Warwickshire County Council

Treasury Management Outturn 2022/23

Contents

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1.0 Purpose

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2 During 2022/23 the minimum reporting requirements were that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council February 2023);
- a mid-year treasury update report (delegated and reported to Cabinet November 2022); and
- an annual review following the end of the year describing the activity compared to the strategy, (this report and the accompanying Investment Outturn).

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies as previously approved by members.

1.4 Treasury management in the context of this report is defined as:

"*The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*" (CIPFA Code of Practice).

2.0 Report Summary

2.1 During 2022/23, the Council complied with its legislative and regulatory requirements in respect of Treasury Management.

2.2 The Council has an investment portfolio consisting of reserves and cash arising from daily receipts being in excess of payments on a short-term basis. Security, liquidity and yield were prioritised in this order in the management of this portfolio.

2.3 The financial year 2022/23 was a volatile year regarding interest rates and economic stability.

2.4 Overall treasury investments have increased in value, and the interest return on treasury investments was positive, exceeding the budgeted interest income for the year by £4.7m.

2.5 An accounting loss of £2.48m was made on the capital value of the Threadneedle Social Bond Fund. This is a direct impact to the revenue account and was covered by the commercial risk reserve. At year end the asset is still held on the Council balance sheet.

2.6 The net positive performance in 2022/23 of Treasury Investments is £5.02m, against a budget of £2.81m. This has helped to mitigate some of the Council's net overspend.

2.7 Debt levels have remained the same in line with the Council's borrowing strategy.

3.0 Treasury Position as at 31 March 2023

3.1 The Council's treasury management debt and investment position is managed by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage the associated risks that the Council is exposed to.

3.2 Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

3.3 The Council did not take out any new borrowings during the year 2022/23, as forecast, and the level of external debt remains at £321m.

3.4 Investment balances overall have decreased during the financial year 2022/23 by £38,810.

3.5 Total Treasury investments as at 31 March 2023 were £458.58m.

3.6 The tables below show the prudential and treasury indicators, debt portfolio and maturity structure, and the investment portfolio for 2022/23.

Prudential and Treasury Indicators

Prudential and treasury indicators	31.3.22 Actual	2022/23 Movement	31.3.23 Actual
Capital expenditure	107.57	9.78	117.35
Capital Financing Requirement	267.36	-10.50	256.85
Gross Borrowing	321.42	0.00	321.42
Investments	458.62	-0.04	458.58
Under / (Over) Borrowed Position	-54.06	-10.50	-64.57

Debt Portfolio

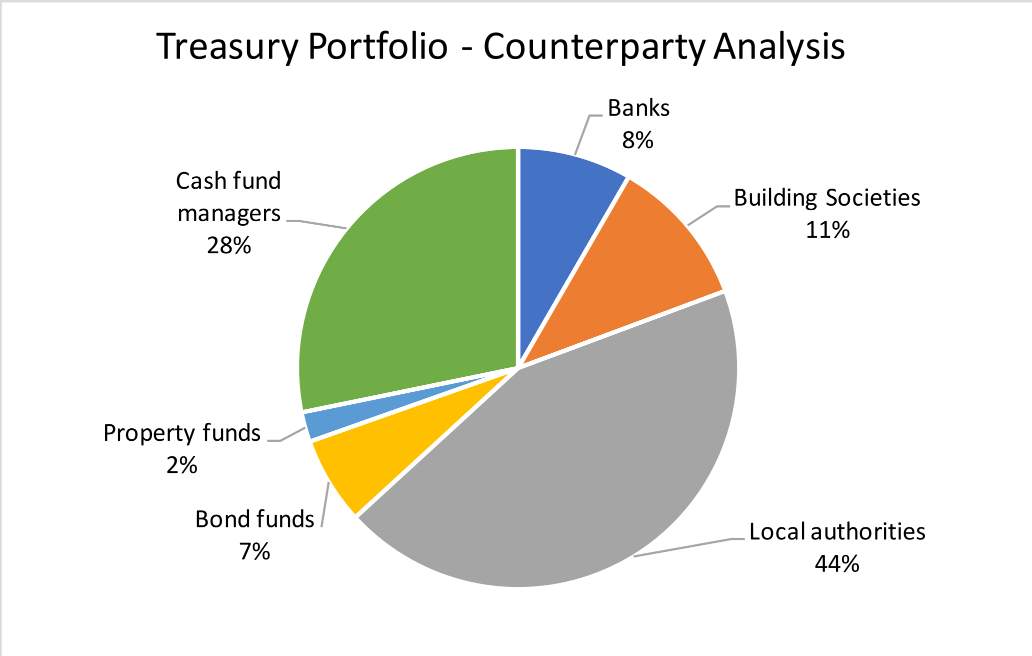
DEBT PORTFOLIO	31.3.22 Principal	Weighted Average Rate	31.3.23 Principal	Weighted Average Rate
Fixed rate funding:				
Public Works Loan Board	321.42	0.05	321.42	0.05
Total debt	**321.42**	**0.05**	**321.42**	**0.05**
Capital Financing Requirement	**267.36**		**256.85**	
Over / (under) borrowing	**-54.06**		**-64.57**	
Total investments	**458.62**		**458.58**	
Net debt	**137.20**		**137.16**	

