Regulatory Committee:	Audit & Governance Committee
Date:	29th September 2023
Chair:	Cllr John Bloxsom
Presenting Officer:	Paul Blacker
Item Type:	Treasury Management Update Report
Purpose of Report:	To inform Members about Treasury Management activities for the 2023/24 Financial Year to date, in accordance with CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.
Recommendations or Actions Sought:	To note the Treasury Management Update Report.
Background Documents:	Medium Term Financial Plan 2023/24 to 2026/27, Capital and Treasury Strategy Annex 7 and 10
Forthcoming Decisions:	None
Appendices:	Appendix A: Loan Maturity Profile Appendix B: Approved List and In-House Investments Appendix C: Income Only Return on Investments Appendix D: Internal Investments, Average Rate v Credit Risk Appendix E: Prudential Indicators
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MAIN REPORT CONTENTS

Background

1. Gloucestershire County Council's (GCC's) Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by the Council in February 2023. GCC borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to GCC's TMSS.

2. The Chartered Institute for Public Finance and Accounting (CIPFA) published its revised Treasury Management Code of Practice (the Code) and Prudential Code for Capital Finance in December 2021. The revised Codes require a mandatory quarterly report on all forward-looking prudential indicators (PI's), which are now presented to Cabinet. This new reporting requirement to Cabinet is in addition to the scrutiny process provided by this Audit and Governance Committee.

3. The Code still requires that members be informed of treasury management activities at least twice a year. This mid-year report ensures GCC is embracing best practice in accordance with CIPFA's recommendations.

4. This report considers the Treasury Management activities to August 2023, in relation to the TMSS for 2023/24. It includes a summary of the current economic climate, an update on the borrowing strategy, a review of current investments, responsible investment considerations and compliance with PI's.

The Economy to August 2023

Economic Background:

5. From April until May 2023, it looked like peak global monetary policy rates were in sight as inflation continued to ease and central banks turned more dovish in tone. Only a few weeks later, stronger and more persistent inflation data changed that.

6. Inflation fell from its peak of 11.1% reached in October 2022, but annual headline CPI in May 2023 was higher than the consensus forecast at 8.7% (8.4% expected), largely driven by services inflation, while the annual measure of underlying core inflation rose to 7.1% from 6.8%. CPI inflation rose by 6.8% year-on-year in July 2023. Although this reading was slightly above expectations, CPI has fallen to a 17-month low, as the effects of the lower utility price cap become apparent. On a monthly basis, CPI fell 0.4% in July 2023, compared to a 0.1% rise in June.

Inflation is expected to fall sharply over the next 12 months, albeit with significant upside risk.

7. Employment demand, although weakening, remains historically strong and has driven nominal wage growth. The tight labour market shows signs of easing; unemployment has increased, and the number of vacancies is falling. Anecdotal evidence continues to suggest an easing in recruitment and a decline in wage growth.

8. After a sharp rise in interest rate expectations, with clearly serious implications for mortgage markets due to higher inflation and wage data, the Bank of England's (BoE) Monetary Policy Committee reaccelerated monetary policy tightening over the period with a 0.25% rise in May, a 0.5% rise in June, and a further 0.25% rise in August taking Bank Rate to 5.25%. Downside risks for rates increase over the medium term, as the BoE utilises monetary policy to boost economic activity once inflation has eased, especially should a recession occur and if unemployment rises more sharply.

9. With many mortgages at low fixed rates now systematically being re-set over the next 12-24 months at higher rates at the end of their fixed rate period, there has been a lagged effect of the feed through of monetary policy on households' disposable income. The economic slowdown is expected to develop over time and therefore, despite consumer confidence rising in June, it is likely confidence will be negatively affected at some point. The manufacturing sector contracted during the quarter according to survey data, which will eventually feed into services, whose expansion is slowing.

Financial Markets:

10. Financial market sentiment and bond yields remained volatile, the latter continuing their general upward trend as uncertainty and concern over higher inflation and higher interest rates continued to dominate.

11. Gilt yields rose over the period. The 5-year UK benchmark gilt yield rose from 3.30% to 4.67%, the 10-year gilt yield from 3.43% to 4.39%, and the 20-year yield from 3.75% to 4.51%. The Sterling Overnight Rate (SONIA) averaged 4.37% over the first quarter.

Credit review:

12. Arlingclose (GCC's treasury advisors) completed a review of its credit advice in March 2023, on unsecured deposits at UK and non-UK banks. This came following concerns of a wider financial crisis after the collapse of Silicon Valley Bank, the purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues. Following the review Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days.

13. Arlingclose continue to monitor and assess credit default swap levels for signs of ongoing credit stress but made no changes to the counterparty list or recommended durations over the period to August 2023. Nevertheless, heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on GCC's counterparty list recommended by Arlingclose remains under constant review.

Borrowing Strategy 2023/24

14. On 31st March 2023, GCC had a net investment position of £279.7 million arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors from the 2022/23 balance sheet, are summarised in the table below.

	31/03/2023 Actual £m	31/03/2024 Forecast £m
CFR	**466.004**	**498.131**
less Other Debt Liabilities	149.087	145.075
Total Borrowing Requirement	**316.917**	**353.056**
Split:External Borrowing	241.940	231.778
Internal Borrowing	74.842	121.143
Less Balance Sheet Resources	354.494	294.494
Net Borrowing/Investments (-)	**-279.652**	**-173.351**

Note: the internal borrowing figure shown as at 31/03/2023 of £74.8m differs slightly to that presented in the Annual Report. The difference is within balance sheet resources, and in future this figure will always be set in reference to the balance sheet.

15. At 31st March 2023, GCC's CFR was £466.0 million. Actual external borrowing was £241.9 million, including accrued interest, with £149.1 million of other long-term liabilities associated with GCC's PFI schemes and Waste finance lease – a total of £391.0 million. The shortfall was funded by £74.8 million of internal borrowing.

16. Any shortfall between the underlying need to borrow for capital purposes and total external debt will be funded from internal borrowing because it continues to provide the best value for funding new capital expenditure, as well as being a low risk option. GCC can externalise the external debt by borrowing from the PWLB, however new requirements from the updated Code mean that GCC has to confirm that we are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years before borrowing is granted.

