APPENDIX 3

TREASURY MANAGEMENT MID YEAR REPORT 2023/24

1. INTRODUCTION

1.1 Residents of Bury should have access to services that are safe, well maintained, and fit for purpose. Whether those services are provided in buildings, (schools, commercial sites, and Bury Market) or in the form of local infrastructure, (roads and street lighting), investment is required to build and maintain these facilities.

1.2 Facilities such as schools, libraries, roads, and street lighting will last for many years. Consequently, Bury Council is allowed to borrow money from the Government, through the Public Works Loans Board (PWLB), and pay it back over many years. Bury Council pays back both the amount borrowed from the Government, called the repayment of principal, together with an amount of interest agreed when the loan is made.

1.3 Bury Council has a policy of adopting a prudent approach to borrowing. The Council borrows to provide facilities for its core functions.

1.4 The Council determines which of its core functions needs investment, and determines the amount of that investment, when it approves the Capital Programme in February each year.

1.5 At first sight, financing the Capital Programme may seem a straightforward process. Identify the need for a new facility, borrow the money to build it, build it, then repay principal and interest.

1.6 However, local authorities are *not* required to link their loans to specific properties or facilities in the way that a mortgage is secured on a house. Instead, local authorities can borrow large sums of money from the Government to finance a whole capital programme if they choose to do so, providing they can afford the repayments.

1.6 Therefore, at the point of borrowing to pay for the capital programme, management of the borrowing used to finance it, and management of the newly provided facilities become two separate functions.

1.7 The facilities are typically managed by the service delivery teams that occupy them.

1.8 The loans are managed by the Corporate Finance Team under the direction of the Executive Director of Finance. Local authority finance functions should meet the standards of professional practice set by CIPFA. CIPFA's standards for borrowing and lending money are set out in the publication:

"*Treasury Management in the Public Services: Code of Practice* (the CIPFA Code)."

1.9 The CIPFA Code requires local authorities to receive and approve Reports from the Chief Finance Officer. The most important report is the annual Treasury Management Strategy. The Council approved its Treasury Management Strategy for 2023/24 in February 2023.

1.10 In addition to managing the Council's long-term borrowing requirements, the Council's finance team also manage the Council's large cash balances and capital receipts. This involves lending and investing the Council's cash to deliver a low risk return.

2. BURY'S TREASURY MANAGEMENT PRIORITIES FOR 2023/24 ARE SECURITY, LIQUIDITY AND YIELD

2.1 Bury's Treasury Management Strategy for 2023/24 identifies three priorities, which, starting with the most important are security, liquidity, and yield.

2.2 When lending money from its cash balances, or making cash deposits with banks, the return ***of*** the Council's money is more important to Bury than the return ***on*** its money. The Council must be able to get its money back (security) when it wants it back (liquidity) together with some interest (yield).

2.3 When borrowing money, typically for the purposes of financing the Capital Programme, the Council will set Prudential Indicators for the next three years to ensure that capital investment plans are affordable, prudent, and sustainable (see Table One and Table Two, below, and the accompanying narrative).

2.4 The Cabinet and Council receive reports on the effectiveness with which its treasury management function delivers these priorities at least twice a year in the form of a half-yearly report and an annual report.

2.5 This report is the half-yearly report for the period April to September 2023. This report meets the requirement in the 2021 Code, mandatory from 1st April 2023.

2.6 This report describes how well Bury is achieving the objectives set out in the Council's Treasury Management Strategy for 2023/24 approved by Council on 22 February 2023.

2.7 Table One below summarises the Council's planned capital expenditure by theme as at the end of September 2023. Table Two below describes how that capital expenditure will be financed.

3. PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND BORROWING

3.1 Bury measures and manages its capital expenditure and borrowing with reference to the Prudential Indicators prescribed in the CIPFA Prudential Code. These Indicators are set to ensure that the Council's capital investment plans are affordable, prudent, and sustainable.

3.2 The Council is planning capital expenditure (as at 30 September 2023) as set out in Table One below. This capital expenditure will be financed (as at 30 September 2023) from the sources identified in Table Two below. Note that the forecast spend for 2023-24 is £77.135m.