Maturity structure of the debt portfolio as at 31st March 2023 was as follows:

	31.3.21 £m	31.3.22 £m
Under 12 months	0.0	0.0
12 months and within 2 years	0.0	0.0
24 months and within 5 years	0.0	0.0
5 years and within 10 years	18.0	22.0
10 years and within 20 years	38.7	34.7
20 years and within 30 years	19.0	80.8
30 years and within 40 years	245.7	183.9
Total	**321.4**	**321.4**

Investment Portfolio:

INVESTMENT PORTFOLIO £m	31.3.22 Actual	31.3.22 Actual %	31.3.23 Actual	31.3.23 Actual %
Treasury investments				
Banks	28.60	6.24%	38.29	8.35%
Building Societies	80.10	17.47%	50.34	10.98%
Local authorities	180.09	39.27%	201.14	43.86%
Total managed in house	**288.79**	**62.97%**	**289.77**	**63.19%**
Bond funds	31.87	6.95%	29.40	6.41%
Property funds	12.00	2.62%	10.02	2.19%
Cash fund managers	125.95	27.46%	129.39	28.22%
Total managed externally	**169.83**	**37.03%**	**168.81**	**36.81%**
TOTAL TREASURY INVESTMENTS	**458.62**	**100%**	**458.58**	**100%**



3.7 In addition to the cash balances invested in treasury activities set out above the Council also has cash balances held in other forms, for example in local authority maintained school bank accounts and in office petty cash accounts. These additional cash funds amounted to £27.2m at 31 March 2022 and £29m at 31 March 2023.

4.0 The Strategy for 2022/23

4.1 The impact of the Covid-19 Pandemic compounded by global and local political and economic volatility has challenged the financial markets for a further year. Treasury Management related investment returns, and interest rates remained low during the first half of the year, and economic activity continued to be volatile. During the second half of the year when interest rates rose and the value of the pound fell, the Treasury team moved maturing and liquid funds to higher interest fixed deposits and local authority loans, a process that significantly increased treasury returns.

4.2 As Covid risks have abated during the financial year 2022/23 the level of liquidity was reassessed. This has allowed more emphasis to be placed on longer duration investment commitments, which has enabled more investment options to be accessed, enabling the investment portfolio to be adapted to provide better returns where possible, whilst still maintaining appropriate liquidity.