17. The Prudential Code is clear that local authorities must not borrow to invest primarily for financial return. It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. As a result PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

18. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. All of our current capital schemes comply with the PWLB requirements. GCC has not invested in assets primarily for financial return or that are not primarily related to the functions of the Authority. It has no plans to do so in future.

19. GCC has an approved capital programme in 2023/24 funded from grants, revenue contributions, internal borrowing, capital receipts and reserves. The borrowing

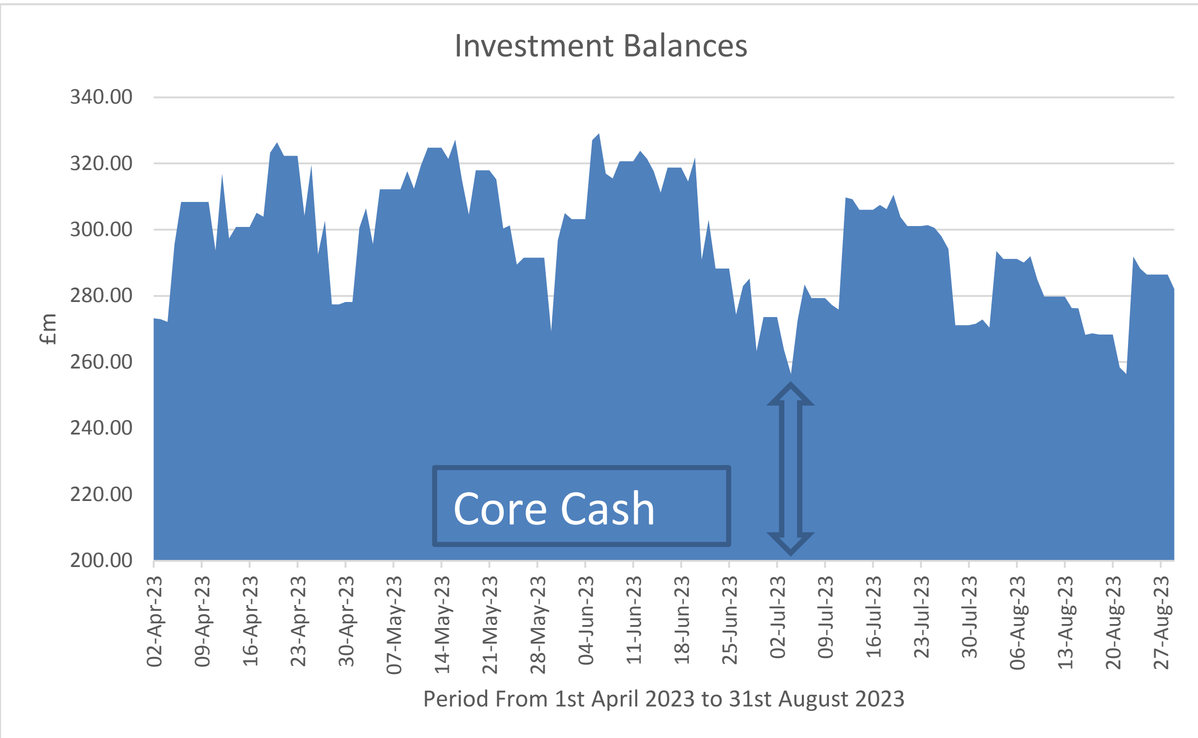
strategy continues to be to hold any borrowing requirement internally and ensure all long-term debt due to mature in the financial year is repaid. Two loans will mature before the end of the financial year totalling £8.0 million - both will be repaid in full.

20. Due to the volatile interest rate environment an opportunity arose in June 2023 to repay Barclays fixed rate loans totalling £8 million. Previously Lender Option Borrower Option (LOBO) loans, the options were removed from these loans by Barclays several years ago. As a result, they were inflexible, fixed long dated loans. Following negotiations in June 2023, Barclays offered to allow us to repay these loans early at a very small premium, and this opportunity was taken.

21. Currently the average loan cost for GCC is 4.40%, (4.61% on the PWLB portfolio and 4.23% on the LOBO loans) – this compares to an average of 4.63% at the same point in 2022/23. The sharp rise in gilt yields over the past 18 months has now resulted in some of GCC's loans being in or close to a discount position if repaid early. However, as the prepaid loans would need to be replaced by new loans at higher interest rates, this isn't a cost-effective option for GCC at the current time. No rescheduling activity has been undertaken as a consequence. The borrowing strategy will be kept under review to ensure the funding methods remain appropriate. The current maturity profile for GCC is shown in Appendix A.

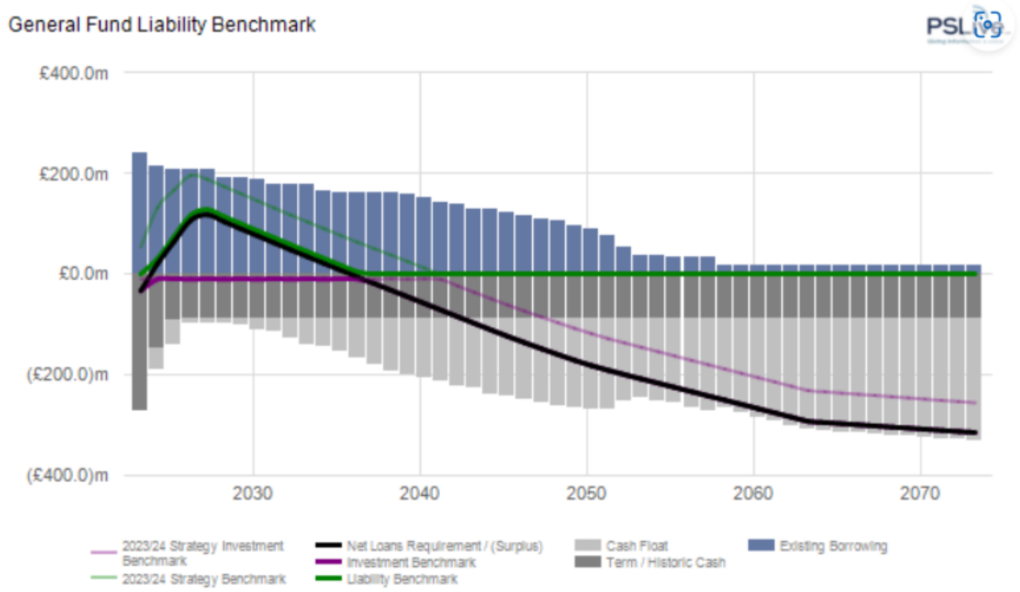
Investment Strategy 2023/24

22. GCC holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Cash flow analysis during the period April 2023 to date has shown that GCC's investment balances ranged between £256.4 million and £313.7 million as shown below, giving a core cash position of up to £256.4 million (ie balances that could theoretically be invested for longer periods):