Table One. Capital Expenditure 2023/24, Position at Quarter 2 2023/24 and

Table Two. Financing the Capital Expenditure

CAPITAL PROGRAMME at Q2	2023/24 Revised Programme £m	2023/24 Forecast Spend Q2 £m	2023/24 Forecast (Under) / Over Spend £m	2024/25 Revised Programme £m	2025/26 Revised Programme £m
Capital Expenditure by Theme					
Regeneration and Economic Growth	**£12.658**	£12.446	(£0.213)	**£73.632**	**£16.073**
Place Shaping/Growth	**£2.025**	£2.005	(£0.020)	**£1.286**	**£0.000**
Sports and Leisure	**£3.936**	£3.866	(£0.071)	**£3.365**	**£2.000**
Operational Fleet	**£3.735**	£3.735	£0.000	**£0.000**	**£0.000**
ICT and Digital	**£0.780**	£2.206	£1.426	**£0.000**	**£0.000**
Highways	**£20.486**	£19.722	(£0.764)	**£10.284**	**£6.330**
Children and Young People	**£9.512**	£9.509	(£0.002)	**£18.955**	**£0.000**
Estate Management - Investment Estate	**£0.075**	£0.070	(£0.005)	**£0.081**	**£0.000**
Estate Management - Corporate Landlord	**£2.963**	£2.890	(£0.073)	**£1.591**	**£0.850**
Older People and Disabled Facilities Grant	**£1.676**	£1.500	(£0.176)	**£1.650**	**£0.000**
Housing GF	**£0.635**	£0.654	£0.019	**£2.267**	**£0.000**
Housing HRA	**£18.794**	£18.255	(£0.538)	**£14.247**	**£14.000**
Climate Change	**£0.277**	£0.277	£0.000	**£0.142**	**£0.000**
TOTAL EXPENDITURE	**£77.553**	**£77.135**	**(£0.418)**	**£127.500**	**£39.253**
Financing the Capital Programme					
Prudential Borrowing	**£18.358**	£19.310	£0.952	**£65.725**	**£19.980**
External Funding	**£38.306**	£36.380	(£1.926)	**£43.710**	**£3.446**
Capital Receipts	**£1.708**	£2.105	£0.397	**£3.253**	**£1.827**
General Fund RCCO	**£1.617**	£1.085	(£0.532)	**£0.566**	**£0.000**
Housing Revenue Account DRF/MRR	**£17.564**	£18.255	£0.692	**£14.247**	**£14.000**
TOTAL FINANCING	**£77.553**	**£77.135**	**(£0.418)**	**£127.500**	**£39.253**

Table Three: BURY COUNCIL CAPITAL PROGRAMME 2024-25: EXPENDITURE AND FINANCING PROJECTIONS

CAPITAL PROGRAMME at Q2	2022-23 Actual £m	2023-24 Forecast £m	2024-25 Forecast £m	2025-26 Forecast £m
Non-HRA	£55.192	£58.880	£113.253	£25.253
HRA	£13.297	£18.255	£14.247	£14.000
Total Capital Expenditure	**£68.489**	**£77.135**	**£127.500**	**£39.253**
Resourced By:				
External Funding	£17.760	£36.380	£43.710	£3.446
Capital Receipts	£0.254	£2.105	£3.253	£1.827
General Fund RCCO	£0.706	£1.085	£0.566	£0.000
Housing Revenue Account DRF/MRR	£12.257	£18.255	£14.247	£14.000
Total Resourced By	**£30.977**	**£57.825**	**£61.775**	**£19.273**
Financing Requirement	**£37.512**	**£19.310**	**£65.725**	**£19.980**
Capital Financing Requirement (CFR)				
CFR Opening Balance	£311.079	£346.793	£363.828	£426.930
Financing Requirement	£37.512	£19.310	£65.725	£19.980
Minimum Revenue Provision (MRP)	(£1.798)	(£2.275)	(£2.623)	(£3.306)
CFR Closing Balance	**£346.793**	**£363.828**	**£426.930**	**£443.604**

Note to Table 3: CFR means Capital Financing Requirement. This is a calculation to show Bury's cumulative outstanding debt. The CFR increases as new debt is incurred, and reduces as loans are repaid, and as Minimum Revenue Provision (MRP) is applied, and as capital receipts are applied to replace debt.

3.4 The Tables above are required by the CIPFA Code of practice and are underpinned by detailed calculations carried out by the finance team. An extract from the capital programme is included in the table below

Borrowing Headliners	23-24 £m	24-25 £m	25-26 £m	Total £m
Radcliffe Hub	£0.0	£28.3	£0.0	£28.3
Prestwich Village	£0.9	£3.3	£16.1	£20.3
Bury Market	£0.0	£23.4	£0.0	£23.4
Commerical Sites	£0.0	£1.0	£0.0	£1.0
ICT	£1.8	£2.8	£0.2	£4.8
Parks & Sports	£3.3	£0.0	£0.0	£3.3
Fleet Replacement	£2.2	£0.0	£0.0	£2.2
St Lighting LED	£2.3	£1.7	£0.0	£4.0
Highways Maintenance	£5.0	£3.9	£2.9	£11.8
Fernhill Traveller Site	£1.4	£0.0	£0.0	£1.4
Springwater Park Ph2	£0.0	£0.8	£0.8	£1.6
FM Repairs	£1.5	£0.8	£0.0	£2.3
Total	**£18.4**	**£66.0**	**£20.0**	**£104.4**

