Financial Year 2023/24 Mid Term Treasury Report

Committee considering report:	Governance Committee
Date of Committee:	29 January 2024
Portfolio Member:	Councillor Iain Cottingham
Date Portfolio Member agreed/sent report:	21 November 2023
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	G4459

1 Purpose of the Report

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). One of the primary requirements of the Code is receipt by the full Council of a mid-year review report, measuring performance against the adopted annual Investment & Borrowing Strategy (I&B). This report satisfies the mid-year reporting requirement.

2 Recommendations

2.1 Members are asked to note the mid-term treasury position as detailed in this report. The Section 151 Officer is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

2.2 Members are asked to approve the proposal for an in year amended to the Council's approved Minimum Revenue Provision (MRP) Policy. The current policy is included in appendix C. Section 5.16 of this report details the proposal to move to applying MRP using the annuity methos and a weighted average life per financial year. The change in policy will generate a £3.2 million revenue saving in 2023/24.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The treasury function is responsible for the daily cash flow management of the Council and long-term external debt commissioning. In the current economic environment of high inflation and high Bank Rate, Gilts and PWLB, the Council has undertaken a strategy of internal borrowing and utilising short-term borrowing from other Local Authorities. As borrowing is

	linked to the capital programme and overall liquidity levels, the capital programme is being kept under regular review because of inflationary pressures, shortages of materials and labour. The Council's borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.			
Human Resource:	Not applicable			
Legal:	Not applicable			
Risk Management:	All investments are undertaken with a view to minimising the risk of financial loss. The Investment and Borrowing Strategy approved by the Council sets parameters to ensure this. Key treasury indicators are adopted as part of the annual strategy and compliance with these indicators is detailed in section 6 of this report.			
Property:	Not applicable			
Policy:	The Council is proposing to amend the existing MRP policy as part of this report. The amendment as detailed in section 5.16 to 5.27 will comply with current legislation and guidance.			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		

B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:	X			The treasury function supports the delivery of the Council Strategy through the financing of the Council's approved Capital Programme and monitoring of Council cash flows.
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes – Director of Resources and s151 Officer. Iain Cottingham – Portfolio Holder Treasury Management Group			

4 Executive Summary

4.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives. The parameters under which the treasury function operates for the current financial year is detailed in the I&B approved by Council in March 2023.

4.2 On 31 March 2023, the Council had a Capital Financing Requirement (CFR) of £279.9 million (i.e. the underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment). The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. In keeping with this objective, whilst short-term interest rates remained much lower than long-term rates and temporary investments earning Bank Rate or lower, it has been considered to be more cost effective in the near term to use borrowed rolling temporary / short-term loans. At 30 September 2023 the Council held £183.9 million of long term loans and £2 million of short term loans, as part of its strategy for funding previous and current years' capital programmes. The Council's borrowing position is summarised in the table below.

Borowing position as at 30/09/2023	**31/03/2023 Balance £m**	**Net Movement £m**	**30/09/2023 Balance £m**
Public Works Loan Board	(186.3)	2.3	(183.9)
Community Bond	(0.6)	0.1	(0.5)
Local Authorities (Short-Term)	(3.0)	1.0	(2.0)
Total Borrowing	**(189.9)**	**3.4**	**(186.5)**

4.3 The capital programme is being kept under regular review because of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

4.4 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to 30 September 2022, the Council's investment balances have ranged between £19.2 million and £9.9 million due to timing differences between income and expenditure. The investment position as at 30 September 2023 compared to 31 March 2022 is shown in the table below.