23. Both the Code and government guidance require GCC to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. GCCs objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

24. As demonstrated by the liability benchmark below, GCC expects to be a long-term investor and treasury investments therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.



25. With the recent increases in Bank Rate at the MPC's meetings and with the prospect of more increases to come, short-dated cash rates have continued to rise. Arlingclose expects Bank Rate to rise by 25 basis points at the next MPC meeting in September where it will then stabilise peaking at 5.50% before starting to fall from June 2024.

26. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on Money Market Funds also rose from 3.9% to 5.0%.

Investment Returns:

27. The current year budget for interest earned is £7.5 million and the current forecast is that this will be exceeded by £3.4 million in 2023/24. This figure feeds into the current underspend being reported for the Technical and Countywide Budget as reflected in the latest Financial Monitoring Report to Cabinet.

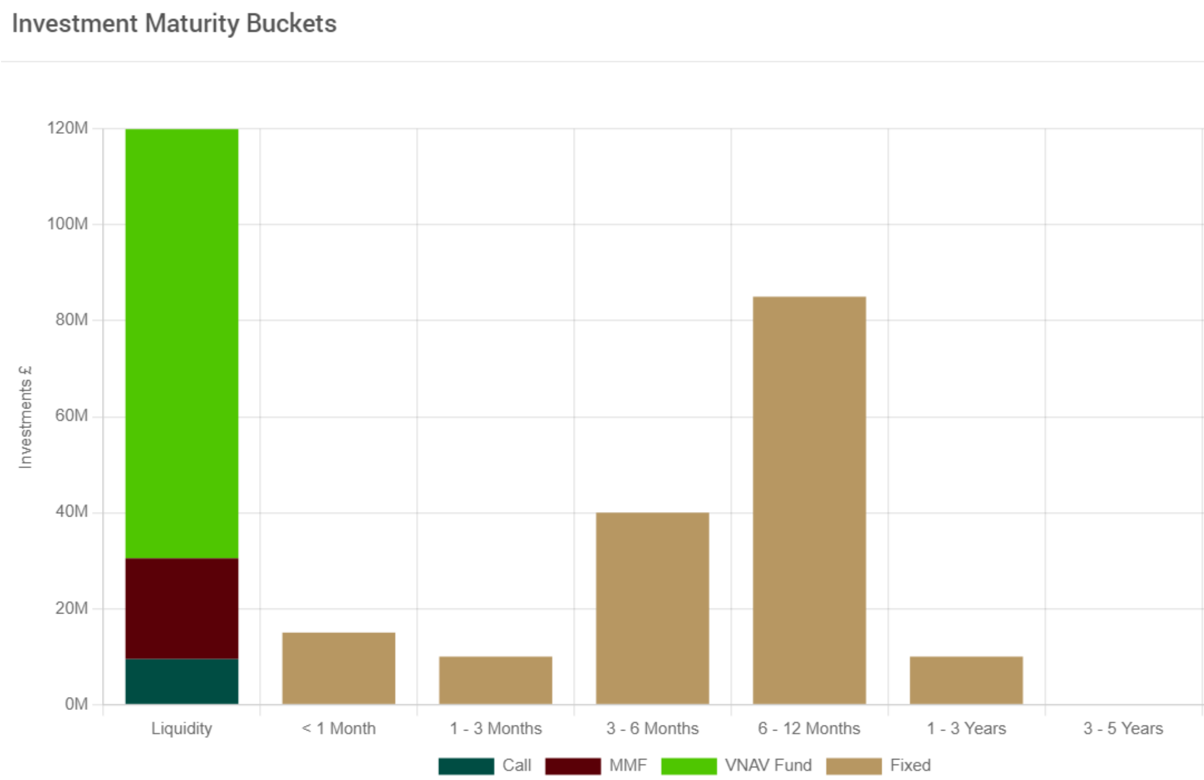
28. The average income return on investment as at the end of June 2023 is 3.98%. This compares to a 1.84% income return at the same point in 2022/23. Including capital return within these figures the return reduces to 0.95%, compared to a figure of 2.6% at the same point in 2022. The reason for the improved income position is due to the rapidly increasing interest rate, so new deposits taken out are at a much higher rate to last year. However financial market conditions have been

volatile so the capital value of our strategic funds have suffered, although it should be noted that this fall in capital value will not be realised.

29. GCC has £95.0 million of investments in externally managed strategic funds, and this includes equity funds, multi-asset funds and property funds. Short-term security and liquidity are lesser considerations for these funds, and the objectives instead are regular revenue income and long-term price stability. Despite fluctuations in capital value they have all continued to pay out regular dividends including throughout the Covid pandemic and since purchase, thus maintaining good income returns. Over the past year these funds have generated an average total return of £3.9 million (annualised 4.03%) which is used to support services in year.

30. Accounting for pooled funds within the annual accounts is slightly different for local authorities as an “override” is in place to ensure that the volatile nature of the capital values of these funds does not impact on the revenue outturn. However, in April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the outcome of a consultation on an extension of the statutory override. As a result of that consultation the override has been extended for 2 years until 31st March 2025 but no other changes have been made. Whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. GCC will continue to keep these strategic funds under review and discuss as necessary with Arlingclose the implications for the investment strategy and what action may need to be taken.