3.5 Bury Council has a very small proportion of its total debt financing capital schemes which have been carried out for the purpose of generating income for the Council's General Fund. Borrowing for such purposes is now prevented by new rules from 2021, issued by the Public Work Loans Board and by a revised CIPFA prudential code, also issued in 2021. It is good practice for Council to receive reports on capital schemes for investment purposes. The Executive Director of Finance will bring forward a separate report covering these schemes later this financial year.

3.6 The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. It is set at the same level as the Council's projected external borrowing.

Operational Boundary	**2023-24** **Forecast £m**	**2024-25** **Forecast £m**	**2025-26** **Forecast £m**
Borrowing	£363.828	£426.930	£443.604
Other Long-term Liabilities	£0.010	£0.010	£0.010
Total	**£363.838**	**£426.940**	**£443.614**

3.7 The Authorised Limit for external debt is a key treasury indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

3.8 The Authorised Limit is set at a level of £10m above the Operational Boundary.

Authorised Limit	**2023-24** **Forecast £m**	**2024-25** **Forecast £m**	**2025-26** **Forecast £m**
Borrowing	£373.828	£436.930	£453.604
Other Long-term Liabilities	£0.010	£0.010	£0.010

Total	**£373.838**	**£436.940**	**£453.614**

3.9 Following the re-phasing of the capital programme, the Authority is asked to approve the above revised Operational Boundary and Authorised Limit

4. MANAGING THE COUNCIL'S CASH BALANCES

4.1 The Council defines its treasury management activities as 'the management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks'.

4.2 Cash flow management involves forecasting in-flows and out-flows of cash and ensuring that funds are available to meet expenditure needs. Any surplus monies can be invested with low-risk counterparties in accordance with the Council's approved lending list attached as **Appendix B.**

The Security of the Council's Cash Balances: Identifying creditworthy counterparties.

4.3 In accordance with the guidance from DLUHC and CIPFA, the Council applies minimum acceptable credit criteria to generate the Council's approved lending list of highly creditworthy counterparties. It is important that the Council invests its surplus balances with a range of different counterparties to avoid concentration risk. The key ratings used to monitor counterparties are the Short-Term and Long-Term ratings.

4.4 Ratings will not be the sole determinant of the quality of an institution. it is important to continually assess and monitor the economic and political environments in which institutions operate. The assessment of institutions will also take account of information that reflects the opinion of the financial markets. The Council will engage with its advisers to maintain a monitor on market pricing such as credit default swaps and take that information into account in addition to the credit ratings.

4.5 The Council uses the creditworthiness service provided by its external treasury advisers, Arlingclose. Arlingclose are newly appointed following a procurement process which chose one Adviser for all the Greater Manchester authorities.

4.6 Arlingclose has a sophisticated model using credit ratings from the three main credit rating agencies Fitch, Moody's and Standard and Poor. In addition, in line with the Treasury Management Code of Practice, Arlingclose do not rely solely on the current credit ratings of counterparties. They also apply the following overlays:

- credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.7 This modelling approach combines data from these sources to evaluate the relative creditworthiness of counterparties.

4.8 The Council's treasury management performance is very much affected by the economic conditions faced by the country, and by financial markets in particular. There follows a summary of the economic conditions prevailing over the last six months.

5. A SUMMARY OF THE ECONOMIC CONTEXT AFFECTING TREASURY MANAGEMENT PERFORMANCE IN THE 6 MONTHS TO SEPTEMBER 2023.

5.1 The Council's external Treasury Management Advisers, Arlingclose, have provided a detailed commentary on the national economic conditions affecting Bury's borrowing and investments for the six months to September 2023. The economic information provided by Arlingclose is presented in detail in **Appendix A** and a summary is set out below.

UK inflation, interest rates, pay and prices.

