CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE
27TH NOVEMBER 2023

EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2318

TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2023-24

SUMMARY:
This report sets out the main activities of the Treasury Management and non-Treasury Investment Operations during the first half of 2023-24. Prudential indicators for the 2023-24 financial year have been updated for all treasury management and non-treasury activity during the first half of 2023-24.

RECOMMENDATIONS:
Members are requested to note the contents of this report in relation to the treasury management and non-treasury investment operations carried out during the first half of 2023-24.

1. INTRODUCTION

1.1 This report sets out the Treasury Management and Non-Treasury Investment operations for the first half of the year 2023-24. This report is a statutory requirement under the CIPFA Code of Practice on Treasury Management.

1.2 Full Council approved the Annual Treasury Management Strategy and Non-Treasury Investment Strategy for 2023-24 on 23 February 2023. The Council has as part of its proactive treasury management approach, invested surplus cash balances (arising from timing differences between receipts and payments) and borrows to fund its capital plans. It 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 and non-treasury investment strategies.

2. PURPOSE

2.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management 2021[1] ("the Code"), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members be informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

[1] Published January 2022

2.2 The appendices (A to D) set out the Treasury Management operations, Non-Treasury Investment Operations and Prudential Indicators for 2023-24 and fulfil key legislative requirements as follows:

Appendix A

- The **Treasury Management operations** which sets out how the Council's treasury service operated during the first half of 2023-24;
- The **Treasury Management Borrowing** which sets out the Council's borrowing during the first half of 2023-24, and;
- The **Treasury Management Investments** which sets out the Council's Treasury Management investment operations for the first half of 2023-24.

Appendix B

- The **Non-Treasury Investment** sets out the Council's Non-Treasury investment performance for the first half of 2023-24.

Appendix C

- the **Prudential indicators** performance is compared to the indicators set out in the Annual Capital Strategy for the year 2023-24.

Appendix D

- Market commentary regarding the year 2023-24 from the Council's treasury management advisors Arlingclose

3 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS DURING 2023-24 TO DATE

3.1 All treasury activity was conducted within the approved Treasury Management Practices (TMP's).

3.2 During 2023/24 there was an unprecedented number of Bank of England base rate increases from 3% in March 2023 to 5.25%. Whilst borrowing has remained within the approved limits, interest costs have significantly increased. A full review of the debt portfolio is currently underway to address this cost pressure.

3.3 Pooled funds are a long term investment of surplus cash. Due to the rapid change in base rate and forecast economic climate the funds are currently valued at less than initial sums invested, full detail can be found in section 5. Work is underway to investigate this position.

3.4 The Council has borrowed £118.6m to invest in property. This portfolio's average return is below the cost of borrowing and Minimum Revenue Provision.

Contact Details:

Report author:
Rebecca Caldicott – Principal Accountant Treasury and Transactions
01252 398037
rebecca.caldicott@rushmoor.gov.uk

Head of Service:
Peter Vickers - Executive Head of Finance
peter.vickers@rushmoor.gov.uk

APPENDIX A

TREASURY MANAGEMENT OPERATION FOR FIRST HALF OF 2023-24

1 INTRODUCTION

1.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Whilst ensuring security of surplus monies invested and minimise cost of borrowing. The Council has adopted security, liquidity and then yield (SLY) as its investment model.

2 TREASURY MANAGEMENT ADVICE

2.1 The Council engages the services of Arlingclose for independent treasury advice. They provide a range of treasury management services including technical advice on debt and investment management and long-term capital financing. They advise on investment trends, developments and opportunities consistent with the Council's Treasury Management Strategy.

2.2 All investment activity is carried out by the Council's own treasury team with advice from Arlingclose and having due regard to information from other sources such as the financial press and credit-rating agencies.

2.3 The Council's treasury management team maintain their knowledge of investment management. Staff attended relevant workshops provided by Arlingclose and other service providers.