31. The current maturity profile of GCC’s portfolio is shown below. The chart shows the strategic funds as liquid deposits (referenced as Variable Net Asset Funds, VNAF funds) as these funds can be matured at short notice. For GCC these funds are considered long term to ensure preservation of capital values:



32. Liquidity funds are represented by an interest bearing Lloyds Bank current account, and instant access Money Market Fund (MMF's). A MMF has a constant Net Asset Value, so you will always have preservation of the capital value invested in the fund, making them a relatively secure investment. Funds 1-3 years include two deposits over 12 months with other Local Authorities (LAs). A detailed breakdown of approved and current investments as at 31st August 2023 is provided at Appendix B.

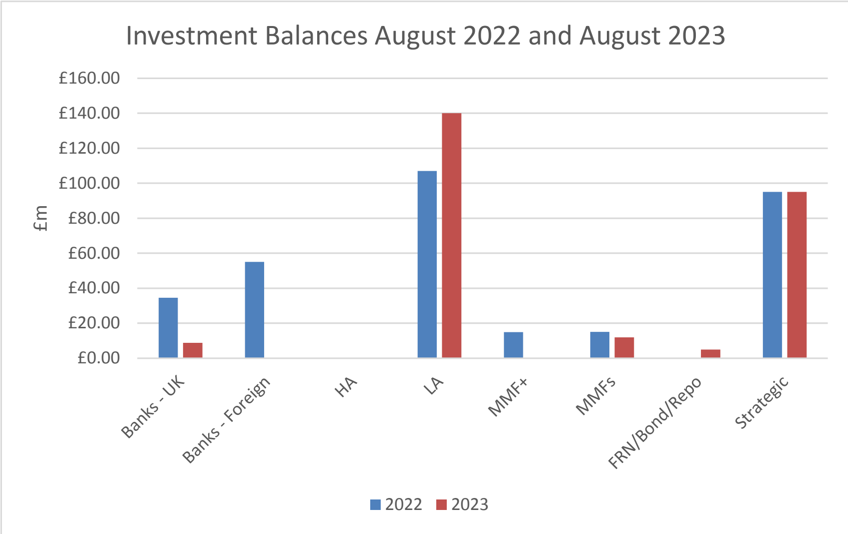
33. GCC makes regular fixed term deposits with UK and selected foreign banks, subject to duration limits advised by Arlingclose (current limit 35 days), other local authorities (up to 2 years) and selected Housing Associations (HAs, up to 2 years).

34. GCC currently has four Rolling Credit Facilities (RCF) in place with three HAs, Moat Homes, Southern Housing and Network Homes. These RCF's allow the HA to draw down up to £5 million per agreement, for a period determined by a contractual arrangement, but not exceeding three years. In return for providing this facility GCC receives monthly income from a "non utilisation" fee when the facility is not drawn down. Currently none of the facilities are drawn down.

35. The graph at Appendix C shows the performance of GCC from income only return (ie excluding capital gains and losses) compared to other local authorities, and the graph at Appendix D shows the rate of return against GCC's risk appetite in comparison to other councils. Both graphs are provided by our treasury advisors Arlingclose, and show that GCC's performance is below the average rate of return achieved by other local authorities using Arlingclose, for the period in question. Much of the reason for this will be the longer term strategy that had been taken by GCC over the past few years, to achieve a pick up in yield. With the rapidly changing interest rate environment we are now locked into a number of lower returning deposits, which as they mature will allow us to then gain the additional yield. In addition, the cash available for investment at GCC has been reducing as we hold our capital borrowing requirement internally.

<u>Investment Activity to Date</u>

36. Given the increasingly changeable economic situation over recent months, improved rates, and reduced durations, there has been a change in how investments are distributed. This is shown below comparing August 2022 to August 2023. The 35 day limit on bank deposits has meant that there are fewer opportunities to invest with banks, so deposits with LAs has increased as a consequence. We have matured our positions in the MMF+ accounts, as these were offering little pickup in yield compared to other sources as interest rates started to increase. We have one new Repo agreement, with Standard Chartered Bank. This is a 100% covered instrument, providing GCC with complete security for the investment:



37. The table below details the balance comparison between the end of 2022/23 and August 2023:

Investments	Balance on 31/03/2023 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/08/2023 £m	Avg Rate (%)
Short term Investments (call accounts, deposits)					
- Banks and Building Societies (secured)	0.0	5.0	0.0	5.0	4.6%
- Banks and Building Societies (fixed - unsecured)	30.0	10.0	-40.0	0.0	0.0%
- Banks and Building Societies (call - unsecured)	7.5	241.9	-240.8	8.6	5.2%
- Local Authorities	105.0	85.0	-55.0	135.0	4.1%
Long term Investments					
- Strategic Funds	95.0	0.0	0.0	95.0	4.0%
- Local Authorities	5.0	5.0	-5.0	5.0	5.5%
Money Market Funds	35.4	258.1	-281.5	12.0	5.1%
TOTAL INVESTMENTS	**277.9**			**260.6**	
Increase/ (Decrease) in Investments £m				-17.3	

Note: the balance as at 31st March 2023 will differ from that shown in the Statement of Accounts, as the value above assumes no capital gain / loss for our strategic funds, excludes year end accruals, and excludes amounts held in schools, imprest and control accounts

Note: the balance on 31/03/2023 differs slightly to that shown in the Annual Report. The reason for this is that we hold a significant balance within our current account with Lloyds Bank, £7.5m on 31/03/2023. This is not strictly an investment, however as we receive a good rate of interest on the account it seemed sensible to include for completeness.

38. Security of capital remains GCC's main investment objective. This was maintained during the first part of the financial year by following GCC's counterparty policy as set out in its TMSS for 2023/24. This restricts new investments to the following:

- interest-bearing bank accounts,
- fixed term deposits and loans,

- callable deposits and loans where the Council may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £30 million in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments,
- shares in money market funds and other pooled funds, and
- reverse repurchase (repo) agreements,
- Real Estate Investment Trusts.

39. A large proportion of GCC’s investment balances are held with other LAs. Our treasury advisors, Arlingclose, maintain a proactive approach to monitoring credit worthiness of all financial institutions and consider LAs a strong counterparty as:
    - There is a strong regulatory framework around LAs from Treasury and the Department for Housing, Levelling Up and Communities.
    - The s114 regime exists which flags up issues early and allows appropriate remedial steps to be taken.
    - Council Tax can be raised.
    - There is no history of default of a LA.
    - LAs have the PWLB as lender of last resort.
    - LAs are covered by the Prudential Code.
    - LAs have good governance.