5.2 For the six months to September 2023, Arlingclose highlight the following key economic indicators:

- UK inflation remained high.
    - Food prices are not increasing as quickly as they were.
    - CPI is around 7%.
    - The core rate of inflation fell to 6.2% from 6.9%.
- In September the Bank of England held the Bank Rate at 5.25%. This was a lower rate than had been predicted.
    - People with fixed-term mortgages will continue to feel the impact of this material increase in interest rates over the last year or so, as their existing fixed term mortgages come to an end.
- UK economic growth remains weak. This is starting to cause recessionary, or at the very least, stagnating economic conditions.
- Unemployment increased to 4.3%.
- Pay growth was 8.5% for total pay, including bonuses, and 7.8% for regular pay.
- After adjusting for inflation, pay growth in real terms was 1.2% for total pay and 0.6% for regular pay.

Financial Markets

5.3 Gilt yields fell towards the end of the period, and ended the period as follows:

5-year UK benchmark gilt yield	4.29%
10-year UK benchmark gilt yield	4.45%

20-year UK benchmark gilt yield	4.84%

5.4 Gilt yields matter to the Council because they directly affect the cost of the Council's borrowing from the Public Works Loans Board (PWLB).

Credit Review

5.5 Arlingclose provides advice to the Council on the financial strength of banks with whom the Council may lodge deposits. This information is used by officers to maintain the Council's approved lending list, to ensure the Council can get its money back. The Council's proposed **approved lending list criteria** are attached as **Appendix B**.

5.6 Relatively high interest rates from individual lenders must be viewed with caution. The return ***of*** the Council's money is always paramount, and far more important than the return ***on*** the money.

5.7 As well as depositing money with banks, Local Authorities may from time to time lend to one another. In September Arlingclose advised against any new lending to Birmingham City Council because the Council issued a Section 114 notice. A Section 114 notice indicates that a council cannot live within its means, is falling increasingly into deficit and has no coherent plan to manage its way out of that situation.

BURY'S BORROWING

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

The treasury management position at 30th September and the change over the six months' is shown in Table 2 below.

Table 2: Treasury Management Summary

	Current Balance 30.09.2023 £m	Projected Balance 31.03.2024 £m
Long-term borrowing		
- PWLB	162.2	162.1
- LOBOs	23.0	23.0
- Market	31.3	22.3
- Temporary Loans	2.9	0.00
Total borrowing	**219.4**	**207.4**
Cash and cash equivalents	**8.4**	**5.0**
Total investments	**8.4**	**5.0**

Net borrowing	**211.0**	**202.4**

Borrowing

CIPFA's 2021 Prudential Code says that local authorities must not borrow to invest primarily for financial return. Furthermore, any borrowing must relate directly to delivering the Council's functions. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

Bury's borrowing strategy and activity

Bury's objective when borrowing is to strike a balance between securing lower interest costs and achieving cost certainty. Flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Council seeks to borrow at affordable rates, without compromising the longer-term stability of the debt portfolio. A stable debt portfolio will have loans of varying durations so that the Council is not at risk in any one financial year of having to refinance substantial sums when interest rates happen to be high.

The Council has been affected by a substantial rise in the cost of both short-term and long-term borrowing over the last 18 months. The Bank Rate rose by 1% in six months, from 4.25% at the beginning of April 2023 to 5.25% at the end of September 2023. The Bank Rate was 2% higher in September 2023 than it was at the end of September 2022.