4.3 At the beginning of the 4th quarter the treasury investment strategy focused on building enough liquidity to make the Council’s next three years of pension fund contributions to the pension fund in one prepayment at the beginning of the 2023/2024 financial year, if needed. The prepayment would have resulted in the Council making a payment of £101.674m in one go, that would have resulted in a cash saving of £6.205m compared to the usual monthly payments of pensions deductions. However, following consideration of the economic circumstances at the financial year end and production of a business case, a decision was taken to the Strategy Director for Resources, in consultation with the Finance Portfolio Holder, as per the agreed recommendations at Full Council in February 2023. Essentially, interest rates continued to rise, so the decision was taken to not implemented the Pension Fund pre-payment, as estimates indicated the cash returns would be lower than the investment returns gained through normal treasury management strategy activity. This still delivers the Medium Term Financial Strategy (MTFS) commitment of at least £0.5m per annum saving through increased investment income.

4.4 The team continues to improve Treasury practices and procedures, strengthening controls, efficiency, and accuracy. Key impacts during the year include:

- Lowering the levels of cash held in liquid funds and increasing the levels in longer dated investments, therefore returning more yield whilst maintaining necessary levels of liquidity and without compromising security. These were all completed within the sector limits set out in in Treasury Management Strategy for 2022/23;

- Expanding the Council's options for lending to other local authorities to a maximum 2-year agreement term, using both spot (agreed on the day) and forward (agreed up to 6 months in advance) dates. This has made the Council a more flexible and attractive lender in the marketplace;

- Successful implementation of a Treasury Management System "Treasury Live" during the third quarter having successfully trial ran it alongside the traditional Excel based system during the first half of the year. This system will enable improvements in the operation and efficiency of treasury activities;

- Supporting the making of investments relating to the Warwickshire Recovery Investment Fund (WRIF) and Warwickshire Property and Development Group (WPDG) and providing investment guidance and analysis in the early stages of these projects. More detail on this activity is included in the Non-Treasury Investments Appendix that accompanies this report;

- During the year successful recruitment was made to the team (August 2022). Continuous training and skills development has been completed by the team throughout the year and is recorded in line with CIPFA guidelines in a training log; and

- Member training was held for both Treasury Management and Investment activity during the year.

5.0 Borrowing Outturn

5.1 The Council has borrowing held with the Public Works Loans Board (PWLB) of £321m of principal as at 31 March 2023 with no outstanding interest due at that date.

5.2 This level of existing debt represents 66% of the £490m Authorised External Debt and is £147m lower than the £467m Operational Boundary for External Debt limit leaving a comfortable borrowing headroom for future cash flow pressures.

5.3 The Authorised External Debt sets the maximum level of external borrowing that the Council can incur and afford in the short term while it is not sustainable long term.

5.4 As shown in the Maturity structure of the debt portfolio (Table 1 in Annex 3), 82% (£264.7m) of the £321m debt is due for capital repayment in 20 years to 40 years from now while the balance (£56.7m) matures within 5 years and 20 years.

Repayments

5.5 No loan repayments were made during the year 2022/23. The profile of when remaining debt is due to mature is set out in Annex 3.

New borrowing

5.6 No new loans were drawn to fund the net unfinanced capital expenditure and naturally maturing debt.

Borrowing in Advance of Need

5.7 The Council has not borrowed more than, or in advance of its needs during the year.

Rescheduling

5.8 No debt rescheduling was completed during the year. Fixed interest rates currently being paid on debt are higher compared to rates currently available for new borrowing. Rescheduling can take place by repaying debt early, the cost of this is dependent on the price of new borrowing at the time of repayment. Further debt can then be taken out if required.

5.9 In September 2022, the rising interest rates meant that a discount (i.e repayment of debt at discounted price) was available to repay £50m of PWLB debt, and this was pursued. However, the volatility of the market meant that the discount position was short lived and within the same day the discount level on offer had moved to a premium (i.e a cost to repay debt early). Unfortunately, PWLB were unable to offer the previously agreed rates once the market had moved that day.

5.10 This position is being kept under review and the Treasury team are in regular contact with our Treasury advisors regarding the ability to repay debt ahead of schedule and the various discounts or premiums required. In decision making, the team also take into account the future value of cashflows, interest lost on cash balances should a payment be made, and the need for future borrowing as per the MTFS.