Investment Summary	**31/03/2023 Balance £m**	**Net Movement £m**	**30/09/2023 Balance £m**
Banks & Building Societies (Unsecured)	3.8	(2.2)	1.6
Government (Incl. Local Authorities)	1.0	(1.0)	0.0
Money Market Funds	14.4	(6.1)	8.3
Total Investments	**19.2**	**(9.3)**	**9.9**

4.5 The economic backdrop during the reporting period has been characterised by high inflationary pressures and high Bank Rate. As a result of the high Bank Rate, investment income is forecast to be £870k overachieved for the year. The Council's existing external borrowings are fixed rates and no new long-term borrowing has been undertaken in the six month period to September 2023. The Council has financed its capital programme during

2023/24 through undertaking short-term borrowing with other Local Authorities (i.e. loans with other Local Authorities for a duration of under one year). Treasury Management Group maintains and scrutinises a listing of other Local Authorities deemed to be appropriate from a risk perspective with which to undertake short-term borrowing activities.

4.6 In conclusion. the Section 151 Officer is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

5 Supporting Information

Economics and Interest Rates

5.2 The first half of 2023/24 saw interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25%. Short, medium and long-dated gilts remain elevated as inflation remained high resulting in increased borrowing costs for Local Authorities. A 0.5% 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 of an easing in wage growth.

5.3 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. 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.

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

5.4 The detailed economic overview supplied by Link is included in appendix A.

I& B Update

5.5 There are no policy changes to the I&B; the details in this report update the position in the light of the updated economic position and any budgetary changes already approved. The authorised limit and operational boundary – effectively the maximum levels of funding that the Council can draw down to finance capital expenditure and maintain liquidity levels (£10 million), remain in line with the approved I&B, as detailed in the table below.

Prudential Indicator 2023/24	Original £m	Revised Prudential Indicator £m
Authorised Limit	386.8	No change
Operational Boundary	370.6	No change
Capital Financing Requirement	301.3	298.7

5.6 The Council's capital financing requirement (CFR) has reduced marginally, the basis of the change in outlined in the Council's capital indicators detailed below. The CFR is the underlying external need to incur borrowing for a capital purpose.

The Council's Capital Position (Prudential Indicators)

5.7 The prudential indicator for capital expenditure, i.e. the revised estimates for capital expenditure and the changes since the capital programme was agreed in March 2023. The table below details the agreed capital programme, actual expenditure and commitments raised as at Quarter Two and the revised forecast outturn expenditure (revised estimate) as at Quarter Two budget monitoring. For project information and capital forecasting underpinning the data in the table below please see the Financial Year 2023/24 Quarter Two Capital Financing Performance Report.

Capital Expenditure by Service	2023/24 Original Estimate £m	Actual spend as at 30/09/2023 £m	2023/24 Revised Estimate £m
People Directorate			
Adult Social Care	3.2	0.7	2.6
Children & Family Services	0.0	0.0	0.0
Communities & Wellbeing	9.1	3.0	6.3
Education Services	12.0	4.3	8.7
Total - People	**24.3**	**8.0**	**17.6**
Place Directorate			
Development & Regulation	11.8	1.5	12.9
Environment	27.2	10.1	24.0
Total - Place	**39.0**	**11.6**	**36.9**
Resources Directorate			
Finance & Property	2.3	0.6	1.9
Governance & Strategy	0.4	0.1	1.4
ICT	3.4	2.0	7.0
Total - Resources	**6.1**	**2.7**	**10.3**
Grand Total	**69.4**	**22.3**	**64.8**

5.8 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
Total capital expenditure	**69.4**	**64.8**
Total external financing	**38.7**	**37.8**
Borrowing requirement	**30.7**	**27.0**

5.9 The level of expected external financing forecast to be applied to the capital programme at Quarter Two forecasting has reduced, due to the level of externally funded projects anticipated to be commenced and completed by outturn. Expected Council funding (i.e. borrowing) has reduced due to in year slowing of the capital programme.