40. Frequent review of credit ratings and deposit period limits, as well as dispersing investments across a number of organisations, minimises the risk around LA (and other unsecured) investments.

41. Credit Risk, Counterparty credit quality was assessed and monitored in line with the approved Treasury Management Strategy.

Responsible Investment Policy, Environmental, Social and Governance Considerations (ESG)

42. The Code requires local authorities to consider their counterparty policies in light of ESG information, while recognising that there is not a developed approach to ESG for public sector organisations and not expecting authorities to use real-time ESG scoring / criteria for individual investments.

43. ESG issues are wide-ranging and non-standardised, however GCC aims to be a responsible investor and will consider ESG issues when investing. As such,
    - We invest in a social housing REIT that provides high-standard, specialist properties which provide housing for some of society's most vulnerable people. Tenant groups include those with autism, learning disabilities as well as mental health struggles. This fund is also signed up to the UN Principles for Responsible Investment.
    - We invest in a responsible income fund which does not invest in companies which have fossil fuel reserves or are engaged in fossil fuel extraction.
    - We invest in an ethical bond fund which does not invest in companies which have fossil fuel reserves or are engaged in fossil fuel extraction.

- We invest in a diversified income fund that has a significant exposure to wind / solar / renewable energy companies and is very active in promoting responsible investing.
- All the banks that we hold investment balances with are signed up to the UN Principles for Responsible Banking.
- All of our Pooled Strategic Funds (excluding our social housing REIT) and Money Market Funds are signed up to the UN Principles for Responsible Investment, the UK Stewardship Code 2020, and the Net-Zero Asset Managers Initiative.

Compliance with Prudential Indicators (PI's)

44. GCC can confirm that it has complied with its (PI's) for 2023/24, which were set in February 2023 as part of GCC's Capital Strategy and TMSS. In accordance with the new reporting requirements these PI's are presented quarterly to Cabinet.

45. Details on the position as at August 2023 can be found in Appendix E.

Outlook for the rest of the year

46. The UK economy has appeared resilient in the face of higher inflation and interest rates, narrowly avoiding recession. Recent data indicates a deceleration in business activity growth as tighter monetary policy starts to bite, particularly in the housing market; and a recession remains a strong possibility.

47. Employment demand, although weakening, remains historically strong and has driven nominal wage growth. The tight labour market shows signs of easing; unemployment has increased and the number of vacancies is falling. Anecdotal evidence continues to suggest an easing in recruitment and a decline in wage growth. Household spending will be affected by increases in mortgage payments, while business investment/spending will fall back due to higher borrowing costs.

48. Inflation is expected to fall sharply over the next 12 months, albeit with significant upside risk. The services and core inflation rates are the focus for the MPC as it seeks to avoid high inflation persisting into the medium term. Evidence suggests that these inflation rates are slower to decline and require looser labour markets to do so. Policy rates will therefore need to remain higher for longer.

49. Downside risks for rates increase over the medium term, as the BoE utilises monetary policy to boost economic activity once inflation has eased, especially should a recession occur and if unemployment rises more sharply.

50. The MPC raised Bank Rate by 25bps to 5.25% in August 2023. Due to current inflation and wage data, Arlingclose believe that Bank Rate will rise to a peak of 5.5% in September.

51. The risks lie to the upside. Strong inflation data in August and September could result in another 25bps rise in Bank Rate in November. The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until services inflation and wage growth ease. The stickiness of these data suggests that rate cuts will happen later than previously expected. Arlingclose see rate cuts from Q3 2024 to a low of around 3% by early 2026, with their forecast shown below.

	Current	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.50	4.25	3.75	3.50	3.25	3.00
Downside risk	0.00	-0.50	-0.50	-0.50	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

52. Global bond yields remain volatile. Like the UK, the Federal Reserve and other central banks see persistently higher policy rates through 2023/2024 as key to dampening domestic inflationary pressure. Data points will therefore prompt changes in bond yields as global interest rate expectations shift.