5.11 On the 24th May 2023 the Council was able to take advantage of a discount position to repay PWLB debt early and improve our borrowing position. PWLB approved the Council's request to repay early £49m of debt (that was due to mature in 30+ years time), at a discount of £1.9m. This means the Council has physically paid £47m in cash to repay this debt. The payment was made on 26th May 2023 and is included here as it is a material action that has now occurred, but it does not affect the year end (March 2023) outturn.

Sensitivity Analysis

5.12 For the purposes of disclosure on Market Risk a sensitivity analysis has been carried out to show the impact of a change in interest rates of +1% on the debt portfolio.

5.13 The following table shows the results of the sensitivity analysis:

Sensitivity Analysis £ms	Actual Fair Value 31.03.23	+1% increase in discount rate	Difference
Debt (new borrowing)	339.44	294.63	44.81
Debt (early repayment)	391.25	335.88	55.37

5.14 The fair value of debt if it was to be repaid early is greater than the value if that new debt was taken out today because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the current market. This shows a notional future loss (based on economic conditions at 31 March 2023) arising from a commitment to pay interest to lenders above current market rates, which would only be realised if the debt was repaid early.

6.0 Treasury Investment Outturn

Treasury Investment Policy

6.1 The Council's treasury investment policy is governed by DLUHC investment guidance, which has been implemented in the annual Treasury Management strategy approved by the Council in February 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

6.2 Treasury investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. During the year the Council maintained a position of not making investments primarily for a financial return. All treasury investments are made primarily for security and liquidity of public funds. In terms of performance:

Investments held by the Council

- The Council maintained an average balance of £284.7m of internally managed funds. These comprised of funds in bank accounts, deposit accounts and loans to other local authorities. The average weighted term for these funds were invested for was 278 days (this includes all investments that matured or started during the year 2022/23).

- The internally managed funds earned an average rate of return of 1.20%, which exceeds the 30-day Sterling Overnight Index Average (SONIA) rate of 0.26% (Treasury Management returns target set in March 2022), and comparable SONIA performance indicators at 1.07%.

Investments held by Fund Managers

- The Council uses several external fund managers to invest part of its cash balances, these include money market funds (cash funds), bond funds and property funds. During the year the average investment in externally managed funds was £190.37m, the average weighted term these funds were invested for was 10 days (the majority of these being overnight funds).

- The externally managed funds earned an average rate of return of 2.14%, which exceeds the 30-day SONIA of 0.26% (Treasury Management returns target set in March 2022) and exceeds the comparable performance indicator (based on weighted average investment duration) of SONIA 7 day backward looking compounded rate at 2.19%.

6.3 Overall, the investments made during the year returned 1.58%. The original target interest for the year 2022/23 was SONIA 1 month 0.26%, set in March 2022. To illustrate volatility, this measure at March 2023 is 3.93%. Using a benchmark that takes into account the weighted average duration of investments (i.e compared overnight funds with SONIA overnight rates, and 365-day investments with SONIA 1-year rates) is more appropriate, and at the end of March 2023, benchmarked SONIA rates for the whole portfolio was 1.52%. This is set out in detail in the table in section 6.5.

6.4 As a result of rising interest rates, the total treasury investments achieved a cash income of £7.5m during the year, which compares favourably to a budget of £2.81m.

6.5 ***Treasury Investment Portfolio***

Treasury investments are split between internal and externally managed funds. This is to diversify the risk of the portfolio, meet the liquidity needs of the Council and finally, maximise the return available.