3 TREASURY MANAGEMENT OPERATIONS

3.1 All treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's Approved Treasury Management Strategy. Full detail of compliance against treasury indicators are given in appendix C.

3.2 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.

3.3 The treasury management position on 30 September 2023 and the change during the year is shown in the table below.

	31/03/2023 Balance £m	Movement £m	30/09/2023 Balance £m	Rate %
Long-term borrowing (> 12 months)	5.0	12.5	17.5	4.43
Short-term borrowing (< 12 months)	115.0	10.5	125.5	4.12
Total Borrowing	**120.0**	**23.0**	**143.0**	
Pooled Funds	(21.9)	-	(21.9)	5.66
Cash	(1.1)	(19.2)	(20.3)	4.63
Total Investments	**(23.0)**	**(19.2)**	**(42.2)**	
Net borrowing/(investments)	**97.0**	**3.8**	**100.8**	

4 TREASURY MANAGEMENT BORROWING OPERATIONS

4.1 As at 30 September 2023 the Council held £143m of loans, an increase of £23m from the position at 31 March 2023, as part of its strategy for funding previous and current years' capital programmes, these are summarised in the table below.

Borrowing	31/03/2023 Balance £m	Movement £m	30/09/2023 Balance £m	Rate %
Long-term borrowing	5.0	12.5	17.5	4.43
Short-term borrowing	115.0	10.5	125.5	4.12
Total Borrowing	**120.0**	**23**	**143.0**	

4.2 The projected cashflow to year end can be seen in the table below

External Borrowing Summary	
1/4/2023 balance - started before this date	**120,000,000**
	-
Of which repaid pre November	115,000,000
Replaced borrowing in year to date	153,000,000
Of which matured	(16,000,000)
Balance to date	**142,000,000**
Borrowing contracted in last Quarter	25,000,000
Repaid in last Quarter	(13,000,000)
Required borrowing in last Quarter	13,000,000
Total debt at 31/3/2024	**167,000,000**

5 INVESTMENT ACTIVITY IN 2023-24

5.1 The Council holds significant invested funds. During the year, the Council's investment position is shown in the table below. Money Market Funds are same day maturity whilst Pooled Funds have no defined maturity date, however, are available for withdrawal after a notice period of a week with the exception of CCLA fund (6 months).

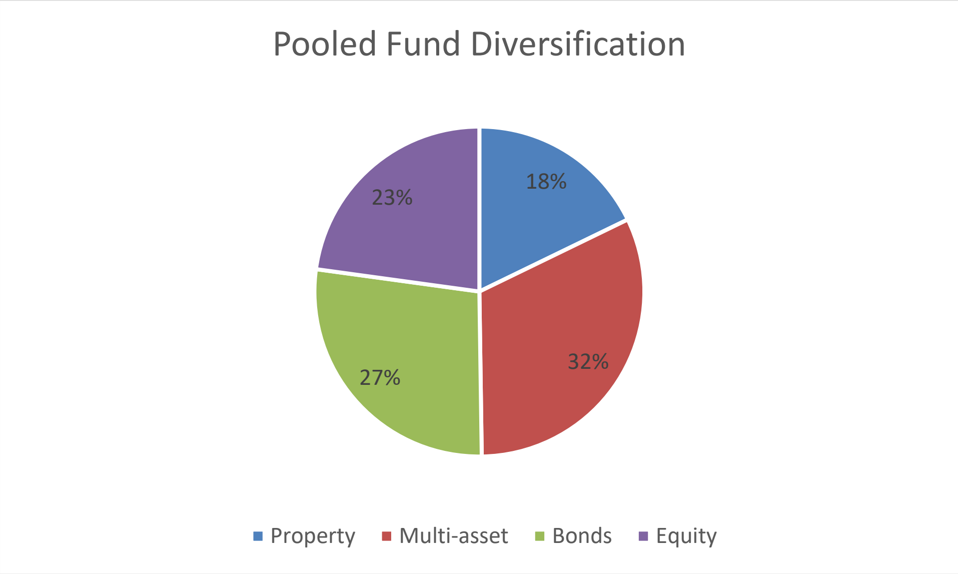
Investment	31/03/2023 Balance £m	Movement £m	30/03/2023 Balance £m	Rate %
Money Market Funds	1.1	19.2	20.3	4.63
Pooled Funds	21.9	-	21.9	5.66
Total	**23.00**	**19.2**	**42.2**	