5.10 Prudential Indicator – the Operational Boundary for External Debt

	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	301.3	298.7
CFR – housing	0.0	0.0
Total CFR	**301.3**	**298.7**
Net movement in CFR		**(2.6)**
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	182.0	182.0
Other long-term liabilities	9.8	9.8
Total debt (year end position)	191.8	191.8

5.11 In respect of the above table other liabilities refers to Private Finance Initiatives (PFI) and other finance lease liabilities. The figure quoted refers purely to the waste PFI, the Council has yet to adopt IFRS 16 (Leases) and hence no other leases are quoted in the above figures. The overall forecast CFR has reduced due to the forecast reduction in planned financed capital expenditure.

Limits to Borrowing Activity

5.12 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of 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.

	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
Borrowing	182.0	182.0
Other long-term liabilities	9.8	9.8
Total debt	**191.8**	**191.8**
CFR - year end position	**301.3**	**298.7**

5.13 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. 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. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2023/24 Original Indicator £m	Current Position £m	2023/24 Revised Indicator £m
Borrowing	373.6	373.6	373.6
Other long-term liabilities	13.2	13.2	13.2
Total	**386.8**	**386.8**	**386.8**

Actual Borrowing as at 30.9.2023

5.14 The revised CFR for 2023/24 is forecast at £298.7 million. The CFR denotes the Council's underlying need to borrow for capital purposes. 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). The balance of external and internal borrowing is generally driven by market conditions. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. In keeping with these objectives no new borrowing was undertaken. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. At 30 September 2023 the Council held £186.5 million of loans, a decrease of £3.4 million from 31 March 2023 due to annuity payments made in the period. Outstanding loans on 30 September are summarised in the table below.

Borowing position as at 30/09/2023	**31/03/2023 Balance £m**	**Net Movement £m**	**30/09/2023 Balance £m**
Public Works Loan Board	(186.3)	2.3	(183.9)
Community Bond	(0.6)	0.1	(0.5)
Local Authorities (Short-Term)	(3.0)	1.0	(2.0)
Total Borrowing	**(189.9)**	**3.4**	**(186.5)**

5.15 Further annuity payments and repayments of short-term borrowing are forecast to bring the Council in line with the borrowing limits set as part of the adopted I&B. It is anticipated that further borrowing will be undertaken during this financial year, however, the treasury focus has been on utilising short-term financing (other local authorities) to minimise interest rate risk from currently high PWLB rates. This strategy has allowed the Council to reduce overall debt by repaying and not renewing external debt. However, this policy will require ongoing monitoring depending on gilt levels and PWLB rates.

Treasury Management Activity as at 30.9.2023

5.16 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to date, the Council's investment balances ranged between £19.2 million and £9.9 million due to timing differences between income and expenditure, as detailed in the table below.

	31/03/2023 Balance £m	Net Movement £m	30/09/2023 Balance £m	30/09/2023 Income Return %
Banks & Building Societies (Unsecured)	3.8	(2.2)	1.6	3.40
Government (Incl. Local Authorities)	1.0	(1.0)	0.0	4.60
Money Market Funds	14.4	(6.1)	8.3	4.64
Total Investments	**19.2**	**(9.3)**	**9.9**	**4.45**

5.17 Both the CIPFA TM Code and government guidance require the Council 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. The Council's 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.

Non-Treasury Investments

5.18 The definition of investments in the CIPFA TM Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by the Department for Levelling Up, Housing and Communities, in which the definition of investments is further broadened to also include all such assets held partially for financial return. At the 31 March 2023 the Council held £65.4 million of such investments in directly owned property categorised as follows:

5.19 (a) Directly owned property (commercial property) £52.3 million. This is property that the Council has borrowed specifically to fund the purchase.

5.20 (b) Directly owned property (investment property) £13.1 million. This is property that the Council holds as an investment property but the purchase has not been funding by borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998.

5.21 During the current financial year a review has been undertaken of the commercial property portfolio. A revised strategy recommending disposal of the portfolio over the Medum Term Financial Strategy has been made to members independently of this mid-term treasury report. Details of the valuations of properties held (commercial and investment), as at 31.3.2023 are included in appendix B.