- Cash fund managers make up 31.3% of treasury investments, and these are short dated, overnight investments. The funds used have high credit ratings to maximise security of the Council’s investment. This makes sure that at any given time, the Council has access to same day cash. By placing these funds overnight, it generates the most yield for the shortest period possible, however this yield is typically low.
- Investments in other local authorities, banks and building societies make up 59.9% of treasury investments. These are relatively low risk investments, set in advance with fixed terms and interest rates. Typically, the yield on these investments follows the market interest levels.
- Bond and Property funds are higher risk in nature but often yield higher return and a small investment in each are held by the Council.
- During the year 2022/23, the balance between inhouse and externally managed funds changed toward longer dated investments to maximise return, and the returned to shorter dated investments in line with the requirement to provide liquidity for a possible early payment of pension fund contributions (see section 4.3). Movement in investment durations can be seen in Annex 2, Graph 4 and 5.

	Average Investments Held	Average Return	Benchmark	Target
External Fund Manager	£m		SONIA*	SONIA 1 Month (set March 2022)
Bond funds	29.95	**2.17%**	2.19%	0.26%
Property funds	11.55	**3.76%**	2.19%	0.26%
Cash fund managers	148.87	**2.01%**	2.19%	0.26%
	190.37	**2.14%**	2.19%	0.26%
Internally Managed Funds				
Banks	32.56	**2.20%**	2.23%	0.26%
Building Societies	71.93	**1.29%**	0.92%	0.26%
Local Authorities	180.30	**0.99%**	0.92%	0.26%
	284.78	**1.20%**	1.07%	0.26%
Average Total Investments	**475.15**	**1.58%**	**1.52%**	**0.26%**

*Benchmark Rates are based on average investment term; All Externally Managed Funds = 7 day backward looking SONIA compounded, Banks = 7 day backward looking SONIA uncompounded, Fixed Term (Building Societies and Local Authorities) 365 days backward looking SONIA uncompounded.

6.6 The performance of individual funds (both externally and internally managed) is detailed in the Annex 2.

Management Fees Costs

6.7 Externally managed funds carry a management fee that is subtracted from gross returns. The external fund return numbers in the table above are net of management fees.

6.8 Internally managed funds do not present fees in the same way, either County Council cash is lent to other institutions (e.g. other local authorities) who pay fees as the borrower or are invested in deposit funds that present net returns rather than gross returns with costs.

6.9 The total management fee costs during the year are shown in the below table:

Management Fees £m	YTD Gross Interest	Manager Fees	YTD Net
Internally Managed Funds	3.43	-	3.428
Bond Funds	0.74	0.093	0.650
Property Funds	0.51	0.075	0.434
Cash Fund Managers	3.14	0.149	2.989
Total	7.818	0.317	7.501

Deposit Value

6.10 Most of the deposits simply provide a return and the deposit value is static. However, some funds are of a nature where the deposit itself has a value which can rise or fall, presenting an opportunity for higher returns but with higher risk. These are the CCLA Property Fund and Threadneedle Social Bond Fund. The changes in the underlying asset value of these investments are not reflected in investment returns above but would be realised upon selling. The movements in asset value during 2022/23 are illustrated in Annex 2, graphs 6 and 7.

6.11 Both fund are kept under regular review by the Treasury team and at regular intervals it is possible to exit either fund, in full or partially as needed.

Threadneedle Social Bond Fund

6.12 An accounting loss (unrealised loss as the asset remains on the Council balance sheet at year end) was made on the Threadneedle Social Bond Fund during the year of £2.48m. This was covered by the commercial risk reserve.

6.13 The Council entered this asset in July 2014 at a share price of 102.40p. Several further purchases and redemptions of shares were made in 2014 and 2017. The share price has remained above this initial purchase price level until 2022/23. This is shown in the table below.

Year End Date	Share Price in Pence	Number of Shares	Value of Holding in £	Revenue Movement
Mar-15	109.78	38,585,940.53	42,359,645.52	
Mar-16	107.54	38,585,940.53	41,495,320.45	-864,325.07
Mar-17	113.54	29,561,885.27	33,564,564.54	-7,930,755.91
Mar-18	111.32	29,561,885.27	32,908,290.68	-656,273.85
Mar-19	111.18	29,561,885.27	32,866,904.04	-41,386.64
Mar-20	108.67	29,561,885.27	32,124,900.72	-742,003.32
Mar-21	113.39	29,561,885.27	33,520,221.71	1,395,320.98
Mar-22	107.82	29,561,885.27	31,873,624.70	-1,646,597.01
Mar-23	99.44	29,561,885.27	29,396,338.71	-2,477,285.99

6.14 Every year, the change in asset value is accounted for by a gain or loss going to a revenue account. This is illustrated in the above table under "revenue movement".

