

Treasury Management Activity Report Q2 2022/23

1. Introduction

- 1.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.
- 1.2 The Authority's treasury management strategy for 2022/23 was approved at a Council meeting on 24 February 2022. The Authority has invested 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 remains central to the Authority's treasury management strategy.
- 1.3 CIPFA published its revised Treasury Management Code of Practice [the TM Code] and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish. The Authority adopted the revised reporting requirements with effect from 2022/23.
- 1.4 Treasury risk management at the Authority is conducted within the framework of the TM Code. This Code now also includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

2. External Context as at 30/09/2022 (provided by Arlingclose)

- 2.1 **Economic background:** The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.
- 2.2 The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.
- 2.3 Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.
- 2.4 UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.
- 2.5 The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay

(including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and -2.8% for regular pay.

- 2.6 With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of -44 in August, down -41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.
- 2.7 The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.
- 2.8 On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.
- 2.9 Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.
- 2.10 After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.
- 2.11 Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from -0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.
- 2.12 **Financial markets:** Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.
- 2.13 Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

- 2.14 Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.
- 2.15 **Credit review:** In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.
- 2.16 Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.
- 2.17 Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.
- 2.18 Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

3. Local Context

- 3.1 On 31st March 2022, the Authority had borrowing of £94.48m 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 usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.22 Actual £m
General Fund CFR	38.05
HRA CFR	56.43
Total CFR	94.48
External borrowing	64.78
Internal borrowing	29.70
Total borrowing	94.48

- 3.2 The treasury management position on 30th September 2022 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.22 Balance £m	Movement £m	30.09.22 Balance £m	30.09.22 Rate %
Long-term borrowing	63	0	63	3.57%
Short-term borrowing	2	- 1	1	2.25%
Total borrowing	65	1	64	3.56%
Long-term investments	0	0	0	0
Short-term investments	31	9	40	1.61%
Cash and cash equivalents	18	-7	11	1.94%
Total investments	49	2	51	1.68%
Net borrowing	16	-1	15	

4.0 Borrowing

- 4.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that 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.
- 4.2 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield the Authority intends to avoid this activity in order to retain its access to PWLB loans.
- 4.3 The Authority currently holds £9.1m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.
- 4.4 As shown in table 1 the authority has internally borrowed £29.7m. This internal borrowing foregoes a potential interest income rate of 1.68%. However, if we had externally borrowed PWLB rates are currently 4.34% for one year. This demonstrates a net saving overall to internal borrowing.

5. Borrowing Strategy and Activity

- 5.1 As outlined in the treasury strategy, the Authority'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 Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 5.2 Over the April-September period short term PWLB rates rose dramatically, particular in late September after the Chancellor's 'mini-budget', included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies. Exceptional volatility threatened financial stability, requiring Bank of England intervention in the gilt market. Over a twenty-four-hour period some PWLB rates increased to 6%, before the intervention had the desired effect, bringing rates back down by

over 1% for certain maturities. A truly wild and unprecedented period in fixed income markets, with a direct impact on PWLB rates.

- 5.3 Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5-year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%.
- 5.4 As the Council has not undertaken any new borrowing this financial year the effects of these rate rises have not been felt. However, the authority is forecasting a borrowing requirement starting within the next two years.
- 5.5 At 30th September the Authority held £63.1m in loans, a decrease of £1.6m since 31st March 2022. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.22 Balance £m	Net Movement £m	30.09.22 Balance £m	30.09.22 Weighted Average Rate %	30.09.2022 Weighted Average Maturity (years)
Public Works Loan Board	56	-1	56	3.40%	16.19
Banks (LOBO)	4	0	4	4.80%	32.38
Banks (fixed-term)	4	0	4	4.74%	31.39
Local authorities (long-term)	0	0	0	-	-
Local authorities (short-term)	1	-1	0	0.00%	0.00
Total borrowing	65	-2	63	3.62%	18.03

- 5.6 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.
- 5.7 The Authority continues to hold £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the quarter.
- 5.8 In addition to the external borrowing as shown in the table above, the authority also has £29.7m of internal borrowing as shown in Table 1.

