Audit and Governance Committee

27 September 2023

Title	Treasury Management Review Quarter 1 2023/24
Purpose of the report	To note the report for information
Report status	Public report
Report author	Stuart Donnelly, Financial Planning & Strategy Manager
Lead Councillor	Councillor Terry, Deputy Leader of the Council & Lead Councillor for Corporate Services and Resources
Corporate priority	Not applicable, but still requires a decision
Recommendations	1. That the Committee notes the content of the Treasury Management Review Quarter 1 report for 2023/24

1. Executive Summary

1.1. The Council adopted a Treasury Management Strategy and an Annual Investment Strategy for 2023/24 at its meeting on 28th February 2023.

1.2. The purpose of this report is to update Members on the activity of the Treasury Management function during the first quarter of the year for the period 1st April 2023 to 30th June 2023.

1.3. The Council has complied with all elements of its Treasury Management Strategy Statement (TMSS) as agreed by Full Council on 28th February 2023 during this period.

2. Policy Context

2.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly.

2.2. This report facilitates that process providing details of the Council's treasury management activity for the first quarter of 2023/24.

3. Interest Rate Forecast

3.1. The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

3.2. The latest forecast, made on 26th June, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

3.3. Current UK interest rate forecasts (including the 20-basis point certainty rate reduction) are outlined in the following table:

Table 1. Interest Rate Forecasts

Link Group Interest Rate View 26.06.23													
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

MPC meetings

3.4 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%. Both increases reflected a split vote – seven members voting for an increase and two for none.

3.5 Since June there has been one further rise on 3rd August of 25 basis points to 5.25%. Again, a split vote with six members voting for the increase of 25 basis points, one for a rise of 50 points and two for none. A further rise of 25 basis points is anticipated on 21st September 2023.

The Balance of Risks to the UK Economy

3.6 The overall balance of risks to economic growth in the UK is to the downside.

3.7 Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, the rising of gilt yields;

- **The Bank of England** increases Bank Rate too fast and too far over the coming months, and subsequently brings about a deeper and longer UK recession than currently anticipated;

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues;

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows;

- **A broadening of banking sector fragilities,** which have been successfully addressed in the near-term by central banks and the market generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.

3.8 Upside risks to current forecasts for UK gilt yields and PWLB rates:

- **The Bank of England** is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project, or even necessitates a further series of increases in Bank Rate.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- **Longer-term US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.

- **Projected gilt issuance, inclusive of natural maturities and Quantitative Tightening,** could be too much for the markets to comfortably digest without higher yields compensating.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1. The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Full Council on 28th February 2023.

4.2. There are no policy changes required to the TMSS. This report sets out the Council's position compared to the TMSS in light of budgetary changes already approved and revised in-year forecasts of capital expenditure.

5. The Council's Capital Position (Prudential Indicators)

Prudential Indicators for Capital Expenditure

5.1. The Council is required to ensure that all of its Capital Expenditure, investments and borrowing decisions are prudent and sustainable. The prudential indicators for capital expenditure set out whether or not the Council is delivering within its approved budgets.

5.2. Tables 2 and 3 below show the Council's forecast capital expenditure compared to the Capital Programme agreed in February 2023 (Original Budget) and the Capital Programme as at Quarter 1 (Revised Budget) as approved by Policy Committee as part of the 2023/24 Quarter 1 Performance and Monitoring Report in September 2023.

5.3. The indicators show that the Council is forecasting a positive net variance against the approved Capital Programme budget of £0.728m for the General Fund.

