Audit and Governance Committee

23 January 2024

Reading Borough Council
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Title	Treasury Management Review Quarter 2 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 2 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 second quarter of the year for the period 1st July 2023 to 30th September 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 second quarter of 2023/24.

3. Interest Rates

Monetary Policy Committee (MPC) meetings

3.1. The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 25 basis points to 5.25% on 3rd August 2023 where it has remained to date.

Interest Rate Forecast

3.2. 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 rate forecasts, which are set out in Table 1. The PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

3.3. The latest forecast on 25th September sets out a view that short, medium 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.

Table 1. Interest Rate Forecasts

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

The Balance of Risks to the UK Economy

3.4. The overall balance of risks to economic growth in the UK is to the downside due to:

- **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.

3.5. Upside risks to current forecasts include:

- **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 2 (Revised Budget) as approved by Policy Committee as part of the 2023/24 Quarter 2 Performance and Monitoring Report in December 2023.

5.3. The indicators show that the Council is forecasting a positive net variance against the approved Capital Programme budget of £1.078m for the General Fund.

Table 2. General Fund Capital Programme

General Fund	2023/24 Original Budget	2023/24 Revised Budget	2023/24 Full Year Forecast (as at 30th September 2023)	Variance
	£m	£m	£m	£m
Community & Social Care Services	9.203	2.206	2.206	0.000
Economic Growth & Neighbourhood Services	69.335	39.785	39.785	0.000
Economic Growth & Neighbourhood Services – Education Schemes	18.297	14.020	14.020	0.000
Resources	2.879	5.889	5.889	0.000
Corporate	6.948	5.190	4.112	(1.078)
Total General Fund	**106.662**	**67.090**	**66.012**	**(1.078)**

5.4. The indicators show that the Council is forecasting online against the approved HRA Capital Programme budget of £33.564m

Table 3. HRA Capital Programme

Housing Revenue Account	2023/24 Original Budget	2023/24 Revised Budget	2023/24 Full Year Forecast (as at 30th September 2023)	Variance
	£m	£m	£m	£m
Housing Revenue Account	56.856	33.564	33.564	0.000
Total Housing Revenue Account	**56.856**	**33.564**	**33.564**	**0.000**

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 Full Year Forecast (as at 30th September 2023)**
	£m	**£m**	**£m**
Total Capital Expenditure	**106.662**	**67.090**	**66.012**
Financed by:			
Capital Receipts	1.798	4.595	3.517
Capital Grants and other Contributions	58.874	36.642	36.642
Direct Revenue Financing	3.094	10.753	10.753
Total Financing (excluding Borrowing)	**63.766**	**51.990**	**50.912**
Net Borrowing Requirement	**42.896**	**15.100**	**15.100**

Table 5. Financing of the HRA Capital Programme

Housing Revenue Account	**2023/24 Original Budget**	**2023/24 Revised Budget**	**2023/24 Full Year Forecast (as at 30th September 2023)**
	£m	**£m**	**£m**
Total Capital Expenditure	**56.856**	**33.564**	**33.564**
Financed by:			
Capital Receipts	3.277	0.315	0.315
Capital Grants and other Contributions	7.742	9.029	9.029
Capital Reserves	21.697	12.918	12.918
Direct Revenue Financing	0.553	0.504	0.504
Total Financing (excluding Borrowing)	**33.269**	**22.766**	**22.766**
Net Borrowing Requirement	**23.587**	**10.798**	**10.798**

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 £650.108m 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 Full Year Forecast (as at 30th September 2023)
	£m	£m
Prudential Indicator – Capital Financing Requirement		
CFR – General Fund	456.690	418.386
CFR - HRA	222.593	211.722
Total CFR	**679.283**	**630.108**
Prudential Indicator – Operational Boundary for External Debt		
Capital Financing requirement	679.283	630.108
Headroom	20.000	20.000
Operational Boundary	**699.283**	**650.108**

5.8. The Council's current level of external debt (as at 30th September 2023) is £405.513m, 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 2023/24 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 Actual Position (as at 30th September 2023)	2023/24 Full Year Forecast (as at 30th September 2023)
	£m	£m	£m
Borrowing	478.888	383.670	397.500
Other Long-Term Liabilities	21.843	21.843	21.843
Total Debt	**500.731**	**405.513**	**419.343**
CFR (year end position)	**679.283**	**630.108**	**630.108**
Over/(under) Borrowing		**(224.595)**	**(210.765)**

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 £405.513m (as at 30th September 2023) is significantly within the Authorised Limit.

