Appendix A

Treasury Management Half – Yearly (April to September) Activity Report 2023/24

1. Introduction

1.1. The Council 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. This quarterly report provides an additional update and includes the new requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators.

1.2. The Council's treasury management strategy for 2023/24 was approved at a meeting on 23 February 2023. The Council has borrowed and 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 Council's treasury management strategy.

2. External Context (provided at Arlingclose)

2.1. **Economic background**: UK inflation remained stubbornly high over much of the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to other regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

2.2. Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

2.3. July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

2.4. Inflation continued to fall from its peak as annual headline Consumer Prices Index (CPI) declined to 6.7% in July 2023 from 6.8% in the previous month against expectations of it going back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

2.5. The Bank of England's Monetary Policy Committee (MPC) continued tightening monetary policy over most of the period, taking the Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain the Bank Rate at 5.25%.

Each of the four dissenters were in favour of another 0.25% increase.

2.6. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

2.7. Following the September MPC meeting, Arlingclose, the authority's treasury advisor, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in the Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

2.8. The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to Standard and Poor's (S&P)/Chartered Institute of Procurement and Supply (CIPS) survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

2.9. The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

2.10. Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

2.11. The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

2.12. Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

2.13. **Financial markets**: Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

2.14. Gilt yields fell towards the end of the period. The five-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

2.15. **Credit review**: Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March, Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

2.16. During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

2.17. Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

2.18. Following the issue of a Section 114 notice, in September, Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

2.19. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

2.20. Heightened 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 30 September 2023, the Council had net borrowing of £9m 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 are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Estimated £m
General Fund CFR	41.2
HRA CFR	53.9
Total CFR	**95.1**
External borrowing	62.6
Internal borrowing	32.5
Total Borrowing	**95.1**

3.2. The treasury management position as at 30 September and the change over the year to date are shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	30.09.23 Balance £m	30.09.23 Rate %
Long-term borrowing	59.8	0.0	59.8	3.55%
Short-term borrowing	2.7	-0.6	2.1	5.38%
Total borrowing	**62.6**	**-0.6**	**62.0**	**3.58%**
Long-term investments	0.0	0.0	0.0	0.00%
Short-term investments	39.0	1.5	40.5	4.80%
Cash and cash equivalents	4.1	8.4	12.5	5.01%
Total investments	**43.1**	**9.9**	**53.0**	**4.85%**
Net borrowing	**19.5**	**-10.5**	**9.0**	

4. 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. Public Works Loan Board (PWLB) loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

4.2. The Council currently holds £8.9m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. These commercial investments are primarily for local regeneration and growth and are all located within the District. Financial return is a secondary objective of these investments. Before undertaking further additional borrowing the Council will review the options for exiting these investments.

4.3. As shown in table 1 the Council has internally borrowed £32.5m. This internal borrowing foregoes a potential interest income rate of 4.85%. Current one-year external borrowing rates with the PWLB were 5.88% as at 30 September 2023. An additional rate for HRA specific borrowing has been implemented from June 2023 which is 0.4% lower than standard PWLB rates as discussed below.

5. Borrowing strategy and activity

5.1. As outlined in the treasury strategy, 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. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

5.2. There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 3% higher than at the end of September 2022.

5.3. UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation stickier than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to dampening domestic demand. Gilt yields, and consequently Public Works Loan Board (PWLB) borrowing rates, rose and broadly remained at elevated levels. On 30 September, the PWLB certainty rates for maturity loans were 5.25% for 10-year loans, 5.63% for 20-year loans and 5.41% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

5.4. A new PWLB Housing Revenue Account (HRA) rate which is 0.4% below the certainty rate has been made available from 15 June 2023. Initially available for a period of one year, this discounted rate is to support local authorities borrowing for the HRA and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing.

