Report title	**Treasury Management Report – Q3 2023/24**
Report author	Aidar Ismailov – Senior Accountant
Department	Financial Services
Exempt?	No

Purpose of report:

For information

Synopsis of report:

This is the report on Council's treasury management activity and performance in quarter ended 31 December 2023 focusing on financing and liquidity, cash management and risk management.

The report also reflects on the review of Council's treasury and investment strategies, along with prudential indicators, and compliance with the limits set for 2023/24.

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. From 2023/24, the Code also recommends that members are informed of treasury management activities quarterly.

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 the quarter ended 31 December 2023.

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.

1.6. This report will also be presented to the Overview & Scrutiny Select Committee on 28 March.

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 the quarter ended 31 December 2023 of the 2023/24 financial year ("Q3 2023/24"). Officers herewith confirm that during Q3 2023/24, the Council complied with all its legislative and regulatory requirements and its Treasury Management Strategy Statement and Treasury Management Practices.

2.2. There are no proposed changes to the current Treasury Management Strategy.

2.3. During the third quarter of 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 and a prudent approach was taken in relation to all investment activity with priority being given to security and liquidity over yield.

2.4. A full set of prudential and treasury indicators for Q3 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. In line with regulations Appendix B sets out the economic context within which our treasury operations were working in during the period covered by this report. This economic update was provided by the Council's Treasury Advisors, LINK Group and reflects the market position in early January 2024.

5. Borrowing Activity in Q3 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 Q3 2023/24 unfinanced capital expenditure, and prior period's net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources. The Council's current CFR is £702.5m.

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. No new borrowing was undertaken during Q3 2023/24 meaning that 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 low capital spend.

5.4. Table 1 sets out the borrowing activity in the nine months of 2023/24:

Table 1 – Borrowing activity YTD Q3 2023/24

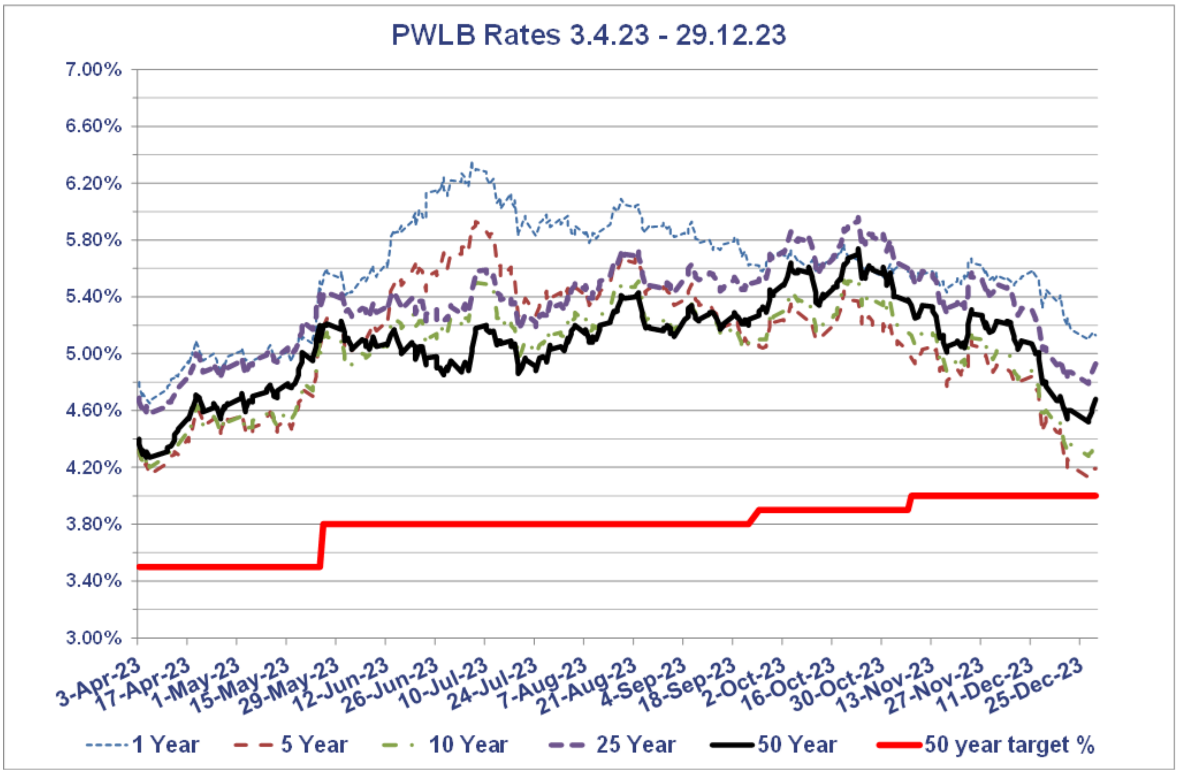
	Balance 31 Mar 2023 £'000	New borrowing £'000	Borrowings repaid £'000	Balance 31 Dec 2023 £'000
HRA – PWLB	100,000	0	0	100,000
General Fund - PWLB	499,000	0	10,000	489,000
General Fund – Other	44,181	0	5,566	38,615
	643,181	**0**	**15,566**	**627,615**