Table 8. Authorised Limit

	2023/24 Original Indicator	2023/24 Forecast (30th September 2023)
	£m	£m
Operational Boundary	699.283	650.108
Headroom	40.000	40.000
Total Authorised Limit	**739.283**	**690.108**

6. Borrowing

6.1. The Council's estimated Capital Financing Requirement (CFR) for 2023/24 as at 30th September 2023 is £630.108m. 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 £405.513m and has utilised £224.595m 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 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%. A further £10.000m was borrowed in September, again from the local authority market, at a rate of 5.45%.

6.4. It is possible that the Council may need to borrow further during Quarter 3 & Quarter 4 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 2 of 2023/24.

7.3. Whilst debt rescheduling has not taken place, two Lender Option Borrower Option (LOBO) loans totalling £10.000m were repaid during September 2023. As the lender took up their option to increase the interest rates on these loans, the Council took up its option to repay the principal amounts rather than being locked in to higher interest rates. The Council therefore has one LOBO of £5.000m remaining in its borrowing portfolio.

8. Compliance with Treasury and Prudential Limits

8.1. During the quarter ended 30th September 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.

Creditworthiness.

9.3. Following the Government's fiscal event on 23rd September 2022, both S&P Global (previously known as Standard & Poor's) and Fitch credit rating agencies placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and a challenging economic outlook. Nothing further has evolved in quarter two of 2023/24.

Investment Counterparty Criteria

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

Investment Balances

9.5. The average level of funds available for investment purposes during the year to 30th September 2023 was £38.925m. 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. These funds have earned an average rate of 4.75%. The comparable performance indicator is the 7 days backward looking Sterling Overnight Index Average (SONIA) uncompounded rate, which was also 4.75%.

9.6. The current level of treasury investments as at 30th September 2023 total £38.444m and are detailed in Appendix 3.

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 £0.401m over the six-month period to 30th September 2023. The total income return on the fund is 5.33%.

9.8. The Council's budgeted General Fund investment return for 2023/24 was £0.173 million; the forecast General Fund interest received from investments as of September 2023 was £0.480 million, a £0.307 million positive variance compared to budget. This budget includes loans to the Council's wholly owned companies, which are non-treasury investments and are therefore shown separately throughout this report.

9.9. The position on interest income must be compared with external interest costs payable. The forecast external interest costs as of 30th September 2023 are £7.346 million against a budget of £9.225 million; a £1.879 million positive variance against the General Fund budget. The net General Fund position on interest receivable/payable is therefore a net positive variance of £2.186 million.

9.10. The Council's investment position as at 30th September 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

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

9.12. 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.

9.13. A full list of investments held as of 30th September 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 £1.700m 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 of 30th September 2023**
3. **Investment Portfolio as of 30th September 2023**
4. **Approved Countries for Investments as of 30th September 2023**

Appendix 1 – Link Group Economics Update

1. The first half of 2023/24 saw:

    - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle;

    - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside;

    - A 0.5% m/m decline in real GDP in July, mainly due to more strikes;

    - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7;

    - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high;

    - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

2. The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

3. The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.

4. The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

5. As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

6. The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

7. But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.

8. CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

9. In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.

10. Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

11. This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

12. The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

13. The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

14. The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher

energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

Appendix 2 – Debt Portfolio as of 30th September 2023

Class	Type	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Loan	Temporary Borrowing - Fixed	22/11/23	Barnsley Metropolitan Borough Council	Maturity	4.500%	5,000,000.00
Loan	Temporary Borrowing - Fixed	22/11/23	Oxfordshire County Council	Maturity	4.600%	5,000,000.00
Loan	Temporary Borrowing - Fixed	01/11/23	Manchester City Council	Maturity	5.450%	10,000,000.00
Temporary Borrowing - Fixed Total					**5.000%**	**20,000,000.00**
Loan	Fixed	25/03/68	PWLB	Maturity	2.280%	15,000,000.00
Loan	Fixed	27/09/43	PWLB	Maturity	2.820%	15,000,000.00
Loan	Fixed	27/09/49	PWLB	Maturity	2.790%	15,000,000.00
Loan	Fixed	11/03/66	PWLB	Maturity	2.380%	15,000,000.00
Loan	Fixed	13/03/37	PWLB	Maturity	2.420%	5,000,000.00
Loan	Fixed	13/03/57	PWLB	Maturity	2.420%	5,000,000.00
Loan	Fixed	01/04/64	PWLB	Maturity	2.200%	10,000,000.00
Loan	Fixed	02/10/62	PWLB	Maturity	1.640%	5,000,000.00
Loan	Fixed	01/10/63	PWLB	Maturity	1.630%	5,000,000.00
Loan	Fixed	07/10/66	PWLB	Maturity	1.630%	5,000,000.00
Loan	Fixed	08/10/68	PWLB	Maturity	1.630%	5,000,000.00
Loan	Fixed	25/09/69	PWLB	Maturity	2.070%	15,000,000.00
Loan	Fixed	25/09/51	PWLB	Maturity	4.150%	2,000,000.00
Loan	Fixed	25/09/55	PWLB	Maturity	3.900%	5,000,000.00
Loan	Fixed	25/09/55	PWLB	Maturity	3.700%	5,000,000.00
Loan	Fixed	25/09/47	PWLB	Maturity	4.200%	2,000,000.00
Loan	Fixed	25/03/52	PWLB	Maturity	4.250%	20,000,000.00
Loan	Fixed	25/09/51	PWLB	Maturity	4.200%	5,000,000.00
Loan	Fixed	25/09/52	PWLB	Maturity	4.050%	10,000,000.00
Loan	Fixed	25/03/53	PWLB	Maturity	4.250%	10,000,000.00
Loan	Fixed	25/03/54	PWLB	Maturity	4.250%	10,000,000.00
Loan	Fixed	25/03/58	PWLB	Maturity	4.480%	2,000,000.00
Loan	Fixed	25/09/57	PWLB	Maturity	4.390%	6,000,000.00
Loan	Fixed	25/09/58	PWLB	Maturity	4.120%	10,000,000.00
Loan	Fixed	25/03/59	PWLB	Maturity	4.200%	5,000,000.00
Loan	Fixed	25/03/24	PWLB	EIP	2.700%	170,000.00
Loan	Fixed	25/03/60	PWLB	Maturity	3.920%	10,000,000.00
Loan	Fixed	25/03/26	PWLB	EIP	3.590%	1,250,000.00
Loan	Fixed	25/03/31	PWLB	EIP	3.350%	3,750,000.00
Loan	Fixed	25/03/51	PWLB	Maturity	3.530%	12,000,000.00
Loan	Fixed	25/09/26	PWLB	Maturity	2.970%	12,000,000.00
Loan	Fixed	25/03/50	PWLB	Maturity	3.530%	15,000,000.00
Loan	Fixed	25/03/41	PWLB	Maturity	3.490%	15,000,000.00
Loan	Fixed	25/03/61	PWLB	Maturity	3.480%	15,000,000.00
Loan	Fixed	25/03/32	PWLB	Maturity	3.300%	12,000,000.00
Loan	Fixed	25/09/41	PWLB	Maturity	3.490%	15,000,000.00
Loan	Fixed	25/09/51	PWLB	Maturity	3.520%	3,000,000.00
Loan	Fixed	25/03/62	PWLB	Maturity	3.480%	15,000,000.00
Loan	Fixed	25/03/41	PWLB	EIP	2.990%	17,500,000.00
Loan	Fixed	06/12/55	Barclays Bank plc	Maturity	3.990%	5,000,000.00
Fixed Total					**3.243%**	**358,670,000.00**
Loan	LOBO	31/01/78	Dexia	Maturity	4.190%	5,000,000.00
LOBO Total					**4.190%**	**5,000,000.00**
Loan Total					**3.357%**	**383,670,000.00**

Appendix 3 - Investment Portfolio as of 30th September 2023

Borrower	Amount £m	Interest rate	Start date	Maturity date	LAs Credit Rating
Treasury Investments					
Lloyds Bank Plc (RFB) – current account	0.444	5.15%	N/A	N/A	A+
Federated Prime Rate Sterling Liquidity 4	20.000	5.35%	N/A	N/A	AAA
CCLA Local Authorities Property Fund	15.000	5.33%	N/A	N/A	N/A
Total Treasury Investments	**38.444**				
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*	**74.165**				

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

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA-

- Belgium
- France
- U.K.