5.5. At 30 September 2023, the Council held £62.0m of loans, a decrease of £0.6m from 31 March 2023, as part of its strategy for funding previous and current year's capital programmes. Outstanding loans on 30 September 2023 are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.23 Balance £m	Net Movement £m	30.09.23 Balance £m	30.09.23 Weighted Average Rate %	30.09.23 Weighted Average Maturity (years)
Public Works Loan Board	55.1	-0.6	54.5	3.41%	13.6
Banks (LOBO)	3.5	0.0	3.5	4.80%	1.8
Banks (fixed-term)	3.9	0.0	3.9	4.74%	1.9
Local authorities (long-term)	0.0	0.0	0.0	0.00%	0.0
Local authorities (short-term)	0.0	0.0	0.0	0.00%	0.0
Total borrowing	**62.6**	**-0.6**	**62.0**	**3.62%**	**3.7**

5.6. The Council's Borrowing strategy has been maintained whereby no new borrowing is undertaken and the loans are repaid at maturity. This strategy has meant that there has been no increase in borrowing costs as a result of the increased borrowing rate as no new short-term borrowing has been undertaken.

5.7. Currently the Council is able to do this as it has sufficient cash to meet resource demands. However, there is a possibility that new borrowing may be required within the next few years as shown in the Liability Benchmark in section 9.2.

5.8. 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 Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

5.9. **Loans restructuring**: The sharp rise in gilt yields over the past 18 months has now resulted in some of the Council's loans being in or close to a discount position if repaid early. The projection on borrowing requirement is constantly reviewed by the authority to try to find areas where savings can be made.

5.10. The Council currently holds £3.5 million in LOBO (Lender Option Borrower Option) loans, with a future call date set for February 8, 2024. These LOBO loans come with a provision that allows the lender to propose a higher interest rate on the specified call dates, requiring the borrower to choose between accepting the elevated interest rate or repaying the loan in full.

5.11. Given the rising interest rate environment, there is an elevated probability that the LOBO loans will indeed be called. In the event of a call, the Council plans to repay the loan at no additional cost, as it possesses cash reserves for this purpose. It's worth noting that this repayment may necessitate future borrowing, such borrowing is anticipated to be of short-term duration if required.

5.12. There was a call date within this quarter on the 8 August 2023. This date passed without any calls being made on the LOBO loan.

6. Treasury Investment Activity

6.1. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

6.2. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held and money borrowed in advance of need. During the year, the Council's investment balances ranged between £43.5m and £64.8m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	30.09.2023 Balance £m	30.09.2023 Income Return %	30.09.2023 Weighted Average Maturity Days
Banks & building societies (unsecured)	2.0	-0.0	2.0	4.78%	1.3
Government (incl. local authorities)	37.0	1.5	38.5	4.80%	48.8
Money Market Funds	4.1	8.4	12.5	5.01%	0.2
Total investments	**43.1**	**9.9**	**53.0**	**4.85%**	**50.4**

6.3. Both the CIPFA 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.

6.4. As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments.

6.5. Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose commensurately, with three-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on Debt Management and Account Deposit Facility (DMADF) deposits also rose, ranging between 4.40% and 5.42% by the end of September and Money Market Rates between 4.61% and 5.17%.

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 %**
30.09.2023	4.34	AA-	38%	87	4.63%
Similar LAs	4.66	A+	65%	45	1.54%
All LAs	4.65	A+	63%	11	2.34%

This data is from last available benchmarking. September data not yet available at time of writing this report

6.7. Financial market conditions were volatile during the six-month period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets.

6.8. The UK, Euro area and US equity markets were initially helped by resilient growth data and diminishing talk of recession. A weaker currency and better-than-expected fundamentals were broadly supportive for UK equities. Much of the US stock market's performance was driven by a small number of mega stocks and enthusiasm over artificial intelligence. However, the global outlook was clouded by the slowdown in China. On a sectoral level, the energy sector was supported by higher oil prices and expectation of decreasing supply due to OPEC+ group agreeing on production cuts. The FTSE All Share index was marginally lower at the end of the 6-month period at 4127 on 30/9/23 v 4157 on 31/3/23. The MSCI All Countries World Index was higher at 2853 on 30/9/23 v 2791 on 31/3/23.

6.9. Investor sentiment for UK commercial property was more settled than in Q3 and Q4 of 2022 when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be bottoming out. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property.

6.10. The combination of the above had a marginal positive effect on the combined value of the Authority's strategic funds since March 2023. Income from the Authority's cash plus / short bond funds has improved as maturing securities are replaced by higher yielding ones in these funds.

