the long-run average (-13%). Export order books were also seen as below normal, but to a greater extent than last month (-26% from -9%) and were also below average (-18%).

Anna Leach, CBI Deputy Chief Economist, said: Our latest survey suggests the recent pressures on manufacturing activity have so far persisted through the second quarter. Sentiment continues to deteriorate and expectations for output growth in the coming three months have turned negative, which doesn't suggest UK manufacturing is poised to recover any significant momentum in the near-term. "With demand subdued and the outlook for costs improving, manufacturers expect growth in their selling prices to slow, which should feed through to measures of inflation over time''.

The full impact of the increase in tighter border controls as result of Brexit is still unfolding but indications so far are that there are longer delays at UK entry points. It is possible that these delays, if they become permanent will impact upon supply chains and therefore also affect the locational requirements of logistics operators.

The UK Commercial Property Market Survey published by the RICS for Q1 2023 The results of the Q1 2023 RICS UK Commercial Property Monitor remain generally subdued as the market continues to contend with higher borrowing costs and a sluggish economic growth outlook. That said, the overall tone to the latest feedback is not as downbeat as last quarter. Indeed, the industrial sector in particular has shown renewed momentum, evidenced by near-term capital value expectations turning marginally positive following the sharp downward adjustment seen at the end of last year as bond yields jumped higher. Overall, although 50% of respondents feel conditions are consistent with a downturn phase of the property cycle, respective shares of 25% and 21% now feel the market has either reached a floor or has begun to turn up (9% and 5% in Q4). The industrial sector saw a pick-up in occupier demand, registering a net balance of +16% vs +6% in Q4. During the quarter current availability dipped marginally for industrials.

Whilst there remains a good level of demand and of activity in many local industrial markets there has been an adjustment to prime yields, which will feed through to the other segments of the market. The continuing impact of external factors, in particular interest rate uncertainty, rising energy prices, cost of living and the impact of a European war, will continue to affect the market through changes in consumer demand, rises in production costs and a squeeze on profits. Commentators are predicting that the peak of the market has been passed and that there is an expectation that yields will continue to move upwards over the coming months.

Report title	**Overview & Scrutiny Select Committee Work Programme**
Report author	Andrew Finch
Department	Democratic Services
Exempt?	No

Purpose of report:

To resolve

Synopsis of report:

Effective scrutiny should have a defined impact on the ground, with the committee making recommendations that will make a tangible difference to the work of the authority. To have this kind of impact, scrutiny committees need to plan their work programme, i.e., draw up a long-term agenda and consider making it flexible enough to accommodate any urgent, short-term issues that might arise during the year.

Recommendation(s):

The Committee is invited to confirm which topics to cover for the 2023/24 year as part of its work programme, and intended course of action for dealing with those topics.

1. Context and background of report

1.1 Overview and scrutiny committees have statutory powers to scrutinise decisions an authority is planning to take, those it plans to implement, and those that have already been taken/implemented. Recommendations following scrutiny enable improvements to be made to policies and how they are implemented.

1.2 Overview and scrutiny committees can also play a valuable role in developing policy, and effective overview and scrutiny should:

- Provide constructive ‘critical friend’ challenge
- Amplify the voices and concerns of the public
- Be led by independent people who take responsibility for their role
- Drive improvement in public services

1.3 Councils who adopt the committee system are not required to have overview and scrutiny but may do so if they wish. Following an internal training session between the committee and the Corporate Head of Law & Governance, the vice chair of the committee has put forward an initial two items for consideration for the work programme for the remainder of the meetings for 2023/24:

1) Review of the grass cutting arrangements between Runnymede Borough Council and Surrey County Council, lessons learned, and suggestions for future improvements.

2) To investigate options for future direction in policy development to mitigate the impact of the density and proliferation of Houses of Multiple Occupation on residents of the RBC wards neighbouring the RHUL campus.

1.4 Evidence will need to be gathered to inform the work programming process. This will ensure that it looks at the right topics, in the right way and at the right time. Gathering evidence requires conversations with:

- The public
- The authority's partners
- Officers

1.5 Whilst invitations to external partners can be issued on the Committee's behalf, no external party can be compelled to attend an Overview & Scrutiny Committee, task and finish group, or any other council meeting as part of the process.

1.6 It is acknowledged that there needs to be a degree of flexibility throughout the year in order to also deal with matters that may crop up.

1.7 Selected topics can be scrutinised in several ways, including:

(a) As a single item on a committee agenda
This often presents a limited opportunity for effective scrutiny but may be appropriate for some issues or where the committee wants to maintain a formal watching brief over a given issue.

(b) At a single meeting
Which could be a committee meeting or something less formal. This can provide an opportunity to have a single public meeting about a given subject, or to have a meeting at which evidence is taken from a number of witnesses.

(c) At a task and finish review of two or three meetings
Short, sharp scrutiny reviews are likely to be most effective even for complex topics. Properly focused, they ensure members can swiftly reach conclusions and make recommendations, perhaps over the course of a couple of months or less.

(d) Via a longer-term task and finish review
The 'traditional' task and finish model – with perhaps six or seven meetings spread over a number of months – is still appropriate when scrutiny needs to dig into a complex topic in significant detail. However, the resource implications of such work, and its length, can make it unattractive for all but the most complex matters.

(e) By establishing a 'standing panel'
This falls short of establishing a whole new committee but may reflect a necessity to keep a watching brief over a critical local issue, especially where members feel they need to convene regularly to carry out that oversight. Again, the resource implications of this approach means that it will be rarely used.