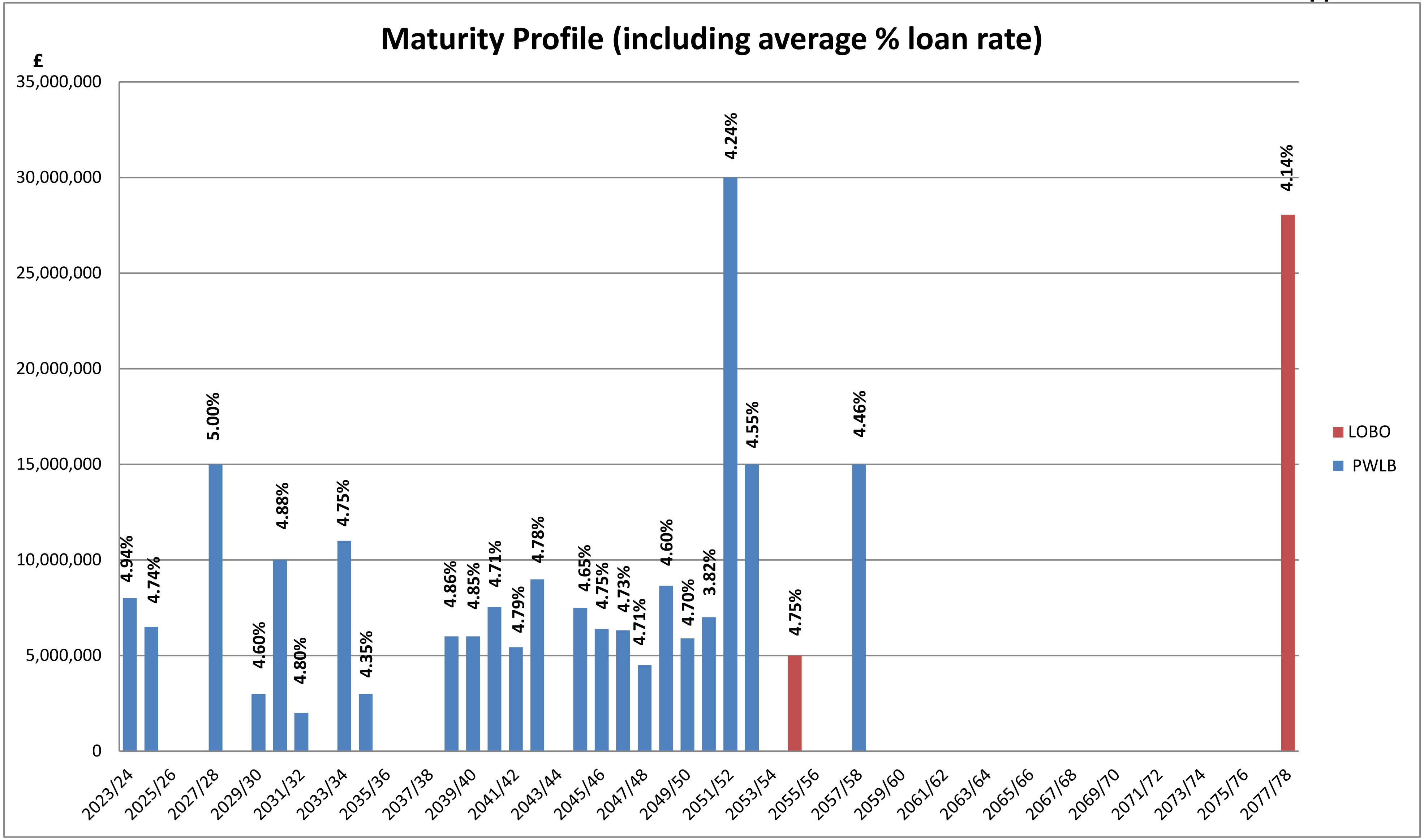
Non-Treasury Investments

53. The definition of investments in the Code, and investment guidance issued by DLUHC covers all the financial assets of GCC, as well as other non-financial assets which could be held primarily for financial return. Investments that do not meet the definition of treasury management investments as covered above, are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return). GCC can confirm that for the year to date that no material non-treasury investments are held.

Summary

54. In compliance with the requirements of the CIPFA Code this report provides members with a summary report of the treasury management activity during the first period of 2023/24 to 31st August 2023. As indicated in this report none of the PI's have been breached, and in accordance with new reporting requirements the quarter 1 position was presented to Cabinet. A prudent approach continues to be taken in relation to investment activity with priority being given to security and liquidity over yield.

Appendix A


Maturity Profile (including average % loan rate)
£
35,000,000
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5,000,000
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4.94%
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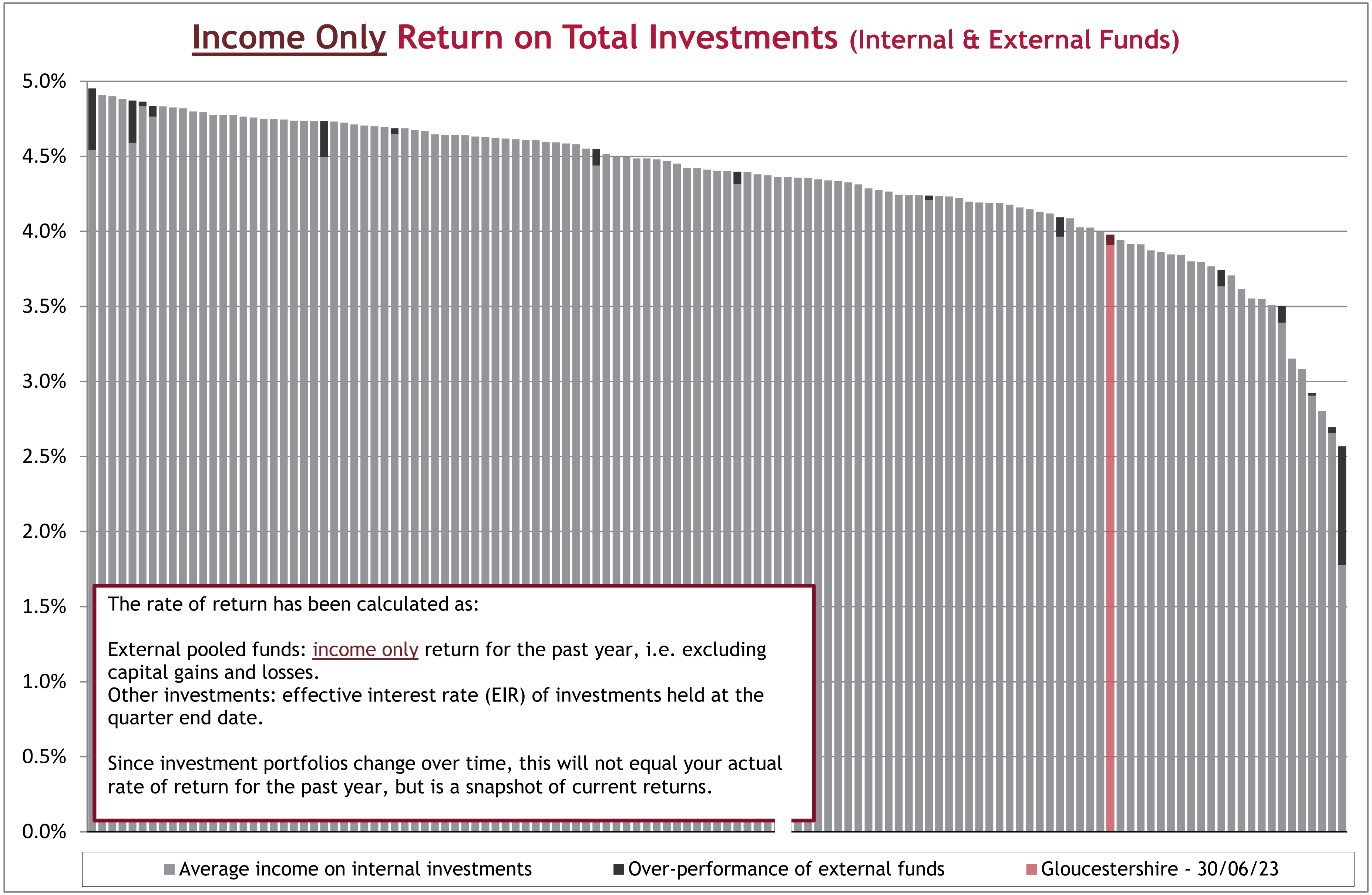
2077/78
LOBO
PWLB