5.2 All Money Market Fund investments are A+, this is in compliance with TMP's.

5.3 £21.9m of the Council's investments are held in externally managed strategic pooled equity, multi-asset, bond and property funds where short-term security and liquidity are lesser considerations, and objectives are regular revenue income and long-term price stability. The pooled fund portfolio has generated an average total return during the first half of 2023-24 of 5.66%. Capital returns have decreased by 2.61%. A summary of returns and diversification is set out below.

Pooled Funds investment	**31/03/2023 Balance £m**	**Movement £m**	**30/09/2023 Balance £m**	**Rate (net of capital) %**
Pooled Funds:				
CCLA LAMIT Property Fund	3.9	-	3.9	3.87
M&G Investments Strategic Corporate Bond Fund	4.0	-	4.0	4.9
UBS Multi Asset Fund	5.0	-	5.0	6.71
Aegon Diversified Monthly Income Fund	2.0	-	2.0	6.19
Threadneedle Strategic Bond Fund	2.0	-	2.0	4.22
Schroder Income Maximiser Fund	5.0	-	5.0	8.19
Total Investments	**21.9**		**21.9**	

Diversification of Pooled Fund	**Amount invested £m**	**% of Total Investments**
Property	3.9	18%
Multi-asset	7.0	32%
Bonds	6.0	27%
Equity	5.0	23%
Total	**21.9**	**100%**



Pooled Funds performance			Capital Growth	Dividends Earned	Capital Growth	Dividends Earned
Fund Name	Cost	Valuation 31/10	2022/23		2023/24 to date	
Aegon (Kames)	2,000,000	1,687,448	-239,107	100,997	-74,269	78,200
CCLA – Lamit – Property Fund	3,882,127	4,346,170	-875,454	192,075	-88,921	129,396
M&G Strategic Corporate Bond Fund	4,000,000	3,269,301	-376,750	134,622	-101,365	81,103
Schroder Income Maximiser Fund	5,000,000	4,130,183	-246,077	332,214	-287,270	198,617
Threadneedle Strategic Bond Fund	2,000,000	1,769,701	-203,524	64,688	-26,973	44,939
UBS Multi Asset Income Fund	5,000,000	3,268,805	-695,571	236,608	-229,957	125,431
	21,882,127	18,471,608	-2,636,483	1,061,204	-808,755	657,686