Proposals

5.22 Local Authorities are required by statute to make a charge to their revenue account to provide for the repayment of debt resulting from capital expenditure, known as Minimum Revenue Provision ("MRP"). The Authority is required to determine a level of MRP it considers to be prudent, whilst having regard to MRP Guidance. The Guidance provides suggested methods for the calculation of MRP; however, the guidance and legislation do not define what is prudent. It is for each Authority to determine a prudent repayment based on its own individual circumstances, considering the medium and long-term financial plans, current budgetary pressures, future capital expenditure plans and funding needs.

5.23 In conjunction with the Council's external treasury advisors (Link Group), a review of the Council's current MRP policy and practices has been undertaken. It is therefore proposed that the existing policy is amended. Current MRP guidance sets out the following four options below:

Option 1: Regulatory Method	MRP to be based on the same formula used in the previous regulations (Regulation 28), 4% of the adjusted CFR (i.e., adjusted for Adjustment A, the HRA CFR or any other adjustments from statutory instruments to the 2003 regulations.
Option 2: CFR Method	A simplified version of Option 1, which provides for MRP to be calculated solely on the non-housing element of the CFR without the inclusion of "Adjustment A".
Option 3:	MRP is aligned to the estimated life of the asset for which the underlying need to borrow is undertaken. The charge can be applied either on a straight-line basis or by using the annuity method. The Guidance states only that such provision should be made "over a period bearing some relation to that over which the asset continues to provide a service."
Option 4:	more complex version of option 3. MRP is matched to the provision for depreciation, or appropriate proportion thereof, for the associated asset based on standard accounting practice. It therefore takes in consideration the residual value of an asset as well as any revaluations and impairments.

5.24 Currently the Council operates option 3, the asset life method. Annual MRP is currently budgeted at approximately £8 million. MRP is a revenue charge relating to debt financed capital expenditure. It is proposed that the Council's MRP policy for 2023/24 is amended. The Council will continue to apply the current annuity method (option 3), but to apply an average asset life for each years borrowing and apply the annuity calculation to the total borrowing balance as at 31.3.2023 as opposed to on an individual asset/project basis. The amendment will generate revenue savings in the current financial year of £3.2 million.

5.25 In May 2022, the government introduced the Levelling Up and Regeneration Bill ("LUR Bill"), which includes new provisions with respect to council borrowing and investing. A local authority will come into scope of the new powers where a 'trigger point' is breached with respect to one of the following metrics:

a) the total of a local authority's debt (including credit arrangements) as compared to the financial resources at the disposal of the authority.

b) the proportion of the total of a local authority's capital assets which is investments made, or held, wholly or mainly in order to generate financial return.

c) the proportion of the total of a local authority's debt (including credit arrangements) in relation to which the counterparty is not central government or a local authority.

d) the amount of minimum revenue provision charged by a local authority to a revenue account for a financial year.

e) any other metric specified by regulations made by the Secretary of State.

5.26 The DLUHC has consulted with stakeholder with respect to the calculations of the matrix and determination of the relevant trigger points. The consultation closed on the 21st of September 2023. Matric (d) above seeks to address the governments concern with Council's under charging MRP. Although specific trigger points were not included within the consultation, documents circulated by DHLUC gave a policy guided threshold of 2%, potentially lowered to 1% (i.e. MRP paid as a percentage of CFR). The proposed amended MRP approach would sit the Council comfortably around the 2% limit, benchmarking indicates that when applying the amended MRP the Council would sit at 89th out of the 132 upper tier authorities (with one being the highest risk), risk ranking.