6.11. The change in the Council's funds' capital values and income return over the six-month period is shown in Table 4.

6.12. The Council has budgeted £981,300 income from investments in 2023/24. Income received up to 30 September 2023 was £1.2m. It is now forecasted that the risk adjusted interest received by March 31, 2024, to be £2.1m and after deductions income to be £1.7m. This will be split between the HRA and General Fund in the amounts £0.758m for the GF and £0.944m for the HRA.

6.13. The Council's Investment interest return percentage on 30 September 2023 was 4.85%. For comparison purposes the Daily Sterling Overnight Index Average (SONIA) which is used for benchmarking purposes was 5.186%. For similar local authorities the most recent benchmarking data which is from 31 June 2023 showed an investment return of 1.54% largely due to the poor performance of external funds which North West Leicestershire District Council is not involved. This is shown in **Appendix 1**.

6.14. One of the investments held by the Council is a loan of £5m to Birmingham City Council. On September 5, 2023, Birmingham issued a Section 114 notice, stating that they lack the necessary resources to balance their budget. This shortfall primarily arises from their inability to meet substantial liabilities linked to increasing equal pay claims.

6.15. It is important to emphasise that North West Leicestershire District Council's funds are secure, as they are backed by central government support. The Council's Treasury advisor at Arlingclose has confirmed this, expressing full confidence that the investment will be repaid in full upon maturity. Previous instances of Section 114 notices at other local authorities have not led to investments going unpaid.

6.16. The investment itself was £5 million at a 4% interest rate, with a one-year duration. This investment is set to mature on January 25, 2024, having commenced on January 26, 2023.

6.17. **Statutory override**: In April 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31 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. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

7. <u>Non-Treasury Investments</u>

7.1. The definition of investments in the Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council 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 DLUHC and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

7.3. The Council also held £8.9m of such investments in directly owned property and land. A full list of the Council's non-treasury investments is available in the Investment Strategy 2023-24 document. 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. Compliance

8.1. The Director of Resources reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	Q2 Maximum	30.09.2023 Actual	2023/24 Limit	Complied?
The UK Government	£40.5m	£31m	Unlimited	**Yes**
Local authorities and other government entities	£10m	£7.5m	£60m	**Yes**
Secured investments	£0m	£0m	£60m	**Yes**
Banks (unsecured)	£7.5m	£2.0m	£60m	**Yes**
Building societies (unsecured)	£0m	£0m	£5m	**Yes**
Registered providers (unsecured)	£0m	£0m	£12.5m	**Yes**
Money market funds	£22m	£12.5m	£60m	**Yes**
Strategic pooled funds	£0m	£0m	£25m	**Yes**
Real estate investment trusts	£0m	£0m	£12.5m	**Yes**
Other investments	£0m	£0m	£2.5m	**Yes**

8.2. Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	Q2 Maximum During Period	30.09.23 Actual	2023/24 Operational Boundary	2023/24 Authorised Limit	Complied?
Borrowing	£62.6m	£62.0m	£95.1m	£105.1m	**Yes**

8.3. 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.