Table 2. General Fund Capital Programme

General Fund	2023/24 Original Budget	2023/24 Revised Budget	2023/24 Forecast (30th June 2023)	Variance
	£m	£m	£m	£m
Adult Social Care & Health Services	3.879	1.982	1.982	0.000
Economic Growth & Neighbourhood Services	74.659	65.944	65.944	0.000
Economic Growth & Neighbourhood Services – Education Schemes	18.297	25.436	25.436	0.000
Resources	2.879	5.594	5.594	0.000
Corporate	6.948	8.222	7.494	(0.728)
Total General Fund	**106.662**	**107.178**	**106.450**	**(0.728)**

5.4. The indicators show that the Council is forecasting online against the approved HRA Capital Programme budget of £36.442m

Table 3. HRA Capital Programme

Housing Revenue Account	2023/24 Original Budget	2023/24 Revised Budget	2023/24 Forecast (30th June 2023)	Variance
	£m	£m	£m	£m
Housing Revenue Account	56.856	36.442	36.442	0.00
Total Housing Revenue Account	**56.856**	**36.442**	**36.442**	**0.00**

5.5. Further details on significant variances on individual capital schemes are reported to Policy Committee as part of the Quarterly Performance and Monitoring Reports.

Changes to the Financing of the Capital Programme

5.6. Tables 4 and 5 below identify the expected financing arrangements of the Council's capital expenditure plans. The Borrowing Requirement increases the underlying indebtedness of the Council by increasing the Capital Financing Requirement (CFR), although this will be reduced in part by revenue contributions for the repayment of debt (the Minimum Revenue Provision).

Table 4. Financing of the General Fund Capital Programme

General Fund	2023/24 Original Budget	2023/24 Revised Budget	2023/24 Forecast (30th June 2023)
	£m	£m	£m
Total Capital Expenditure	**106.662**	**107.178**	**106.450**
Financed by:			
Capital Receipts	1.798	4.595	3.867
Capital Grants and other Contributions	58.874	63.081	63.081
Revenue	3.094	10.803	10.803
Total Financing (excluding Borrowing)	**63.766**	**78.479**	**77.751**
Net Borrowing Requirement	**42.896**	**28.699**	**28.699**

Table 5. Financing of the HRA Capital Programme

Housing Revenue Account	2023/24 Original Budget	2023/24 Revised Budget	2023/24 Forecast (30th June 2023)
	£m	£m	£m
Total Capital Expenditure	**56.856**	**36.442**	**36.442**
Financed by:			
Capital Receipts	3.277	4.026	4.026
Capital Grants and other Contributions	7.742	3.958	3.958
Capital Reserves	21.697	14.142	14.142
Revenue	0.553	0.504	0.504
Total Financing (excluding Borrowing)	**33.269**	**22.630**	**22.630**
Net Borrowing Requirement	**23.587**	**13.812**	**13.812**

Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

5.7. Table 6 shows the Council's CFR, which is its total underlying indebtedness. It also shows the maximum expected debt position (the Operational Boundary) over the period as at 28th February 2023, which was £699.283m. The revised Operational Boundary is £668.893m which has reduced due to the revised expenditure and financing forecasts.

Table 6. Capital Financing Requirement and Operational Boundary

	2023/24 Original Estimate	2023/24 Forecast (30th June 2023)
	£m	£m
Prudential Indicator – Capital Financing Requirement		
CFR – General Fund	456.690	433.393
CFR - HRA	222.593	215.500
Total CFR	**679.283**	**648.893**
Prudential Indicator – Operational Boundary for External Debt		
Capital Financing requirement	679.283	648.893
Headroom	20.000	20.000
Operational Boundary	**699.283**	**668.893**

5.8. The Council's current level of external debt (as at 30th June 2023) is £417.986m, as set out in Table 7 below. The Council is therefore operating significantly within its Operational Boundary.

Limits to Borrowing Activity

5.9. Over the medium term, net borrowing (borrowings less investments) should only be for capital purposes. Gross external borrowing should not, except in the short term, exceed the total of the Council's CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy within the TMSS for borrowing in advance of need which will be adhered to if this proves prudent.