6.15 The Council continues to hold the asset and the current expectation is the value will return to previous levels. As at the end of March 2023, there is no plan to exit this fund though the value compared to the capital at risk will be kept under review regularly.

6.16 It is important to note that the loss made in 2022/23 is unrealised, and as the Council still hold the asset, share price value movements may cause our holding to rise or fall in the future. However the fund has been consistently paying dividends during the year, contributing £742k to the interest income.

CCLA Property Fund

6.17 An asset loss was also made on the CCLA Property Fund of £1.98m however this is subject to an IFRS 9 (International Finance Reporting Standards) statutory override that mitigates the impact of fair value movements of pooled investment funds, and therefore does not impact the revenue account for the year. This override is in place until March 2025.

6.18 The Council entered this asset in August 2014 at a share price of 248.23p. A further purchase was made in August 2015. The share price has consistently above the original purchase price.

6.19 The IFRS 9 statutory override means the revenue movements in the table below do not have to be accounted for at year end March 23.

Year End Date	Share Price in Pence	Number of Shares	Value of Holding in £	Revenue Movement
Mar-15	272.03	1,875,188.00	5,101,073.92	
Mar-16	288.36	3,532,409.00	10,186,054.59	5,084,980.68
Mar-17	283.85	3,532,409.00	10,026,742.95	-159,311.65
Mar-18	297.33	3,532,409.00	10,502,911.68	476,168.73
Mar-19	301.95	3,532,409.00	10,666,108.98	163,197.30
Mar-20	291.15	3,532,409.00	10,284,608.80	-381,500.17
Mar-21	289.08	3,532,409.00	10,211,487.94	-73,120.87
Mar-22	339.82	3,532,409.00	12,003,832.26	1,792,344.33
Mar-23	283.80	3,532,409.00	10,024,976.74	-1,978,855.52

6.20 The CCLA Property fund has been paying a consistent dividend during the year, contributing £510k to the interest income.

7.0 Non-Treasury Investments

7.1 Investments held for Non-Treasury Management purposes are detailed in the accompanying Appendix to this report "Non-Treasury Investment Outturn".

Annexes

Annex: 1 Prudential and Treasury Indicators
Table 1 Prudential Indicators
Table 2 Treasury Management Indicators
Table 3 Maturity Structure of Debt Portfolio
Table 4 Maturity Structure of Investments

Annex 2: Treasury Investment Portfolio
Graph 1 Investment Balances
Graph 2 Investment Average Interest
Graph 3 Liquidity of Investments
Graph 4 In House Funds during year
Graph 5 Externally Managed Funds during year
Graph 6 Threadneedle Social Bond Fund Asset Values
Graph 7 CCLA Property Fund Asset Values

Annex 3: Debt Portfolio
Graph 1 Debt Maturity Profile

Annex 4: The Economy and Interest Rates commentary provided by the Councils Treasury Advisors.