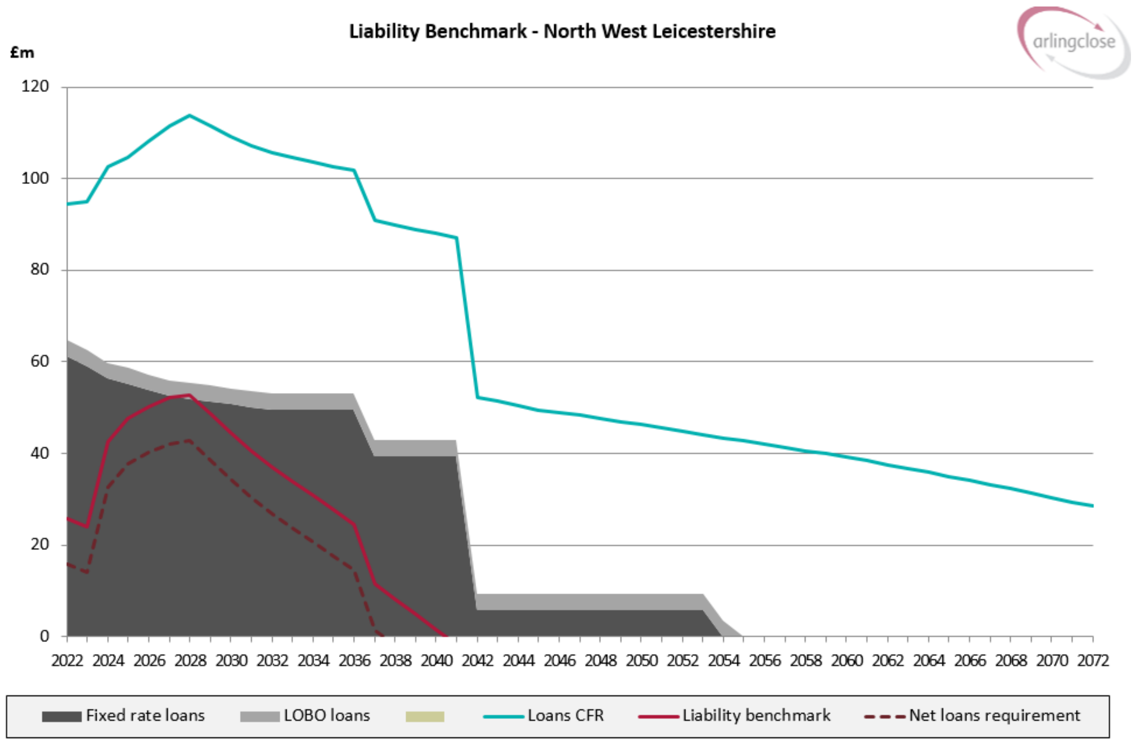
9. Treasury Management Prudential Indicators

9.1. As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

9.2. **Liability Benchmark:** This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

	31.3.23 Estimate	**31.3.24 Forecast**	**31.3.25 Forecast**	**31.3.26 Forecast**
Loans CFR	95.1	102.6	104.6	108.1
Less: Balance sheet resources	-81.2	-70.0	-67.0	-68.0
Net loans requirement	**13.9**	**32.6**	**37.6**	**40.1**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**23.9**	**42.6**	**47.6**	**50.1**
Existing external borrowing	**62.6**	**59.8**	**58.6**	**57.3**

9.3. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £0m a year after 31 March 2024, minimum revenue provision on new capital expenditure based on a variable asset life (depending on type of asset) and income, expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.



9.4. The Liability Benchmark shows the underlying need to borrow (Loans CFR) in the blue line at the top of the graph, the grey shaded area as existing external loans and the strong red line as the requirement for external borrowing (the dotted red line is without a liquidity allowance of £10m. The lighter grey shaded demonstrates the Council's LOBO loans discussed in section 5.10 above. The space in-between the underlying need to borrow and the external borrowing demonstrates the use of internal resources to cover borrowing requirements. Otherwise known as internal borrowing.

9.5. Internal borrowing is generally considered to be good value for money as it is often more expensive to borrow than the returns you get for investment. Therefore, if the internal resources were invested and the funds borrowed to cover the borrowing requirement this likely would lead to a net loss.

9.6. This graph demonstrates that by using internal resources the Council is likely to not have a future external borrowing requirement and that existing borrowing is sufficient to meet requirements.

9.7. However, as shown above there is a pinch point around 2028 whereby if forecasts are adjusted significantly to the downside a borrowing requirement may emerge.

9.8. Maturity Structure of Borrowing**:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	30.09.23 Actual £m	**30.09.23 Actual %**	**Upper Limit**	**Lower Limit**	**Complied ?**
Under 12 months	5.6	9%	70%	0%	**Yes**
12 months and within 24 months	1.3	2%	30%	0%	**Yes**
24 months and within 5 years	3.2	5%	30%	0%	**Yes**
5 years and within 10 years	2.5	4%	90%	0%	**Yes**
10 years and within 20 years	43.8	71%	90%	0%	**Yes**
20 years and above	5.7	9%	30%	0%	**Yes**

9.9. 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. Therefore, the LOBO is considered to be maturing in under 12 months despite the maturity date being 2055.