1.8 Further meetings of the Select Committee are scheduled on the following dates, and a proposed course of action for the meetings is set out below:

- **30 November 2023**
  Gathering information via introductions/briefings from officers and/or other relevant parties.

- **1 February 2024**
  Debate the course of action required.

- **28 March 2024**
  Agree on recommendations to committee(s).

1.9 Some authorities use scoring systems to evaluate and rank work programme proposals. If these are used to provoke discussion and debate, based on evidence, about what priorities should be, they can be a useful tool. Others take a looser approach. Whichever method is adopted, a committee should be able to justify how and why a decision has been taken to include certain issues and not others.

2. Conclusions

2.1 The Committee is invited to confirm which topics to cover for the 2023/24 year as part of its work programme, and intended course of action for dealing with those topics.

Appendices
Appendix 1 – Background information to the request to includes HMOs as part of the Overview & Scrutiny Select Committee work programme

Appendix 1 – Background information to the request to includes HMOs as part of the Overview & Scrutiny Select Committee work programme

To investigate options for future direction in policy development to mitigate the impact of the density and proliferation of Houses of Multiple Occupation on residents of the RBC wards neighbouring the RHUL campus.

NB:

- RHUL have a stated ambition to increase student numbers from today's 12,000 to around 15,000 by 2029-30. The planned increase in campus accommodation is only 1400, leaving an additional 1600 students to be accommodated in private accommodation the surrounding area.
- RBC has no records of the total number of HMOs, (only registerable ones), but a respected resident has mapped the Borough's 963 Class N Council Tax Exempt dwellings (which is considered the best guide to student occupied HMO dwelling numbers) and his work shows 47% of the entire Borough HMOs are in Englefield Green, representing over 14% of the dwellings in those two wards.

This matter is a key concern for residents in wards Englefield Green East, Englefield Green West and Egham Town and the problem is raised repeatedly at Councillors' surgeries, on the doorstep, on social media, as a planning objection and in complaints to RBC as a primary cause of nuisance behaviour and ASB.

In March this year a report on this subject was submitted to Planning Committee regarding the introduction of an 'Article 4 Direction' which would have offered a step towards managing this problem. The Planning Committee agreed to support further research, but the consequence of delays in new national planning legislation means the 'Article 4 Direction' cannot be in put in place any time soon because amendments will be required to the new iteration of the RBC Local Plan and this may not happen for some years hence.
Report on Article 4 Direction March 23

Extracts from that report by Planning Policy Team:

2.2 HMOs are recognised as meeting important and specific housing needs in Runnymede, particularly for people on low incomes, as house prices in the borough are high. However, high concentrations of HMOs can present challenges to the sustainability of neighbourhoods and impact on their character and residential amenity. This is often the case in university towns where the concentration of student HMOs in specific areas can lead to issues with the resident population.

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4.21 The potential impacts of concentrations of HMOs in an area, and particularly those relating to student HMOs, can include the following:

• Increase in population densities resulting in increases in domestic refuse, litter (e.g. fast food and pizza boxes) and fly-tipping of unwanted household items (e.g. discarded beds/mattresses, sofas and fridges);
• The removal of hedges, fences, gates, and gardens for driveways;
• The proliferation of 'to-let' boards, unkempt gardens and yards;
• Dilapidated external residential facades and the disrepair of housing (depending on the landlord);
• The exclusion of local families and low-income individuals and households from the local housing market;
• The replacement / displacement of local families by transient student populations;
• The marginalisation and polarisation of local families;
• The gradual closure of local crèches, nurseries and schools, and other community facilities;
• The loss of family-oriented public and private services;

• *Higher levels of burglary and crime;*
• *The formation of a new sense of place, and a different type of ambience in the neighbourhood;*
• *Room arrangements and a lifestyle which can exacerbate noise nuisance (e.g. parties, higher occupancy levels in HMO);*
• *The conflicts between the everyday living routines (e.g. timing of work, play and sleep) of established residents and many students;*
• *Increased car parking and congestion*

The communities of Englefield Green East, Englefield Green West and Egham Town are affected by every one of the listed 'potential impacts' and waiting for years until the Article 4 Direction might be put in place should not be the only hope for long-suffering residents in these wards.
Whilst the Article 4 Direction would seem to be the only tool available to potentially stem the growth in HMO numbers or manage their density and distribution, mitigating policies have been adopted by other 'University Towns' to alleviate the worst impacts of having such a high concentration of HMOs and these should be considered by RBC:

1. More stringent enforcement of current regulations The Management of Houses in Multiple Occupation (England) Regulations 2006 in respect of condition of gardens and building frontages, bin management etc.
2. Extending licencing to all HMOs under Housing Act 2004 Part 2 Licensing of houses in multiple occupation and not only for households with 5 or more occupants as at present eg Hounslow appendix 3
3. Toughen local HMO licencing conditions to include landlord responsibility for ASB. See reference to Landlords' responsibility for ASB in Warwick DC HMO Licence conditions
4. Improve communications with landlords RBC HMO guidance RBC HMO guidance versus: Warwick DC HMO guidance and Landlords tackling ASB
5. Introducing a Joint Enforcement Team to help reduce ASB as other local Surrey Borough Councils have done: Spelthorne JET Pilot

I note that the Overview & Scrutiny committee may go on site visits, conduct public surveys, hold public meetings, commission research, and do all other things that we reasonably consider necessary to inform our deliberations and essentially, we may also consider inviting RHUL as a witness to attend and address the committee about their growth plans in respect of accommodation, parking provision and other related matters.