Annex 1: Prudential and Treasury Indicators

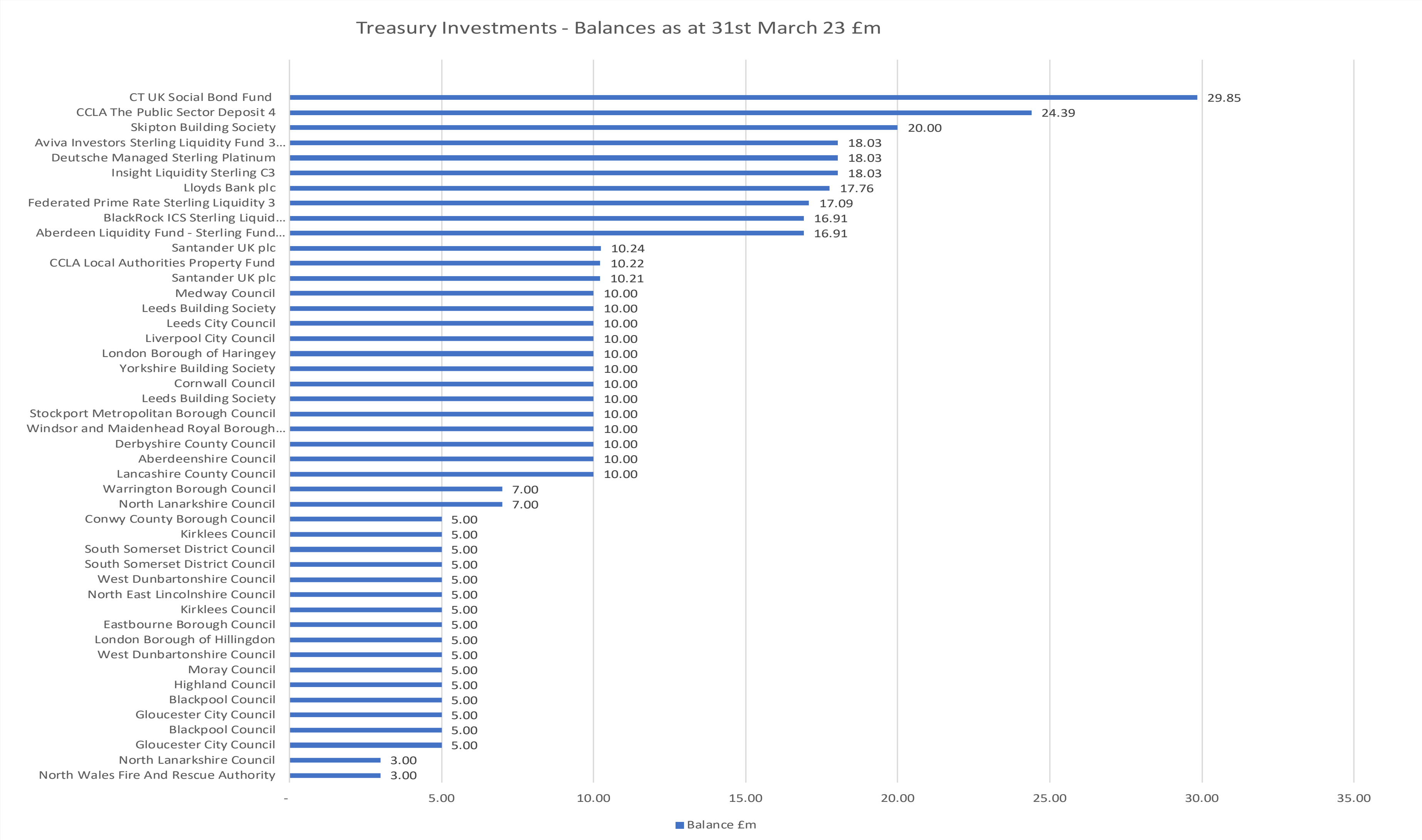
PRUDENTIAL INDICATORS	2021/22 actual 107.57	2022/23 actual £m	2023/24 estimate £m
Capital Expenditure	107.574	117.352	316.940
Capital Financing Requirement as at 31 March (a)	267.357	256.854	425.319
Gross Debt (b)	321.420	321.420	321.420
Under/(Over) Borrowing (=a-b)	- 54.064	- 64.566	103.899