9.10. Long-term Treasury Management Investments**:** The purpose of this indicator is to control the Council'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:

	2023/24	**2024/25**	**2025/26**	**No Fixed Date**
Actual principal invested beyond year end	£0	£0	£0	£0
Limit on principal invested beyond year end	£60m	£10m	£10m	£10m
Complied?	**Yes**	**Yes**	**Yes**	**Yes**

9.11. Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

10. Additional indicators

10.1. Security**:** The Council 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.

	31.09.23 Actual	2023/24 Target	Complied?
Portfolio average credit rating	AA-	A-	**Yes**

10.2. Liquidity**:** The Council 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.

	30.09.23 Actual	2023/24 Target	Complied?
Total cash available within 3 months	£46.5m	£2.5m	**Yes**

10.3. Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. Bank Rate rose by 0.25% during the quarter, from the prevailing rate of 5% on 1 July to 5.25% by 30 September.

Interest rate risk indicator	30.09.23 Actual	2023/24 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	441,616	600,000	**Yes**
Upper limit on one-year revenue impact of a 1% fall in interest rates	-441,616	-600,000	**Yes**

10.4. For context, the changes in interest rates during the quarter were:

Context - Interest Rate changes	31/3/23	30/9/23
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.68%
5-year PWLB certainty rate, maturity loans	4.31%	5.22%
10-year PWLB certainty rate, maturity loans	4.33%	5.25%
20-year PWLB certainty rate, maturity loans	4.70%	5.63%
50-year PWLB certainty rate, maturity loans	4.41%	5.41%

10.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

Appendix 1

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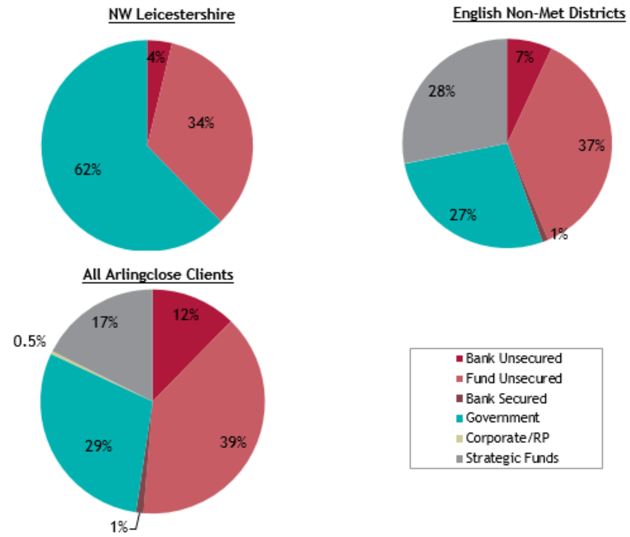
Investment Benchmarking
30 June 2023

	NW Leicestershire	42 English Non-Met Districts Avera	125 LAs Average
Internal Investments	£53.0m	£29.3m	£67.2m
Cash Plus & Short Bond Funds	£0.0m	£1.8m	£1.4m
Strategic Pooled Funds	£0.0m	£15.0m	£12.7m
TOTAL INVESTMENTS	**£53.0m**	**£46.1m**	**£81.3m**
Security			
Average Credit Score	4.34	4.66	4.65
Average Credit Rating	AA-	A+	A+
Average Credit Score (time-weighted)	3.94	4.37	4.43
Average Credit Rating (time-weighted)	AA-	AA-	AA-
Number of Counterparties / Funds	8	12	12
Proportion Exposed to Bail-in	38%	65%	63%
Liquidity			
Proportion Available within 7 days	38%	43%	54%
Proportion Available within 100 days	45%	61%	72%
Average Days to Maturity	87	45	11
Market Risks			
Average Days to Next Rate Reset	102	67	46
Strategic Fund Volatility	-	5.3%	7.1%
Yield			
Internal Investment Return	4.63%	4.50%	4.44%
Cash Plus Funds - Income Return	-	1.76%	1.77%
Strategic Funds - Income Return	-	4.07%	4.01%
Total Investments - Income Return	**4.63%**	**4.26%**	**4.32%**
Cash Plus Funds - Capital Gain/Loss	-	0.39%	0.37%
Strategic Funds - Capital Gain/Loss	-	-11.04%	-12.56%
Total Investments - Total Return	**4.63%**	**1.54%**	**2.34%**



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.