5.5. A full list of Council borrowings held as of 31 December 2023 is set out in Appendix C

5.6. 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.

5.7. Gilt yields have endured a volatile first nine months of 2023/24 with yields rising significantly on the back of inflation concerns in H1 before retracting much of those increases in Q3. The market now anticipates rate cuts by H2 2024, which is reflective of market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone.

5.8. The actual PWLB rates during the nine months of 2023/24 were as follows:



5.9. The Department for Levelling Up, Housing and Communities (DLUHC) has policy responsibility for the Prudential Framework under which local authorities borrow and invest. In October 2023, the Government introduced The Levelling Up and Regeneration Act ("LURA"), which includes new provisions that expand the government's statutory powers to directly tackle excessive risk within local government capital system. A local authority comes into scope of the new powers when a 'trigger point' is breached with respect to any of the four capital risk metrics as set out in the LURA.

5.10. Further explanation on the consequences of the LURA were explored in the Treasury and Capital Strategies approved by the Corporate Management Committee in January. At the time of writing, no further clarifications have been received on the trigger points, calculations or proposed sanctions.

6. Interest rates

6.1. At its 14th December 2023 meeting, the Bank of England's Monetary Policy Committee (MPC) kept rates on hold for the third time in a row, pushing back against the prospect of near-term interest rate cuts. The vote in favour of keeping rates on hold was 6-3.

6.2. LINK now expects Bank Rate to be cut to 4.25% by the end of 2024 (4.5% previously) and 3% by the end of 2025. The low point of the interest rate cycle is also expected to be 3%.

6.3. LINK's forecast for interest rates previously reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. Currently, the rate cuts are expected to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