5.27 The Council's current MRP policy is included in appendix C.

6 Conclusion

6.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in the table below:

Total Council Debt Costs	Actual Interest Cost 01/04/23-30/09/23 £'000	Forecast Interest Cost 01/04/23-31/03/24 £'000	Budgeted Interest Cost 01/04/23-31/03/24 £'000	(Over)/Under £'000	Actual Interest Rate @ 30/09/2023 %
Short term borrowing	(50)	(405)	(9)	(396)	5.75
Public Works Loan Board	(3,126)	(7,185)	(6,825)	(360)	3.36
Community Bond	(4)	(7)	0	(7)	1.20
Total Borrowing	**(3,179)**	**(7,597)**	**(6,834)**	**(763)**	**3.38**
PFI Debt	(271)	(651)	(731)	79	6.10
Total Debt	**(3,451)**	**(8,248)**	**(7,564)**	**(684)**	

Total Council Investment income	Actual Interest Received 01/04/23-30/09/23 £'000	Forecast Interest Income 01/04/23-31/03/24 £'000	Budgeted Interest Income 01/04/23-31/03/24 £'000	Over/(Under) £'000	Actual Interest Rate YTD %
Short-Term Investments	282	405	503	(98)	4.60
Cash and Cash Equivalents	378	539	5	534	4.34
Total Treasury Investments	**661**	**944**	**508**	**436**	**4.45**

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year 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. Performance against indicators detailed below:

Authorised Limit and Operational Boundary:

Authorised Limit & Operational Boundary for Debt	H2 Maximum £m	30/09/2023 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied? Yes/No
Borrowing	(189.9)	(186.5)	(359.6)	(373.6)	Yes
PFI and Finance Leases	(10.7)	(10.2)	(11.0)	(13.2)	Yes
Total Debt	**(200.6)**	**(196.7)**	**(370.6)**	**(386.8)**	**Yes**

Maturity Structure of Borrowing:

Maturity structure of borrowing	30/09/23 Actual	Upper Limit	Lower Limit	Complied?
Under 12 Months	2.62%	30%	0%	Yes
12 Months and within 24 Months	2.51%	30%	0%	Yes
24 Months and within 5 Years	6.99%	30%	0%	Yes
5 Years and within 10 Years	14.86%	30%	0%	Yes
10 Years and within 15 Years	15.12%	30%	0%	Yes
15 Years and within 20 Years	6.96%	30%	0%	Yes
20 Years and within 25 Years	7.34%	30%	0%	Yes
25 Years and within 30 Years	4.08%	30%	0%	Yes
30 Years and within 35 Years	3.73%	30%	0%	Yes
35 Years and within 40 Years	1.12%	30%	0%	Yes
40 Years and within 45 Years	21.54%	30%	0%	Yes
45 Years and within 50 Years	13.15%	35%	0%	Yes

Individual Counter-party Limits

Counterparty Limits	H2 Maximum Invested £m	30/09/2023 Actual Invested £m	2023/24 Individual Counterparty Limit £m	Complied? Yes/No
Debt Management Office (DMO)	22.0	0.0	Unlimited	Yes
UK Local Authorities (incuding Police, Fire Authorities and similar bodies)	0.0	0.0	8.0	Yes - Individual Limit per counterparty has not been exceeded
UK Building Societies (ranked 1-11 by asset size)	0.0	0.0	8.0	Yes
UK Building Societies (ranked 12-21 by asset size)	0.0	0.0	6.5	Yes
UK Building Societies (ranked 22-25 by asset size)	0.0	0.0	5.0	Yes
UK Banks and other financial institutions (A- or higher)	7.0	1.6	8.0	Yes
Other non-local authority UK public sector body	0.0	0.0	8.0	Yes
Registered Providers, Charities	0.0	0.0	2.5	Yes
UK based money market funds rated AAAmf	21.9	8.3	8.0	Yes - Individual Limit per counterparty has not been exceeded
Council owned companies and joint-ventures	0.0	0.0	5.0	Yes

7 Appendices

7.1 Appendix A – Link Group - Economic Summary

7.2 Appendix B – 31.3.2023 Valuations of commercial and investment properties

7.3 Appendix C – 2023/24 Approved Minimum Revenue Provision Policy

Subject to Call-In:

Yes: ☐ No: X

The item is due to be referred to Council for final approval ☐

Delays in implementation could have serious financial implications for the Council ☐

Delays in implementation could compromise the Council's position ☐

Considered or reviewed by Scrutiny Commission or associated Committees, Task Groups within preceding six months ☐

Item is Urgent Key Decision	☐
Report is to note only	X

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Appendix A

Link Group: Economic Summary

Economics Update

- 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).
- 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.
- 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.
- 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.
- 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.
- 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.