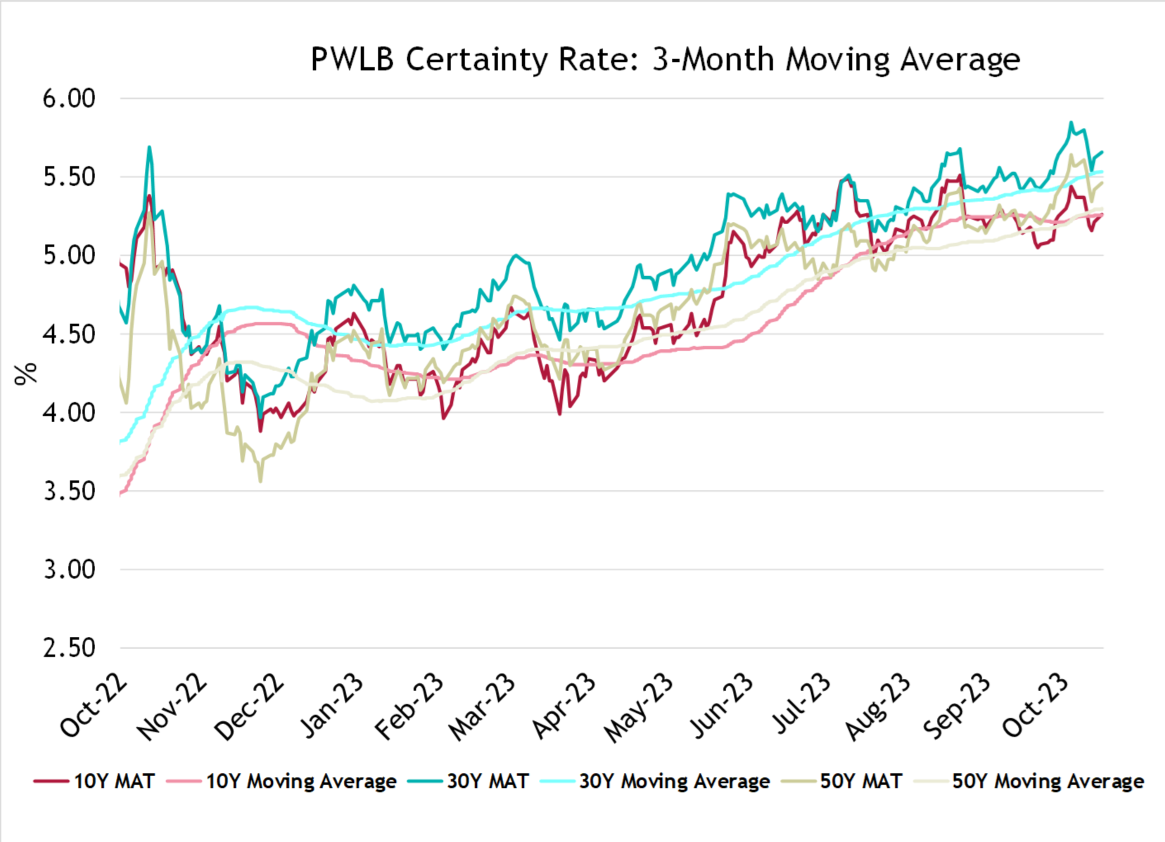
On 30th September 2023, the PWLB certainty rates for maturity loans were:

5.26% for 10-year loans,
5.64% for 20-year loans,
5.43% for 50-year loans.

The equivalent figures on 31st March 2023 were each around 1% lower at:

4.33% for 10-year loans,
4.70% for 20-year loans,
4.41% for 50-year loans.

The chart below illustrates the upward trend in interest rates over the last year.



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

The Authority's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the Authority's short-term loans at 30th September 2023 of £9.9m was 0.88%, this compares with 0.74% on £17.0m loans 3 months ago.

DIVERSIFYING FUNDING SOURCES

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below the PWLB rate of gilt yields + 0.80%.

The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

The Council is evaluating these lower cost solutions and opportunities with its adviser Arlingclose.

Treasury Investment Activity

The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represent balances that need to be invested until the cash is required for use in the course of business.

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Authority's investment balances ranged between £1.720 million and £8.355 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	30.9.23 Balance £m	30.9.23 Weighted Average Income Return %
Banks & building societies (unsecured) Banks & building societies (secured deposits) Covered bonds (secured) Government Local authorities and other govt entities Corporate bonds and loans Money Market Funds Other Pooled Funds	1.720	6.635	8.355	4.72
Total investments	**1.720**	**6.635**	**8.355**	**4.72**

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. This is difficult to achieve when the cash balance is so low. In the 2024/25 Treasury Management Strategy, proposals will be brought forward for a minimum cash balance to be held of £25m, subject to advice to be received from Arlingclose.

As demonstrated by the liability benchmark in this report, the Authority 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. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

Compliance

The Executive Director of Finance reports that treasury management activities undertaken complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

As required by the 2021 CIPFA Treasury Management Code, the Authority should routinely measure and monitor the following treasury management prudential indicators.

1. Liability Benchmark

This indicator compares the Authority'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 above the minimum level required to manage day-to-day cash flow.