6.4. Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

6.5. In the upcoming months, LINK's forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

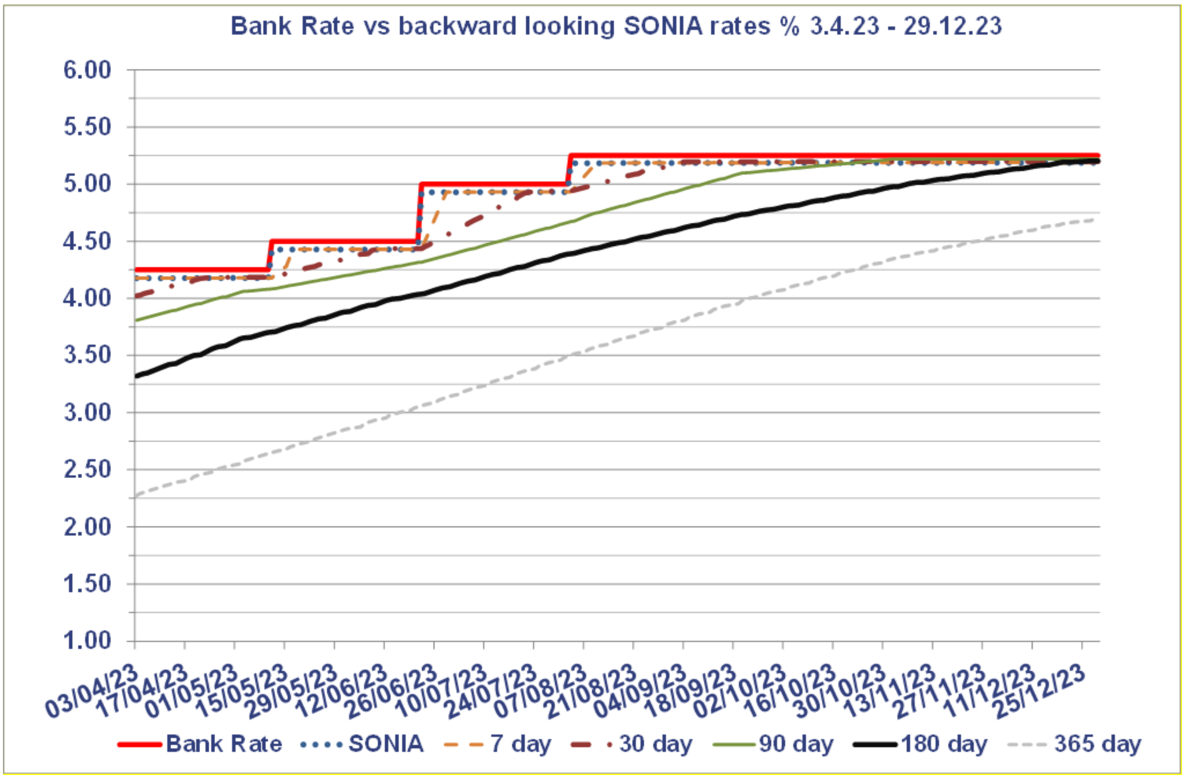
6.6. While the Council continues to take a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided 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.

6.7. 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.

Interest rate benchmark

6.8. The Council uses the Sterling Overnight Index Average ("SONIA") as a benchmark interest rate. This is published daily and measures the cost of overnight borrowing on a backward-looking basis.

6.9. The SONIA (backward-looking) rates during the nine months of 2023/24 were as follows:



FINANCIAL YEAR TO QUARTER ENDED 29/12/2023							
	Bank Rate	**SONIA**	**7 day**	**30 day**	**90 day**	**180 day**	**365 day**
High	5.25	5.19	5.19	5.20	5.22	5.20	4.70
High Date	03/08/2023	24/11/2023	27/11/2023	12/12/2023	22/12/2023	29/12/2023	29/12/2023
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	4.95	4.89	4.88	4.84	4.71	4.43	3.60
Spread	1.00	1.01	1.01	1.18	1.41	1.88	2.43

6.10. The Council's actual interest rate performance during three quarters of 2023/24 was 4.80 which compares favourably with the average SONIA rates as can be seen in the above table.

6.11. 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[1] applicable to the HRA during three quarters of 2023/24 was 4.71%.

7. Investments in Q3 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 three quarters of financial year of 2023/24 conformed to the approved strategy, and the Council had no liquidity difficulties.

7.2. Investments of £65.5million were held by the Council as of 31 December 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

[1] The applicable rate benchmark for a risk-free rate being the average 90-day backward looking SONIA

activity during the three quarters of the year, split between the sectors of the counterparties that the funds were invested with.