Table 7. Capital Financing Requirement and Actual Borrowing

	2023/24 Original Estimate	2023/24 Current Position (30th June 2023)	2023/24 Forecast (30th June 2023)
	£m	£m	£m
Borrowing	478.888	394.840	417.500
Other Long-Term Liabilities	23.146	23.146	23.146
Total Debt	**500.731**	**417.986**	**440.646**
CFR (year end position)	**699.283**	**648.893**	**648.893**
Over/(under) Borrowing		**(230.907)**	**(208.247)**

5.10. The Authorised Borrowing Limit is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit determined under section 3 (1) of the Local Government Act 2003 and sets the limit beyond which borrowing is prohibited without Member approval. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. Table 8 below sets out the Authorised Limit. The current level of external debt of £417.986 (as at 30th June 2023) is significantly within the Authorised Limit.

Table 8. Authorised Limit

	2023/24 Original Indicator	2023/24 Forecast (30th June 2023)
	£m	£m
Operational Boundary	699.283	668.893
Headroom	40.000	40.000
Total Authorised Limit	**739.283**	**708.893**

6. Borrowing

6.1. The Council's estimated Capital Financing Requirement (CFR) for 2023/24 as at 30th June 2023 is £648.893m. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing) to fund capital expenditure. The balance of external and internal borrowing is generally driven by market conditions.

6.2. Table 7 above shows that the Council has external borrowing (including prior year borrowing) of £417.986m and has utilised £230.907m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in respect of the Council's cashflow requirements, long-term borrowing requirement and interest rate increases.

6.3. Due to a combination of re-profiling of capital expenditure into future years and additional grant income being received, the Council has not needed to undertake any new long-term PWLB borrowing during 2023/24 as at 30th June 2023.

6.4. Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement), new external short-term borrowing totalling £10.000m was undertaken in May 2023 from the local authority market at an average rate of 4.55%.

6.5. It is possible that the Council may need to borrow during Q3 & Q4 of 2023/24 as cash balances are forecast to reduce. This is primarily as a result of repayment of short-term loans and the expected lower revenue in the latter part of the year. However, the current expectation is that this would be met by temporary or short-term borrowing. The Council's Borrowing Strategy will be reviewed and revised as part of the Treasury Management Strategy Statement 2024/25 in order to achieve optimum value and risk exposure in the long-term.

7. Debt rescheduling

7.1. Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

7.2. No debt rescheduling took place during Quarter 1 of 2023/24.

8. Compliance with Treasury and Prudential Limits

8.1. During the quarter ended 30th June 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 Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

9. Annual Investment Strategy

9.1. The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 28th February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity;
- Yield.

9.2. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

9.3. As shown by the charts below and the interest rate forecasts in section 2, investment rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to increase over the next few months.

Creditworthiness.

9.4. There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment Counterparty Criteria

9.5. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Investment Balances

9.6. The average level of funds available for investment purposes during the year to 30th June 2023 was £38.145m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and Capital Programme expenditure. The investment performance set out below excludes the investments made in the CCLA Property Fund and the loans to the Council's wholly owned companies.

Table 9. Investment Performance Year to Date as at 30th June 2023

Period	SONIA Benchmark Return	Council Performance	Investment Interest Earned
	%	%	£m
7 Day	4.34	4.37	0.415

9.7. The Council also has £15.000m invested in the CCLA Property Fund which is a long-term investment and has received an income of £0.168m over the three-month period to 30th June 2023. The total income return on the fund is 5.10%.

9.8. The Council's investment position as at 30th June 2023 is detailed at Appendix 3. The portfolio includes loans made to Homes for Reading Ltd where principal repayments due in September 2022 and March 2023 were not made. Refinancing proposals are currently being reviewed.

Approved Limits

9.9. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2023.

9.10. There are no policy changes required to the TMSS. This report sets out the Council's position compared to the TMSS in light of the updated economic position, budgetary changes already approved and revised in-year forecasts of capital expenditure.