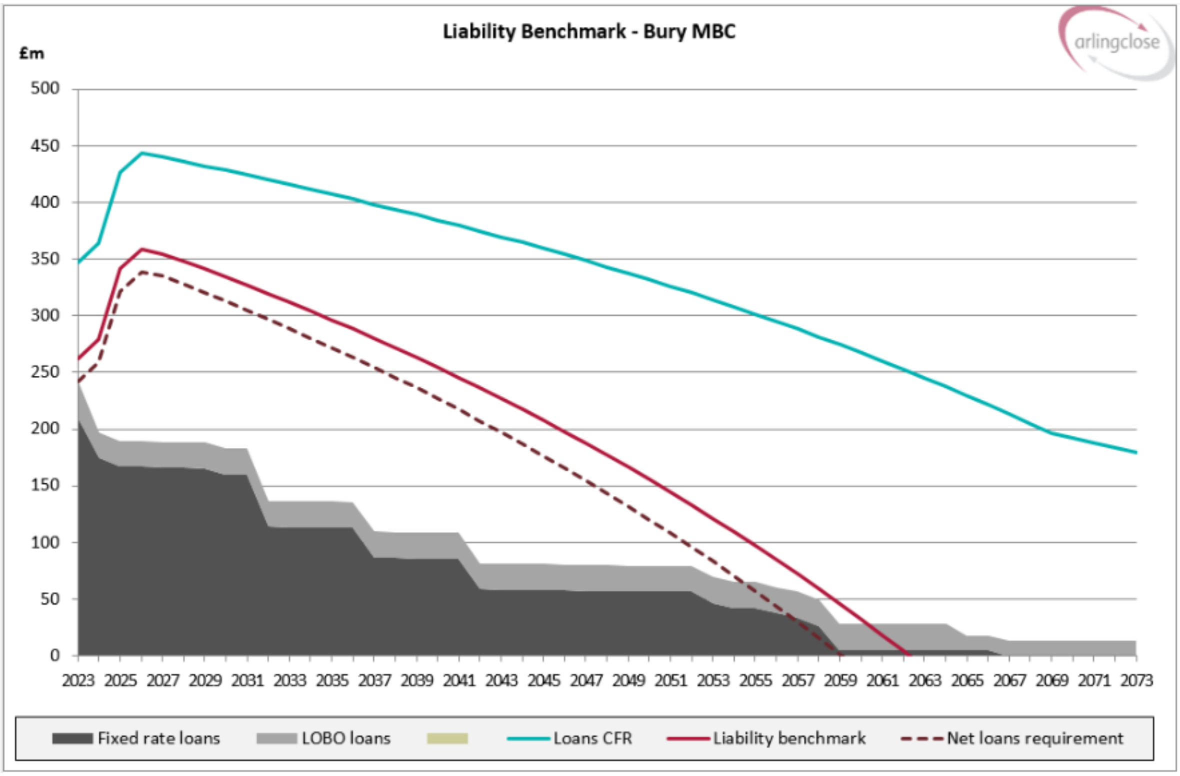
Bury MBC

	Actual	Forecasts	£m					
Position at 31 March	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Loans CFR	346.8	363.8	426.9	443.6	439.8	436.0	432.1	428.1
External borrowing	-243.6	-197.4	-189.9	-189.7	-189.0	-188.7	-188.5	-183.3
Internal (over) borrowing	103.2	166.4	237.0	253.9	250.9	247.3	243.6	244.9
Balance sheet resources	-104.9	-104.9	-104.9	-104.9	-104.9	-108.4	-111.9	-115.6
Investments (new borrowing)	1.7	-61.5	-132.1	-149.0	-146.0	-138.9	-131.6	-129.3
Treasury investments	1.7	20.0	20.0	20.0	20.0	20.5	21.0	21.5
New borrowing	0.0	81.5	152.1	169.0	166.0	159.4	152.7	150.8
Net loans requirement	241.9	258.9	322.1	338.7	335.0	327.6	320.2	312.5
Liquidity allowance	20.0	20.0	20.0	20.0	20.0	20.5	21.0	21.5
Liability benchmark	261.9	278.9	342.1	358.7	355.0	348.1	341.2	334.1

Cash flow £m	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Capex increasing Loans CFR	19.3	65.7	20.0	0.0	0.0	0.0	0.0
MRP on Loans CFR	-2.3	-2.6	-3.3	-3.8	-3.8	-3.9	-4.0
Change in balance sheet resources	0.0	0.0	0.0	0.0	-3.5	-3.6	-3.7
Maturing loans	46.2	7.5	0.2	0.8	0.2	0.2	5.2
Net cash (inflow) outflow	63.2	70.6	16.9	-3.0	-7.1	-7.2	-2.4

Net cost £m	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Cost at higher interest rates	10.3	14.9	18.8	19.7	19.8	19.7	20.0
Cost at forecast interest rates	9.7	12.2	14.0	13.9	13.4	12.9	12.6
Cost at lower interest rates	9.5	10.6	11.3	10.7	10.1	9.6	9.3

Market forecast rates as at 23/10/2023



Following on from the medium-term forecast above, minimum revenue provision on new capital expenditure based on a 25-year asset life 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 Authority's existing borrowing.