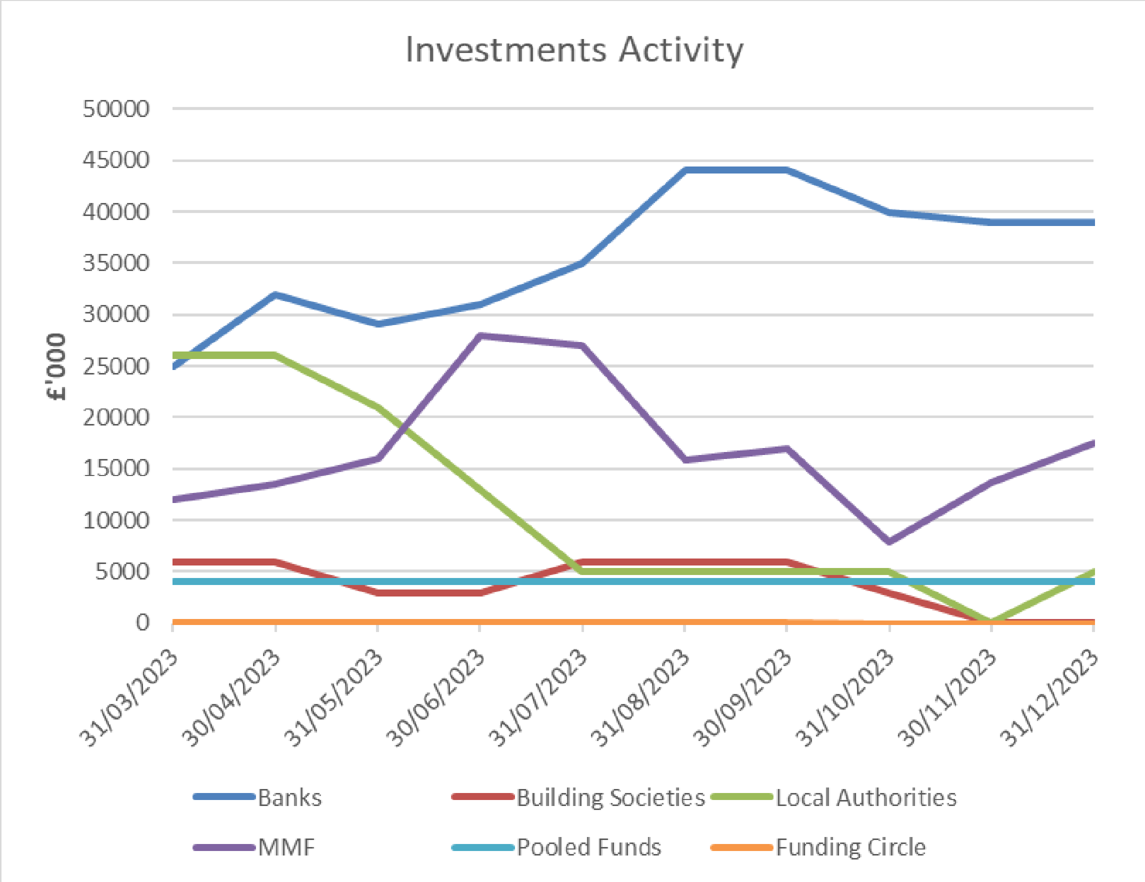
Table 2 - Investment activity in YTD Q3 2023/24				
	Balance 31 Mar 2023	**New Investments**	**Investments Recalled**	**Balance 31 Dec 2023**
	£000	£000	£000	£000
Specified Investments				
Banking sector	25,000	75,000	61,000	39,000
Building societies	6,000	9,000	15,000	0
Local Authorities	26,000	13,000	34,000	5,000
Money Market Funds	12,000	124,500	119,000	17,500
Unspecified Investments				
Pooled Funds & Investment Schemes	4,000	0	0	4,000
Funding Circle	42	0	19	23
	73,042	**221,500**	**229,019**	**65,523**

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. As discussed in previous reports, the Funding Circle balance is slowly being wound down as loans mature following the decision of the company to close reinvestments for retail customers for which the Council is one.

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

Table 3 - Movement between investments during YTD Q3 2023/24



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

Table 4 – Pooled Funds YTD Q3 2023/24				
	Original Investment £'000	**Value 31 Mar 2023 £'000**	**Value 31 Dec 2023 £'000**	**Annualised Return %**
CCLA Property Fund	2,000	2,263	2,190	5.56
CCLA Diversified Income Fund	2,000	1,895	1,976	3.45

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

7.7. CCLA have proposed to merge CCLA Diversified Income Fund with a new fund, the CCLA Better World Cautious Fund, on 16 February 2024. This change is effectively meant to open the investment strategy to a wider customer base (by reducing minimum size of investment ticket). The new fund will continue to invest globally under the same management, albeit with enhanced ESG investment policy and using formal KPI for the expected minimum return of CPI+2% per annum over any 5-year period. The new fund structure will also allow for more streamlined tax compliance and administration for the foreign tax credits.