- 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.
- 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.
- 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.
- 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".
- 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.

- 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).
- 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.
- 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 B

31.3.2023 Valuations of Commercial and Investment Properties

Directly owned property (commercial property)

Name and address of property	Property type	2022/23 valuation £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	4,155
79 Bath Road, Chippenham	Retail Warehouse	9,250
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1,675
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	5,825
303 High Street and 2 Waterside South, Lincoln	Retail	2,900
3&4 The Sector, Newbury Business Park	Office	14,950
Sainsbury's, High Street, North Allerton	Retail	6,835
Ruddington Fields Business Park, Mere Way, Nottingham	Office	6,700
Valuation total per draft 2022/23 Statement of Accounts		**52,290**

APPENDIX D

Directly owned property (investment property)

Name and address of property	Property type	2022/23 valuation £'000
The Stone Building, The Wharf, Newbury	Café	25
Pelican Lane Creche, Pelican Lane	Children's Nursery	0
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	35
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholding	1,750
Bloomfield Hatch Farm, Grazely	Tenanted Smallholding	1,000
Shaw Social Club, Almond Avenue, Shaw	Community Centre	70
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	375
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	520
London Road Industrial Estate, Newbury	Industrial	9,350
Valuation total per draft 2022/23 Statement of Accounts		**13,125**

Appendix C

2023/24 Approved Minimum Revenue Provision Policy

Annual Minimum Revenue Provision Statement 2023/24

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in February 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- For capital expenditure incurred before 1st April 2008 MRP will be determined by charging the expenditure over a 50-year asset life from 2008/09 as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate in 2007/08.

- For capital expenditure incurred after 31st March 2008, including PFI assets, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the capital expenditure is incurred. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- For assets acquired by finance leases MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- In April 2022 CIPFA announced a deferral of the implementation of the IFRS16 Leases accounting standard until 1 April 2024. Accordingly, the Council will not now apply the provisions of this standard prior to the 2024/25 financial year. As part of the 2022/23 MRP policy, Council had previously agreed that where former operating leases are to be brought onto the balance sheet upon eventual adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

- Where the Council receives a capital receipt upon disposal of an asset previously acquired through borrowing, the Council may apply the receipt arising in year to offset the charge to revenue (either in full or in part) which would otherwise apply, in respect of the element of the Council's aggregate Capital Financing Requirement which pertained to the disposal. Members are asked to approve use of this policy change to allow use from and including the 2022/23 financial year.

Capital expenditure incurred during 2023/24 will not be subject to a MRP charge prior to 2023/24.

Based on the Council's latest estimate of its capital financing requirement (CFR) on 31st March 2023, the budget for MRP has been set as follows:

Replacement of Prior Years' Debt Finance	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
	£000s	£000s	£000s	£000s	£000s	£000s
Minimum revenue provision (MRP)	£7,286	£8,008	£8,317	£9,305	£10,476	£10,701
Capital receipts	£0	£0	£0	£0	£0	£0
TOTAL	£7,286	£8,008	£8,317	£9,305	£10,476	£10,701

Replacement of Prior Years' Debt Finance	2027/28 budget	2028/29 budget	2029/30 budget	2030/31 budget	2031/32 budget	2032/33 budget
	£000s	£000s	£000s	£000s	£000s	£000s
Minimum revenue provision (MRP)	£10,815	£11,620	£11,981	£11,800	£12,265	£12,746
Capital receipts	£0	£0	£0	£0	£0	£0
TOTAL	£10,815	£11,620	£11,981	£11,800	£12,265	£12,746