Appendix B

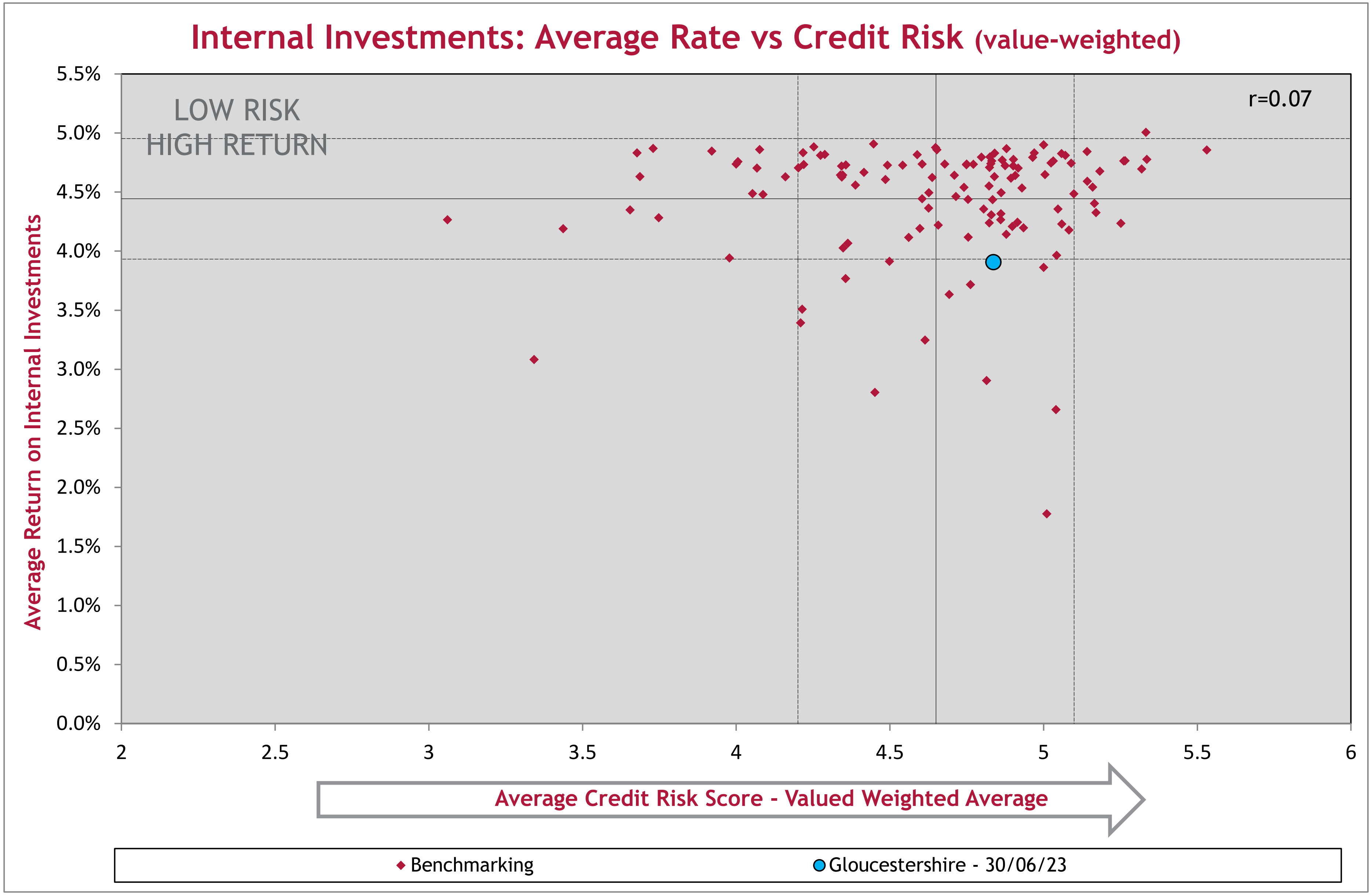
Approved List and In-House Investments as at 31st August 2023

Type	Country/ Domicile	Approved Counterparty	Current £m Unsecured	Current £ Secured	Maximum Duration Limit (Unsecured)
Term Deposits / Call Accounts / CDs / Covered Instruments	UK	Santander UK Plc	-	-	35 days
		Bank of Scotland Plc	-	-	35 days
		Lloyds Bank Plc	8.6	-	35 days
		Handelsbanken Plc	-	-	35 days
		HSBC Bank Plc / HSBC UK Bank Plc	-	-	35 days
		Nationwide Building Society	-	-	35 days
		National Westminster Bank / Natwest Markets Plc	-	-	35 days
		Royal Bank of Scotland Plc/T	-	-	35 days
		Barclays Bank Plc / Barclays Bank UK Plc	-	-	35 days
		Standard Chartered Bank	0.0	5.0	35 days
	Australia	Australia and NZ Banking Group	-	-	35 days
		Commonwealth Bank of Australia	-	-	35 days
		Westpac Banking Corp	-	-	35 days
		National Australia Bank	-	-	35 days
	Canada	Bank of Montreal	-	-	35 days
		Bank of Nova Scotia	-	-	35 days
		Canada Imperial Bank of Commerce	-	-	35 days
		National Bank of Canada	-	-	35 days
		Royal Bank of Canada	-	-	35 days
		Toronto Dominion Bank	-	-	35 days
	Finland	Nordea Bank Finland	-	-	35 days
		OP Corporate Bank PLC	-	-	35 days
	Germany	DZ	-	-	35 days
		Bayeriche Landesbank	-	-	35 days
		Landesbanken Baden Wuerttemberg	-	-	35 days
		Landesbank Hessen Thuringen	-	-	35 days
	Netherlands	Rabobank			35 days
	Singapore	OCBC	-	-	35 days
		UOB	-	-	35 days
		DBS	-	-	35 days
LA / Bills	UK	Other UK Local Authorities	140.0	-	2 years
AAA-rated Money Market Funds	UK / Ireland / Luxembourg domiciled	CNAV MMFs	-	-	-
		VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	12.0	-	
Other MMFs and CIS	UK / Ireland / Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	90.0	-	-
HA's	UK	Moat Housing	-	-	2 years
		Network Homes	-	-	2 years
		Southern Housing Group	-	-	2 years
		Yorkshire Housing Group	-	-	2 years
REIT	UK	Fundamentum	5.0	-	2 years
TOTAL			**255.6**	**5.0**	