5.4 As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council’s investment objectives is being reviewed.

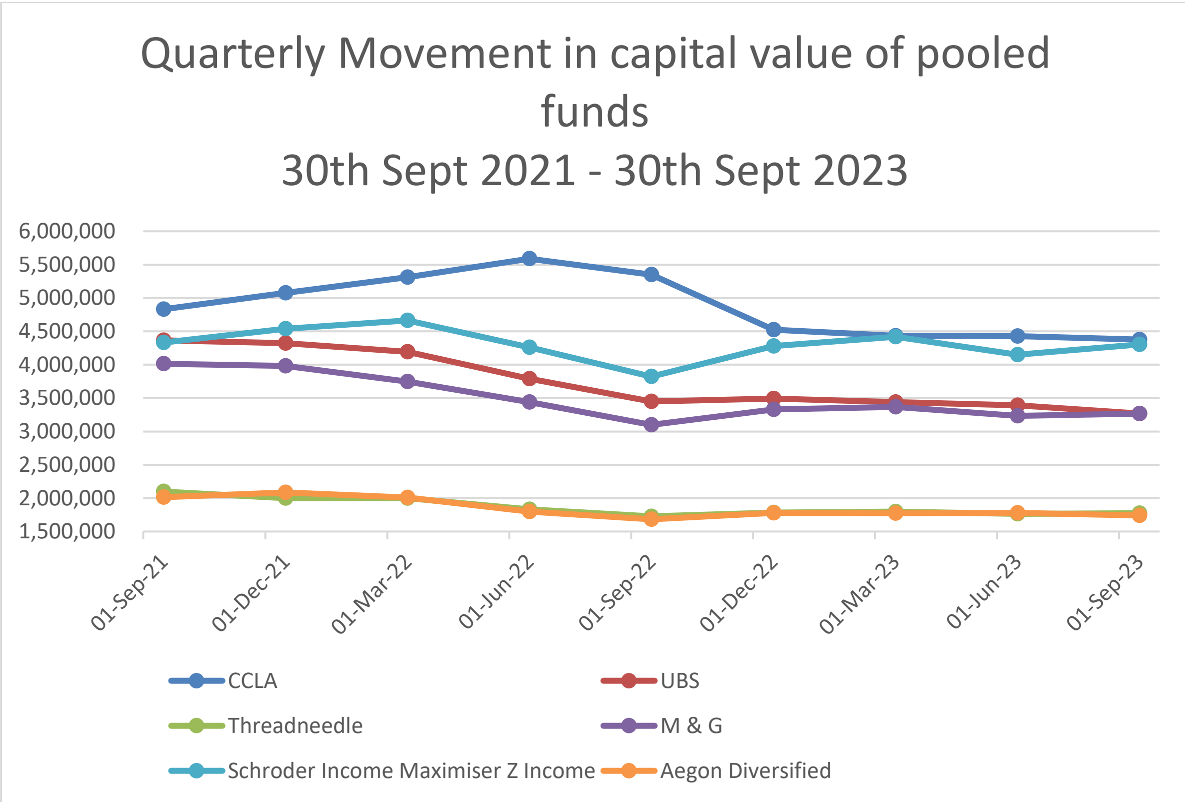
5.5 IFRS9 impact April 2025

The statutory override for pooled funds in England – which requires fair value gains and losses to be taken to an unusable reserve unless the fund is sold – is set to end in 2025/26, i.e. the last year it will be in place will be 2024/25. Pooled funds are currently valued below their purchase price as a result of rising interest rates and the economic downturn. There is therefore a capital loss that is likely to be charged to the General Fund in **2025/26**. This requires a set aside of a revenue reserve to cover a reasonable worst-case scenario for the amount to be taken to General Fund. This should take into account the current unrealised loss and expected capital growth through to March 2026. Using a probability-based modelling tool provided by Arlingclose, at a 90% confidence level, assuming 3% inflation and current level of dividend the table shows reserve provision requirement of £4,881k. A 5% inflation figure would result in a £3,941k provision.

5.6 Details of the Council's investment activity together with returns generated during 2023-24 are outlined as follows:

5.7 **Capital returns** – the Council's pooled fund portfolio has decreased in value during the first half of 2023-24 year. Aggregation of the Council's pooled funds resulted in an overall decrease in fair value for the first half of the year 2023-24 of £808k and a cumulative capital loss of £3,445k to date.

5.8 There is variation in performance across the portfolio over the last two years as shown below.



5.9 **Income Returns** – The income returned by fund for the period to 30 September 2023 is analysed below:

- <u>CCLA's Local Authorities' Mutual Investment Trust</u> - £3.9 million investment at commencement of the year. The Property Fund is designed to achieve long-term capital growth and income from investments in the commercial property sector. The fund has returned 3.87% annualised income during 2023-24.

- <u>UBS Multi-Asset Income Fund</u> - £5 million investment. This fund follows a strategy of reducing volatility exposure levels by spreading investments across a diversified range of asset classes. This fund has returned 6.71% annualised income during 2023-24.