9.11. A full list of investments held as of 30th June 2023 is set out in Appendix 3.

10. Contribution to Strategic Aims

10.1. Full details of the Council's Corporate Plan and the projects which will deliver these priorities are published on the Council's website. These priorities and the Corporate Plan demonstrate how the Council meets its legal obligation to be efficient, effective and economical.

10.2. Delivery of the Council's budget is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

11. Environmental and Climate Implications

11.1. The Council's Treasury Management Strategy sets out that the Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's Corporate Plan and values. This would include institutions with material links to:

- human rights abuse (e.g. child labour, political oppression);
- environmentally harmful activities (e.g. pollution, destruction of habitat, fossil fuels);
- socially harmful activities (e.g. tobacco, gambling).

11.2. As part of the review carried out in 2022/23 and approved as part of the Annual Investment Strategy for 2023/24, the Council will only invest in countries deemed as "Free" as per the Freedom House Global Freedom rating system.

11.3. The Council has provided loans totalling £1.7m to Reading Transport Limited to specifically fund improvements to their existing fleet of buses in respect of hybrid fuel conversions which produce lower emissions.

12. Community Engagement

12.1. Budget-related communications and consultations will continue to be a priority over the next three years as we work to identify savings.

13. Equality Implications

13.1. None have been identified as arising directly from this report.

14. Other Relevant Considerations

14.1. There are none.

15. Legal Implications

15.1. None have been identified as arising directly from this report.

16. Financial Implications

16.1. The financial implications are set out in the body of the report.

17. Timetable for Implementation

17.1. Not applicable.

18. Background Papers

18.1. There are none.

Appendices

1. **Link Group Economics Update**
2. **Debt Portfolio as at 30th June 2023**
3. **Investment Portfolio as at 30th June 2023**
4. **Approved Countries for Investments as of 30th June 2023**

Appendix 1 – Link Group Economics Update

1. The first quarter of 2023/24 saw:

    - A 0.2% m/m 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 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 3myy growth of average earnings rose from 6.1% to 6.5%;
    - Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
    - 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.

2. The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real GDP in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.

3. 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% q/q rise in GDP in Q1 2023 being followed by a 0.2% q/q gain in Q2 2023.

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

5. 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 0.2ppts bigger than over the past year.

6. 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%

7. 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 3myy 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, regular private sector wage growth increased from 7.1% 3myy to 7.6%, which left it well above the Bank'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.

8. 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.

9. This suggests the Bank may have more work to do than the Fed or ECB. Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the MPC's decision to step up the pace of hiking from the 25bps 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.

10. That said, the Bank has not committed to raising rates again or suggested that 50bps 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.

11. 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 in the US mean they are still more than 70 bps above US yields. 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 c5.20% to 5.00% by the end of this year and to 4.20% by the end of 2024.

12. The pound 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 Fed or ECB 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.

13. 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.