7.8. A full list of Council's investments held as of 31 December 2023 is set out in Appendix D.

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 the three quarters of 2023-24.

Table 5 –Loans to Runnymede Companies YTD Q3 2023/24

	Balance 31 Mar 2023 £’000	YTD 2023/24 Movement £’000	Balance 31 Dec 2023 £’000	Interest Rate %
Dev-t Loans - Addlestone One	25,326		25,326	5.04
Dev-t Loans – Magna Square	11,838		11,838	4.22
Dev-t 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 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 as of 31 Dec 2023. It is anticipated that this will be required before the end of this financial year.

Property performance measurement

8.4. To better describe the role the investment property portfolio plays in the Council’s capital and revenue strategies a set of performance reporting measures were approved as part of both the Annual Asset Management Strategy and the Capital & Investment Strategy.

8.5. Appendix E sets out the key performance indicators in Q3 2023-24. These will be further developed during 2024-25 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.

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 primarily limited to investments with the banking sector and other authorities (term deposits etc) and investments in property (our investment properties).

10.3. The Council does have two pooled funds both managed by the CCLA and their approach to ESG can be found on their website: Approach to ESG | CCLA.

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 following investment guidance, both statutory and from CIPFA, which make it clear that all investing must adopt SLY principles – security, liquidity and yield in that order.

12. Risk Implications

12.1. The risks associated with Treasury Management activities are set out in the Council's Treasury Management Strategy approved in February 2023 and in the Councils Statement of Accounts.

12.2. The risks associated with Non-Treasury Investments are set out in the Council's Capital and Investment Strategy approved in February 2023 and also in the Annual Asset Management Strategy.

13. Conclusions

13.1. The first three quarters 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.

13.2. During the quarter ended 31st December 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy

Statement for 2023/24. The Corporate Head of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

14. Appendices

- Appendix A - Treasury and Prudential Indicators 2023/24 as of 31 December 2023
- Appendix B – Economic update for the period
- Appendix C - Borrowings as of 31 December 2023
- Appendix D - Investments as of 31 December 2023
- Appendix E - Property Performance Indicators as of December 2023

Treasury and Prudential Indicators 2023/24 as of 31 December 2023

Treasury Indicators	2023/24 Budget (Year End) £'000	31.12.23 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	627,615
Investments	53,756	65,523
Net borrowing	596,857	562,092

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	25%	1.69%
12 months to 2 years	25%	1.69%
2 years to 5 years	25%	5.14%
5 years to 10 years	50%	10.75%
10 years and above	100%	80.74%

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) 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.

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 31 December 2023.

Prudential Indicators	2023/24 Budget £'000	31.12.23 Actual £'000
Capital expenditure – Original **Capital expenditure – Revised**	46,479 26,575	9,153
Capital Financing Requirement (CFR)	703,066	702,545
In-year borrowing requirement	7,603	0
Anticipated year end Internal (under) borrowing	52,453	74,930

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.

ECONOMIC UPDATE

1. The third quarter of 2023/24 saw:

- a 0.3% month on month decline in real Gross Domestic Product (GDP) in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
- a sharp fall in wage growth, with the headline 3-month year on year rate declining from 8.0% in September to 7.2% in October, although the Office for National Statistics' "experimental" rate of unemployment has remained low at 4.2%;
- Consumer Price Index (CPI) inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
- Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
- The Bank of England holding rates at 5.25% in November and December;
- a steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

2. The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.

3. However, the rise in the flash composite activity Purchasing Managers Index (PMI), from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in consumer confidence in December (from -24 to -22 in the GfK measure). The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.

4. The 0.3% month on month fall in retail sales volumes in October means that after contracting by 1.0% quarter on quarter (which was downwardly revised from -0.8% quarter on quarter) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.

5. Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

6. Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.