- <u>Threadneedle Strategic Bond Fund</u> - £2 million investment. The fund aims to provide income and capital appreciation through investment grade and high yield bonds. This fund has returned 4.22% annualised income during 2023-24

- M & G Corporate Bond Fund - £4m investment. This fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. This fund has returned 4.91% annualised income during 2020/221.

- Schroder Income Maximiser Fund - £5m investment made in December 2018. The fund aims to provide both income and capital growth, delivering a target income of 7.77% per annum. The fund has returned 8.2% annualised during 2023-24.

- Aegon Diversified Monthly Income Fund - £2m investment made in February 2019. The fund aims is to provide income with the potential for capital growth over the medium term. The fund has returned 6.19% annualised during 2023-24.

6 TREASURY MANGEMENT COMPLIANCE PERFORMANCE

6.1 Detailed compliance with TMP's approved in February 2023 for 2023/24 financial year is provided in appendix C.

APPENDIX B

NON-TREASURY INVESTMENT OPERATIONS FOR FIRST HALF OF 2023-24

1 INTRODUCTION

1.1 The purpose of non-treasury investment management operations is to ensure that all investment decisions are made with a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.

1.2 The Council holds £140.4m of such investments at as 30 September 2023 in:

- directly owned property £132.3m
- loans to local businesses and landlords £6.7m
- loans to subsidiaries and partnerships £1.4m

2 PROPORTIONALITY

2.1 The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the forecast proportion of gross service expenditure funded by investment activity.

	2022-23	2023-24	
	Actual £m	Budget £m	Forecast £m
Gross Service Expenditure	58.0	57.5	58.9
Investment Income	8.1	8.3	8.3
Proportion	14.0%	14.4%	14.1%

3 SERVICE IMPROVEMENT LOANS

3.1 The Council lends money to its subsidiaries, local businesses, and its employees to support local public services and stimulate local economic growth. The Council is a funding partner of Farnborough International Limited (FIL), enabling FIL to develop the Farnborough International exhibition and conference centre. Expanding the exhibition and conferencing capabilities in Farnborough brings increased economic capacity to the Borough and is a reinvestment in local business.

3.2 The Council's performance and upper limits on the outstanding loans to each category of borrower have been set as follows:

Category of Borrower	2023/24 Approved Limit £m	2023/24 Actual £m
Local businesses	6.7	6.7
Subsidiaries & Partnerships	3.5	1.4
Employees	0.1	0.0
Total	**10.3**	**8.1**

4 SERVICE INVESTMENTS: SHAREHOLDING IN SUBSIDIARIES

4.1 The Council invests in the shares of its subsidiary and holds a financial share in a development partnership and Rushmoor Homes to support local public services and stimulate local economic growth.

5 COMMERCIAL INVESTMENT: PROPERTY

5.1 The Council invests in local and regional commercial and residential property with the intention of making a net surplus that will be spent on local public services. The forecast transactions during 2023-24 will remain the same as at 30 September 2023. During the year the Council purchased The Meads as part of its regeneration masterplan.

Property by Type	2023	2023/24 transactions		
	Carry Forward	Purchase Cost	Sales	Total
Mixed Use	5.2	-	-	4.5
Industrial Units	26.9	-	-	23.7
Retail	50.8	6.4	-	57.2
Offices	43.0	1.2	-	44.2
Total	**125.9**	**7.6**	**-**	**133.5**

5.2 Commercial property investments are budgeted to generate £0.7m of net investment income in the first half of the year for the Council after taking account of direct costs, cost of borrowing and Minimum Revenue Provision (MRP).

6 NON-TREASURY INVESTMENT INDICATORS

6.1 The Council measures and manages its exposures to non-treasury investment risks using the following indicators.

6.2 **Total risk exposure:** This indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn.