6. Treasury Investment Activity

- 6.1 CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.
- 6.2 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances have ranged between £44m and £64 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.22 Balance £m	Net Movement £m	30.09.22 Balance £m	30.09.22 Income Return %	30.09.22 Weighted Average Maturity days
Banks & building societies (unsecured)	3.0	-0.9	2.1	1.46%	90.52
Government (incl. local authorities)	29.0	8.5	37.5	1.61%	82.59
Money Market Funds	17.0	-6.0	11.0	1.96%	1.00
Total investments	49.00	1.60	50.60	1.68%	65.01

- 6.3 Both the CIPFA Code and government guidance require the Authority 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 Authority'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.
- 6.4 The increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.
- 6.5 By end September, the rates on DMADF deposits ranged between 1.85% and 3.5%. The return on the Council's sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 0.4% - 0.6% p.a. in early April and between 1.6% and 1.8% at the end of September.
- 6.6 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking - Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2022	4.00	AA-	41%	71	0.39%

30.09.2022	3.52	AA-	26%	65	1.67%
Similar LAs	4.34	AA-	57%	42	0.89%
All LAs	4.29	AA-	55%	17	1.47%

6.7 The Authority had budgeted £9,000 income from these investments in 2022/23. Actual income received by September was £289,000. We are now forecasting interest received to be £800,000 by the end of the year and after deductions income to be £708,000. £450,000 of this will go to the General Fund and £258,000 to the HRA.

6.8 Clearly this is a large increase from forecast and is a result of two factors. Firstly the rapidly changing wider economic situation has led to an increase in interest rates which in turn has increased the return on the authority's investment. Secondly, we have a larger investment balance than forecasted due to delayed repayment of grants to central government, slippage in capital programmes and higher income than predicted from income streams such as council tax and rates.

7. Non-Treasury Investments

7.1 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

7.2 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

7.3 The Authority held £9.1m of investments made for commercial purposes. This consisted entirely of directly owned property and land. A full list of the Authority's non-treasury investments is available in the Investment Strategy 2022-23 document. These investments generate a forecast £387,800 of investment income for the Authority after taking account of direct costs.

7.4 The main purpose of these investments is regeneration of the local area rather than investment income. All commercial investments are located within the District.

8. Treasury Performance

8.1 The Authority 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.

8.2 Since the beginning of the reporting period the Council has paid £1.2m in interest. The forecasted amount to be spent on interest on loans for the financial year 22/23 in total is £2.3m. The overall interest rate on borrowing is 3.5%. For comparison purposes the current PWLB Maturity Loan rate for new 10 year borrowing is 5.3%.

- 8.3 During the reporting period we have fully repaid a loan of £1m held with a Local Authority. We have also repaid £600k in principle on our two annuity loans (loans in which a percentage of the principle is repaid annually).
- 8.4 We do not expect to have to undertake any new borrowing in this financial year and none has so far been undertaken.
- 8.5 As discussed above investment interest yield during the reporting period was £289,000. Investment interest return percent on 30 September 2022 was 1.67%. For comparison purposes the Daily Sterling Overnight Index Average (SONIA) which is used for benchmarking purposes was 2.15% and investment yield for similar local authorities advised by Arlingclose was 0.89% and for all other local authorities advised by Arlingclose was 1.47%. This can all be seen visually in Appendix 2.
- 8.6 As demonstrated in the benchmarking data our return percentage was very similar to other local authorities when looking at internal investment return. However, when looking at overall interest return our yields are above other local authorities. This is due to the fact that strategic investments have produced negative returns. NWLDC does not have any investments in strategic funds so therefore have a better return.

9. Compliance

- 9.1 The Deputy S151 Office reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.
- 9.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 5 below.

Table 5: Debt Limits

	Q2 Maximum during period	30.9.22 Actual	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
Borrowing	£64.8m	£64.8m	£72.9m	£82.9m	Yes

- 9.3 Since the operational boundary is a management tool for in-year monitoring 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. However, there were no days in the reporting period in which the operational boundary was breached.