7. The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-

2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% month on month, which meant the headline 3-month year on year rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3-month year on year to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.

8. The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.

9. CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

10. The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

11. Looking ahead, the colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.

12. The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.

13. Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.

14. The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US

and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

Borrowings as of 31 Dec 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 - 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 - 144641	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	38,615	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%
	527,615		**12,453,058**	**Average Rate:**	**2.36%**
Total Borrowings	**627,615**		**15,832,058**	**Annual Interes**	**2.52%**
	£'000				
Authorised Borrowing Limit 2022/23	700,613	(approved 09 Feb 2023 - Full Council)			
Borrowing to date	(627,615)				
Authorised Borrowing remaining	**72,998**				

Investments as of 31 Dec 2023

	£'000		ORIGINAL TERM	MATURITY	%
Banks					
Term Deposits					
Sumitomo Mitsui Banking Corp (SMBC)	4,000		3 mth	04 Jan 2024	5.450
Overseas-Chinese Banking Corp (OCBC)	3,000		5 mth	08 Jan 2024	5.600
Handelsbanken	5,000		3 mth	17 Jan 2024	5.420
National Bank of Canada	1,000		6 mth	08 Feb 2024	5.620
Al Rayan Bank	5,000		6 mth	09 Feb 2024	5.410
Goldman Sachs International Bank	5,000		3 mth	13 Mar 2024	5.320
DBS Bank	1,000		4 mth	20 Mar 2024	5.440
National Bank of Kuwait	5,000		3 mth	28 Mar 2024	5.340
First Abu Dhabi Bank	1,000		6 mth	04 Apr 2024	5.610
Qatar National Bank	1,000		6 mth	05 Apr 2024	5.790
Certificates of Deposit					
Danske Bank A/S	1,000		4 mth	08 Jan 2024	5.740
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	**39,000**	**60%**			
Building Societies					
	-				
Total Building Society	-	**0%**	(50% Limit)		
Local Authorities					
PCC Hertfordshire	5,000		4 mth	17 Apr 2024	5.650
Total Local Authorities	**5,000**	**8%**			
Money Market Funds					
Aberdeen Liquidity Sterling Fund	-		********** On Call **********		Variable
Aviva Investors Sterling Liquidity Fund - Class 3	10,000		********** On Call **********		Variable
Insight Liquidity Fund PLC	7,500		********** On Call **********		Variable
Total Money Market Funds	**17,500**	**27%**			
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**	**6%**			
Funding Circle					
Lending to small and medium sized companies	23		**** up to 5 years ****		Variable
Total Other Investments	**23**	**0%**	(with the ability to sell loans)		
Total Investments	**65,523**				

Investment Property Performance Indicators 2023/24 as of 31 December 2023

Revenue and Tenancy Management Performance

The following indicators measure the revenue performance and tenancy management performance of the Council's investment Properties.

KPI	Metric Description	YTD 31/12/2023 £
Investment Property budget variance	Increased Income Increased Expenditure	216,000 (197,000)
	Net Surplus / (Deficit)	19,000

KPI	Metric Description	YTD 31/12/2023
Income Return (Proportionality)	Investment income as a percentage of all general fund income (excluding Taxation)	42%
Investment Property Rent Arrears	As a percentage of the total portfolio income – taken prior to Quarterly due dates	2.51%
Vacancy Rates	As a percentage of the total portfolio area in SQ FT	8%
Tenant Retention	Number of renewals completed, and tenant breaks not exercised	78%

Capital & Treasury Performance

KPI	Metric Description	31 March 2023
Capital Values	Difference in Capital Valuations annually. (March 2022 – March 2023)	- £24.8m
	Difference in Capital Valuations since purchase/construction	+ £13.3m
Loan to Value ratio	Amount of debt compared to the total asset value	97.5%
Interest cover ratio	The total net income from property investments compared to the total interest on associated borrowings	2.45 times
Debt cover ratio	The total net income from property investments compared to the total annual MRP and interest on associated borrowings	1.84 times
Average return on investments	Rental income divided by Capital Value	5.1%

There have been no changes to borrowing or interest payments during the first half of the year.