2. **Maturity Structure of Borrowing**

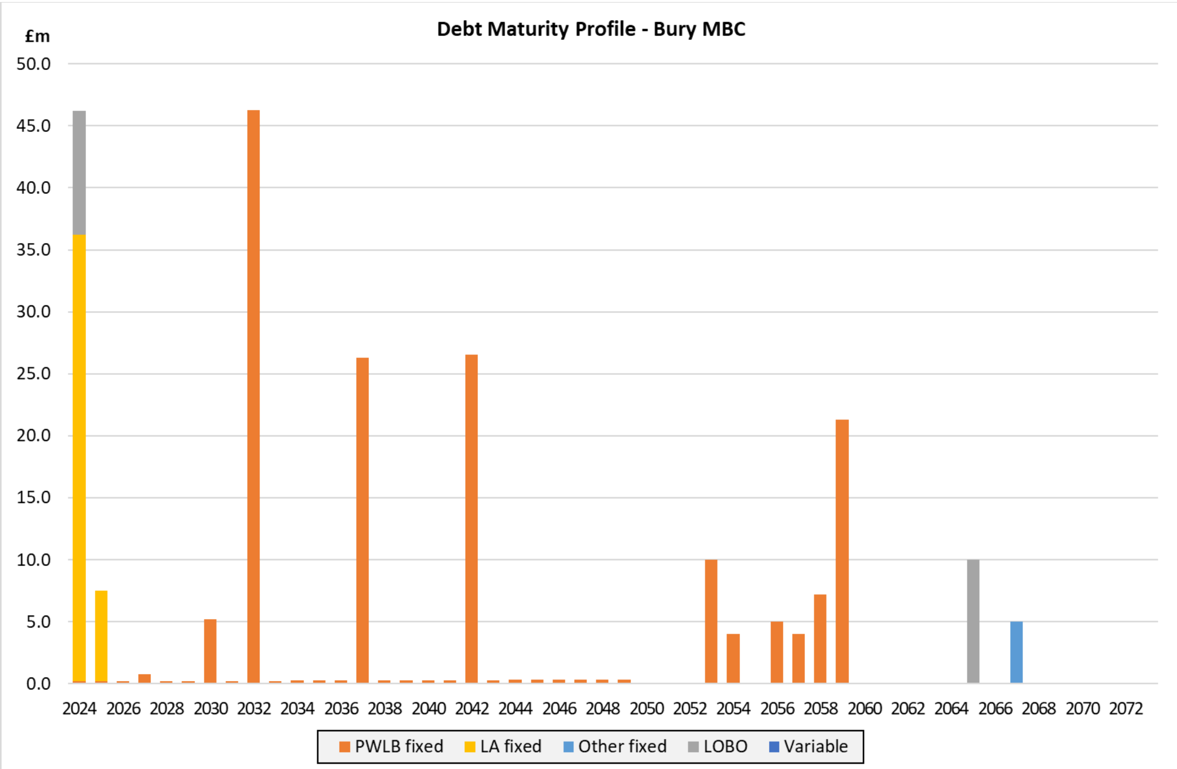
This prudential indicator is set to control exposure to refinancing risk. Arlingclose, the Council's external advisers, described Bury's actual maturity profile, shown on the graph below, as ‘unusual’. This is because a material amount of debt falls due for repayment over a short period of time (e.g.in 2024, 2032, 2037, 2042).

If interest rates are high at that time, the Council will be exposed to increasing costs which may in turn create pressure on the revenue budget.

Note that the spike in debt falling due in 2037 was unavoidable because it relates to borrowing required for refinancing the Housing Revenue Account in 2012 for 25 years.

The reasons for spikes in other financial years will be reviewed periodically to check whether reprofiling is both possible and financially viable. The Council will seek to reduce maturity profile risk by borrowing in those years in which it has little or no borrowing at present and the borrowing cost represents value for money.

In the 6 months from October 2023 to March 2024, loans of £37 million will need to be re-financed by Bury and this may increase to £45 million if Dexia call the LOBO for £8 million on the due date of 27th March 2024.



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.

The upper and lower limits on the maturity structure of all borrowing will be defined in Bury’s Treasury Management Strategy for 2024/25. This will help reduce the Council’s exposure to refinancing risk in future years.

Monitoring of the value-weighted average [credit rating] *or* [credit score] of the investment portfolio 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.