Table 6: Investment Limits

	Q1 Maximum	30.09.2022 Actual	2022/23 Limit	Complied?
The UK Government	Unlimited	£24m	Unlimited	Yes
Local authorities & other government entities	£5m	£5m	£5m	Yes
Secured investments	£5m	£0	£5m	Yes
Banks (unsecured)	£2.5m	£2.3m	£2.5m	Yes
Building societies (unsecured)	£2.5m	£0	£2.5m	Yes
Registered providers (unsecured)	£2.5m	£0	£2.5m	Yes

Money market funds	£5m	£5m	£5m	Yes
Strategic pooled funds	£5m	£0	£5m	Yes
Real estate investment trusts	£5m	£0	£5m	Yes
Other investments	£2.5m	£0	£2.5m	Yes

10. Treasury Management Indicators

10.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

10.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.22 Actual	2022/23 Target	Complied?
Portfolio average credit rating	AA-	A-	Yes

10.3 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	30.9.22 Actual	2022/23 Target	Complied?
Total cash available within 3 months	34.1m	2.5m	Yes

10.4 **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	30.9.22 Actual	2022/23 Limit	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	-243,465	-200,000	No
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	243,645	200,000	No

10.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates. Although the indicator has not been complied with this is not a compliance failure as it reflects the increase in investment balances over the year and the fact that all of the authority's investments are due to mature this year. Longer investments would reduce the interest rate risk but would expose the authority to higher liquidity risk.

10.6 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. [This indicator covers the risk of replacement loans being unavailable, not interest rate risk.] The upper and lower limits on the maturity structure of all borrowing were:

	30.09.22 Actual £	30.09.22 Actual %	Upper Limit	Lower Limit	Complied?
Under 12 months	5,713,657	9%	30%	0%	Yes

12 months and within 24 months	2,740,936	4%	30%	0%	Yes
24 months and within 5 years	3,892,820	6%	30%	0%	Yes
5 years and within 10 years	3,033,321	5%	30%	0%	Yes
10 years and above	49,477,609	76%	90%	0%	Yes

10.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

10.8 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied?	Yes	Yes	Yes

Arlingclose's Economic Outlook for the remainder of 2022/23 (based on 26th September 2022 interest rate forecast)

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

Background:

Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the “Mini-Budget”, poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a “circuit breaker” which stops rates rising much beyond 5.0%, but this remains an uncertainty.

Appendix 2



Investment Benchmarking 30 September 2022

NW Leicestershire
44 English Non-Met Districts Average
120 LAs Average

Internal Investments	£50.1m	£38.3m	£82.0m
Cash Plus & Short Bond Funds	£0.0m	£0.0m	£0.0m
Strategic Pooled Funds	£0.0m	£14.3m	£14.7m
TOTAL INVESTMENTS	£50.1m	£52.5m	£96.7m

Security

Average Credit Score	3.52	4.34	4.29
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.03	4.23	4.07
Average Credit Rating (time-weighted)	AA	AA-	AA-
Number of Counterparties / Funds	9	13	13
Proportion Exposed to Bail-in	26%	57%	55%

Liquidity

Proportion Available within 7 days	22%	42%	45%
Proportion Available within 100 days	72%	62%	71%
Average Days to Maturity	65	42	17

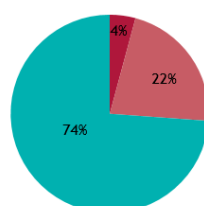
Market Risks

Average Days to Next Rate Reset	73	53	46
Strategic Fund Volatility	-	4.5%	6.2%

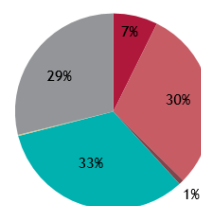
Yield

Internal Investment Return	1.67%	1.70%	1.72%
Cash Plus Funds - Income Return	-	-	-
Strategic Funds - Income Return	-	3.84%	3.93%
Total Investments - Income Return	1.67%	2.22%	2.05%
Cash Plus Funds - Capital Gain/Loss	-	-	-
Strategic Funds - Capital Gain/Loss	-	-1.73%	-1.15%
Total Investments - Total Return	1.67%	0.89%	1.47%

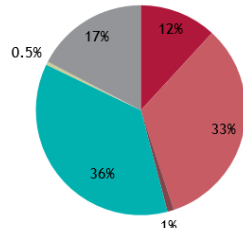
NW Leicestershire



English Non-Met Districts



All Arlingclose Clients



■ Bank Unsecured
■ Fund Unsecured
■ Bank Secured
■ Government
■ Corporate/RP
■ Strategic Funds

Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.