Appendix 2 – Debt Portfolio as at 30th June 2023

Class	Type	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Loan	Fixed	13/05/05	25/09/51	PWLB	Maturity	4.1500%	2,000,000.00
Loan	Fixed	11/01/06	25/09/55	PWLB	Maturity	3.9000%	5,000,000.00
Loan	Fixed	23/01/06	25/09/55	PWLB	Maturity	3.7000%	5,000,000.00
Loan	Fixed	23/05/06	25/09/47	PWLB	Maturity	4.2000%	2,000,000.00
Loan	Fixed	19/07/06	25/03/52	PWLB	Maturity	4.2500%	20,000,000.00
Loan	Fixed	20/09/06	25/09/51	PWLB	Maturity	4.2000%	5,000,000.00
Loan	Fixed	28/09/06	25/09/52	PWLB	Maturity	4.0500%	10,000,000.00
Loan	Fixed	08/03/07	25/03/53	PWLB	Maturity	4.2500%	10,000,000.00
Loan	Fixed	08/03/07	25/03/54	PWLB	Maturity	4.2500%	10,000,000.00
Loan	Fixed	05/08/08	25/03/58	PWLB	Maturity	4.4800%	2,000,000.00
Loan	Fixed	15/08/08	25/09/57	PWLB	Maturity	4.3900%	6,000,000.00
Loan	Fixed	02/12/08	25/09/58	PWLB	Maturity	4.1200%	10,000,000.00
Loan	Fixed	20/08/09	25/03/59	PWLB	Maturity	4.2000%	5,000,000.00
Loan	Fixed	19/08/10	25/03/24	PWLB	EIP	2.7000%	340,000.00
Loan	Fixed	31/08/10	25/03/60	PWLB	Maturity	3.9200%	10,000,000.00
Loan	Fixed	14/07/11	25/03/26	PWLB	EIP	3.5900%	1,500,000.00
Loan	Fixed	15/09/11	25/03/31	PWLB	EIP	3.3500%	4,000,000.00
Loan	Fixed	28/03/12	25/03/51	PWLB	Maturity	3.5300%	12,000,000.00
Loan	Fixed	28/03/12	25/09/26	PWLB	Maturity	2.9700%	12,000,000.00
Loan	Fixed	28/03/12	25/03/50	PWLB	Maturity	3.5300%	15,000,000.00
Loan	Fixed	28/03/12	25/03/41	PWLB	Maturity	3.4900%	15,000,000.00
Loan	Fixed	28/03/12	25/03/61	PWLB	Maturity	3.4800%	15,000,000.00
Loan	Fixed	28/03/12	25/03/32	PWLB	Maturity	3.3000%	12,000,000.00
Loan	Fixed	28/03/12	25/09/41	PWLB	Maturity	3.4900%	15,000,000.00
Loan	Fixed	28/03/12	25/09/51	PWLB	Maturity	3.5200%	3,000,000.00
Loan	Fixed	28/03/12	25/03/62	PWLB	Maturity	3.4800%	15,000,000.00
Loan	Fixed	28/03/12	25/03/41	PWLB	EIP	2.9900%	18,000,000.00
Loan	Fixed	26/03/18	25/03/68	PWLB	Maturity	2.2800%	15,000,000.00
Loan	Fixed	27/09/18	25/09/43	PWLB	Maturity	2.8200%	15,000,000.00
Loan	Fixed	27/09/18	27/09/49	PWLB	Maturity	2.7900%	15,000,000.00
Loan	Fixed	11/03/19	11/03/66	PWLB	Maturity	2.3800%	15,000,000.00
Loan	Fixed	13/03/19	13/03/37	PWLB	Maturity	2.4200%	5,000,000.00
Loan	Fixed	13/03/19	13/03/57	PWLB	Maturity	2.4200%	5,000,000.00
Loan	Fixed	01/04/19	01/04/64	PWLB	Maturity	2.2000%	10,000,000.00
Loan	Fixed	01/10/19	02/10/62	PWLB	Maturity	1.6400%	5,000,000.00
Loan	Fixed	01/10/19	01/10/63	PWLB	Maturity	1.6300%	5,000,000.00
Loan	Fixed	07/10/19	07/10/66	PWLB	Maturity	1.6300%	5,000,000.00
Loan	Fixed	07/10/19	08/10/68	PWLB	Maturity	1.6300%	5,000,000.00
Loan	Fixed	11/03/20	25/09/69	PWLB	Maturity	2.0700%	15,000,000.00
Fixed Total						**3.2425%**	**354,840,000.00**
Loan	Temporary Borrowing - Fixed	14/02/23	14/08/23	Oxfordshire County Council	Maturity	4.2500%	5,000,000.00
Loan	Temporary Borrowing - Fixed	17/03/23	18/09/23	Solihull Metropolitan Borough Council	Maturity	4.3000%	5,000,000.00
Loan	Temporary Borrowing - Fixed	22/05/23	22/11/23	Barnsley Metropolitan Borough Council	Maturity	4.5000%	5,000,000.00