Total Investment Exposure	31-Mar-2024	
	Estimate £m	Forecast £m
Treasury Management Investments	35.9	35.9
Service Investments: Loans	8.1	8.1
Service Investments: Shares	-	-
Commercial Investments: Property	133.5	133.5
Total Investment	**177.5**	**177.5**
Commitment to lend	2.9	-
Total Exposure	**180.4**	**177.50**

6.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure (internal borrowing).

Investments funded by borrowing	31-Mar-2023 Estimate £m	 Actual £m
Service Investments: Loans	8.1	8.1
Commercial Investments: Property	133.5	133.5
Investment in Town Centres	30.5	26.9
Total Funded by Borrowing	**172.1**	**168.5**

6.4 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments rate of return (net of all costs)	31-Mar-2023 Estimate %	 Actual %
Treasury Management investment	4.0	3.6
Service Investments: Loans	5.5	5.9
Service Investments: Shares	-	-
Commercial Investments: Property	2.6	5.24

APPENDIX C

PRUDENTIAL INDICATORS

1.1 **Prudential Indicators:** The following indications are required by the CIPFA "Prudential Code" 2017 edition.

1.2 **Estimates of Capital Expenditure:** The Council's planned capital expenditure and financing may be summarised as follows.

	2023-24	
	Budget £m	**Forecast £m**
General Fund Capital Expenditure	50.0	46.0
Total	**50.0**	**46.0**
External Sources	9.2	9.2
Own Resources	2.6	2.6
Debt	38.2	34.2
Total	**50.0**	**46.0**

1.3 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

	2023-24	
	Budget £m	**Forecast £m**
MRP	2.17	1.87
Capital Receipts	2.63	2.63

1.4 **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

	2023-24	
	Budget £m	**Forecast £m**
Debt (inc. leases)	172.1	168.5
Capital Financing Requirement	177.0	174.2
Difference	4.9	6.1

1.5 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

	2023-24	
	Budget Limit £m	**Forecast Limit £m**
Authorised Limit - total external debt	200.8	200.8
Operational Boundary - total external debt	195.8	195.8

1.6 Compliance with specific investment limits is demonstrated in the table below.

	30-Sep-23 Actual £m	**2023-24 Limit £m**	**Complied ?**
Any group of pooled funds under the same management	21.9	25.0	Yes
Money Market Funds	20.3	25.0	Yes

2 TREASURY MANAGEMENT INDICATORS

2.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

2.2 **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.

	30-Sep-23 Actual	2023-24 Target	Complied ?
Portfolio average credit rating	A+	A-	Yes

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each period without giving prior notice.

	30-Sep-23 Actual £m	2023-24 Target £m	Complied ?
Total sum borrowed in past 3 months without prior notice	-	1.0	Yes

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

	30-Sep-23 Actual £m	2023-24 Limit £m	Complied ?
Upper limit on one-year impact of a 1% **rise** in interest rates (on borrowing net of investments)	0.42	0.5	No
Upper limit on one-year impact of a 1% **fall** in interest rates (on borrowing net of investments)	0.28	0.5	No

2.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

2.6 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.

2.7 **Principal Sums Invested for Periods Longer than a year:** 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 limits on the long-term principal sum invested to final maturities beyond the period end were:

	2023-24 £m	2022-23 £m	2021-22 £m
Actual principal invested beyond year end	21.9	21.9	21.9
Limit on principal invested beyond year end	90.0	90.0	90.0
Complied	Yes	Yes	Yes

APPENDIX D

Market commentary regarding the year 2023-24 from the Council's treasury management advisors Arlingclose

Economic background: UK inflation remained stubbornly high over much 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 the 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.

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.

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.

Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick 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%.

The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

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.

Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in 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.

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 S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

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 tightemrpning cycle.

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.

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.

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.

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.

Gilt yields fell towards the end of the period. The 5-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.

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.

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.

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.

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.

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.
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.