Appendix C



Source: Arlingclose Limited



Source: Arlingclose Limited

Appendix E

Prudential Indicators 2023/24

1. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. It is now a requirement of the Code that these indicators are reported on a quarterly basis.

Capital Expenditure:

2. The forecast outturn position for 2023/24 capital expenditure, based on forecasts made in July 2023, is £156.524 million, against the reprofiled budget of £156.567 million, giving a forecast in-year underspend of £43k. Other capital budgets have been reprofiled to match the forecast to give the target spend for the year. Added to this are other debt liabilities, including GCC's Fire PFI schemes and Waste lease liability.

3. The capital spend for Q1 is below that originally planned when the capital strategy was approved in February 2023. This is because of slippage on the capital programme during 2022/23, which then has an impact on future years. Less capital spend is now expected to be funded from borrowing during 2023/24, with the borrowing profile lengthened. Again this results from slippage in those schemes funded from borrowing due to the volatile nature of capital spend.

	2023/24		2024/25		2025/26	
Description	2023/24 Strategy	2023/24 Q1 Monitoring	2023/24 Strategy	2023/24 Q1 Monitoring	2023/24 Strategy	2023/24 Q1 Monitoring
Capital Expenditure	235.0	156.6	114.7	196.2	145.2	179.5
PFI and Finance Leases	1.3	1.3	1.1	7.6	1.1	1.1
Financed by:						
Prudential Borrowing	67.3	43.5	40.6	49.0	38.7	51.9
Other Sources	169.0	114.4	75.2	154.8	107.6	128.6
Total Capital	**236.3**	**157.8**	**115.8**	**211.5**	**146.3**	**180.5**

Note: £6.5 million of the CFR increase in 2024/25 arises from a change in the accounting for leases.

Gross Debt and the Capital Financing Requirement:

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

	31/07/2023
	2023/24 Monitoring
Borrowing	239.8
Other Long Term Liabilities	149.1
Gross Debt	**388.9**
Closing CFR	**498.1**
Gross Debt < CFR?	**Yes**

Debt and the Authorised Limit and Operational Boundary:

5. GCC is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning

level should debt approach the limit. The operational boundary is a management tool for in-year monitoring, and it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

6. The external debt to date (excluding other liabilities) for 2023/24 at its peak was £239.8 million well below the limit. The headroom allows for the debt being held internally to be externalised if necessary, and for the approved financing via capital receipts to be covered should they not be received as expected. As at 31st March 2023 GCC had £74.8 million of debt held internally.

		Auth Limit £m 2023/24 Monitoring	Op Bound £m 2023/24 Monitoring
Borrowing	**Limit**	**413.4**	**393.4**
	Max Borrowing To Date	239.8	239.8
	Actual 31/07/23	231.8	231.8
Other Long Term Liabilities	**Limit**	**151.6**	**151.6**
	Actual 31/07/23	149.1	149.1

Maturity Structure of Fixed Rate Borrowing:

7. This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit	Lower Limit	Strategy 2023/24	Current 2023/24	Current 2023/24	Compliance with Set Limits?
	%	%	£m	£m	%	
under 12 months	25	0	39.6	39.6	17.7%	y
12 months and within 24 months	25	0	0	0	0.0%	y
24 months and within 5 years	50	0	15	15	6.7%	y
5 years and within 10 years	100	0	15	15	6.7%	y
10 years and within 20 years	100	0	48.0	48.0	21.4%	y
20 years and within 30 years	100	0	94.3	91.3	40.8%	y
30 years and within 40 years	100	0	20.0	15.0	6.7%	y
TOTAL			**231.8**	**223.8**		

* Note that LOBO's are included in the table above at earliest call date and not at maturity.

Proportion of Financing Costs to Net Revenue Stream:

8. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and the Minimum Revenue Provision (MRP) are charged to revenue.

9. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. Due to slippage on the capital programme meaning a deferral on the MRP charge, the ratio is less than budgeted.

2023/24		**2024/25**		**2025/26**	
Budget	2023/24 Q1 Monitoring	Budget	2023/24 Q1 Monitoring	Budget	2023/24 Q1 Monitoring
5.55%	**4.01%**	**6.29%**	**4.05%**	**6.61%**	**4.39%**

Note: £6.5 million of the increase in financing costs in 2024/25 arises from a change in the accounting for leases and does not represent additional cost to the Authority.

Long-term Treasury Management Investments:

10. The purpose of this indicator is to control GCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are £200 million per year.

11. GCC has complied with this indicator and as at 31st August 2023 had £100 million invested for over a year. This includes:
    - £30 million invested in the CCLA Property Fund.
    - £5.0 million invested longer term with 2 local authorities, periods ranging up to 2 years.
    - £10 million invested in 2 ESG bond funds. These funds are in line with the responsible investment strategy set by members to rule out new investment in companies exposed to fossil fuels.
    - £25.0 million invested in multi asset funds.
    - £25 million invested in an equity funds.
    - £5 million invested in a Real Estate Investment Fund. This is a property-backed investment that is funded by central government housing the most vulnerable people in society in supported living accommodation.

12. Apart from the investments with the other local authorities, all the fund investments could be matured earlier as these funds can be sold in the financial markets. However these funds are treated as a long term investments as the capital values on the funds fluctuate, so to mature the funds would involve consideration of the current capital value compared to the purchase value, to ensure that a capital loss is not realised.