Loan	Temporary Borrowing - Fixed	22/05/23	22/11/23	Oxfordshire County Council	Maturity	4.6000%	5,000,000.00
Temporary Borrowing - Fixed Total						**4.4125%**	**20,000,000.00**
Loan	LOBO Vanilla	06/12/05	06/12/55	Barclays Bank plc	Maturity	3.9900%	5,000,000.00
Loan	LOBO Vanilla	20/09/07	20/12/77	Bayerische Landesbank	Maturity	4.1800%	5,000,000.00
Loan	LOBO Vanilla	20/09/07	20/12/77	Bayerische Landesbank	Maturity	4.1800%	5,000,000.00
Loan	LOBO Vanilla	30/01/08	31/01/78	Dexia	Maturity	4.1900%	5,000,000.00
LOBO Vanilla Total						**4.1350%**	**20,000,000.00**
Loan Total						**3.3470%**	**394,840,000.00**
Grand Total							**394,840,000.00**

Appendix 3 - Investment Portfolio as at 30th June 2023

Borrower	Amount £m	Interest rate	Start date	Maturity date	LAs Credit Rating	Country
Treasury Investments						
Lloyds Bank Plc (RFB) – current account	9.370	4.90%	N/A	N/A	A+	
CCLA The Public Sector Deposit 4	19.904	4.78%	N/A	N/A	AAA	
Federated Prime Rate Sterling Liquidity 4	1.359	4.73%	N/A	N/A	AAA	
CCLA Local Authorities Property Fund	15.000	5.10%	N/A	N/A	N/A	
Total Treasury Investments	**45.633**					
Non-Treasury Investments						
Brighter Futures for Children Ltd	5.000	1.81%	25/03/21	24/03/26	N/A	
Homes for Reading Ltd	1.100	3.25%	29/09/17	26/09/22	N/A	
Homes for Reading Ltd	0.400	3.38%	23/01/18	26/09/22	N/A	
Homes for Reading Ltd	0.800	3.59%	28/02/18	26/09/22	N/A	
Homes for Reading Ltd	0.700	3.58%	20/03/18	26/09/22	N/A	
Homes for Reading Ltd	0.800	3.62%	25/04/18	24/03/23	N/A	
Homes for Reading Ltd	0.800	3.57%	11/05/18	24/03/23	N/A	
Homes for Reading Ltd	2.000	3.48%	29/08/18	24/03/23	N/A	
Homes for Reading Ltd	3.000	3.41%	24/09/18	24/03/23	N/A	
Homes for Reading Ltd	4.000	3.19%	11/12/18	24/03/23	N/A	
Homes for Reading Ltd	2.000	3.38%	07/02/19	24/03/23	N/A	
Homes for Reading Ltd	1.300	3.51%	29/06/18	24/03/23	N/A	
Homes for Reading Ltd	7.000	3.75%	16/04/19	24/03/29	N/A	
Reading Transport Ltd	4.609	5.00%	30/04/19	30/04/29	N/A	
Reading Transport Ltd	0.500	5.00%	15/08/19	30/07/29	N/A	
Reading Transport Ltd	0.490	5.00%	08/04/18	01/07/23	N/A	
Reading Transport Ltd	0.207	5.00%	03/06/18	01/07/23	N/A	
Reading Transport Ltd	0.164	5.00%	29/07/18	01/07/23	N/A	
Reading Transport Ltd	0.151	5.00%	20/01/20	01/01/24	N/A	
Reading Transport Ltd	0.700	5.00%	21/08/20	01/10/24	N/A	
Total Non-Treasury Investments	**35.721**					
Total Investments*	**81.354**					

*Values above do not include lease agreements with Reading Transport Ltd.

Appendix 4 - Approved Countries for Investments as of 30th June 2023

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA-

- Belgium
- France (downgraded by Fitch on 9th May 2023)
- U.K.