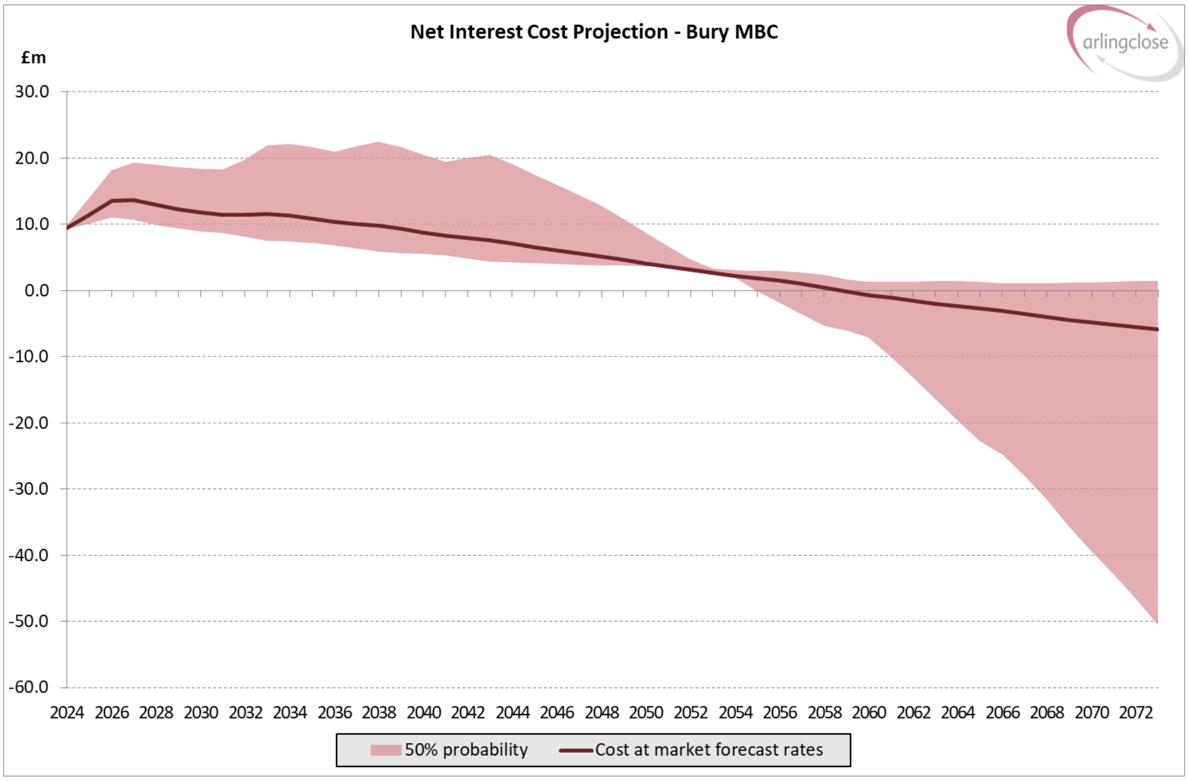
Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. Bank Rate rose by 1% from 4.25% on 1st April to 5.25% by 30th September.

Interest rate risk indicator	**2023/24 Target**	**30.9.23 Actual**	**Complied?**
Upper limit on one-year revenue impact of a 1% rise in interest rates			
Upper limit on one-year revenue impact of a 1% fall in interest rates			

For context, the changes in interest rates during the period were:

	31/3/23	30/9/23
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.69%
5-year PWLB certainty rate, maturity loans	4.31%	5.22%
10-year PWLB certainty rate, maturity loans	4.33%	5.26%
20-year PWLB certainty rate, maturity loans	4.70%	5.64%
50-year PWLB certainty rate, maturity loans	4.41%	5.43%

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



APPENDIX A

FURTHER DETAIL FROM THE ARLING CLOSE REPORT ON THE ECONOMIC CONDITIONS AFFECTING BURY'S BORROWING AND INVESTMENTS.

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.

Appendix B:

Approved Lending List Criteria: Bury Council Durational and Money Limits applying to Specific and Non-Specified Investments

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities as specified in the table below**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 100% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Counterparty	Minimum credit criteria / colour band	Short Term Fitch/Long Term MoodyRating	Max £ limit per institution	Arling Close Duration	Maximum Maturity Period
Debt Management Office Deposit Facility (DMADF)– UK Government	yellow	F1+u/Aa3	Unlimited	50 years	50 years

UK Banks Term Deposits		F1/A1	£25 million	6 months	35 days
UK Local Authorities		F1/A1	£20 million	2 years+	2 years
UK Building Societies		F1/A1	£20 million	1 year	35 days
Unrated Affiliated Bodies working capital *		N/A	Subject individual circumstanc e	Case by Case	N/A
Unrated Affiliated Bodies Capital Expenditure Loan *		N/A	Subject individual circumstanc e	Case by Case	N/A

- Unrated affiliated bodies such as: arm's length companied, wholly owned subsidiaries, joint ventures, registered providers, service providers.