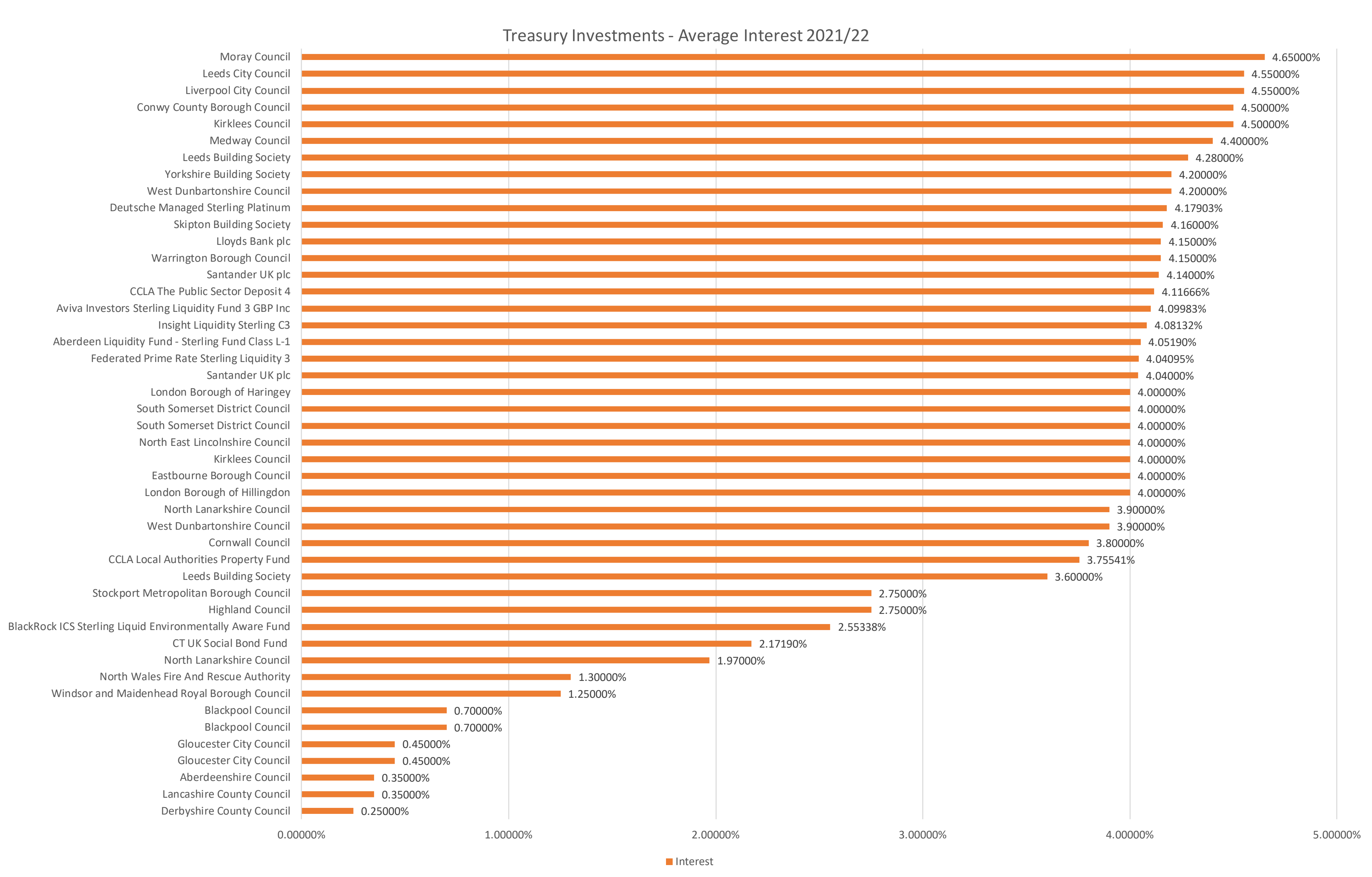
TREASURY MANAGEMENT INDICATORS	2021/22 actual £m	2022/23 actual £m	2023/24 estimate £m
Authorised Limit for external debt	390.000	386.000	490.000
Operational Boundary for external debt	324.640	324.640	467.851
Actual external debt	321.420	321.420	321.420

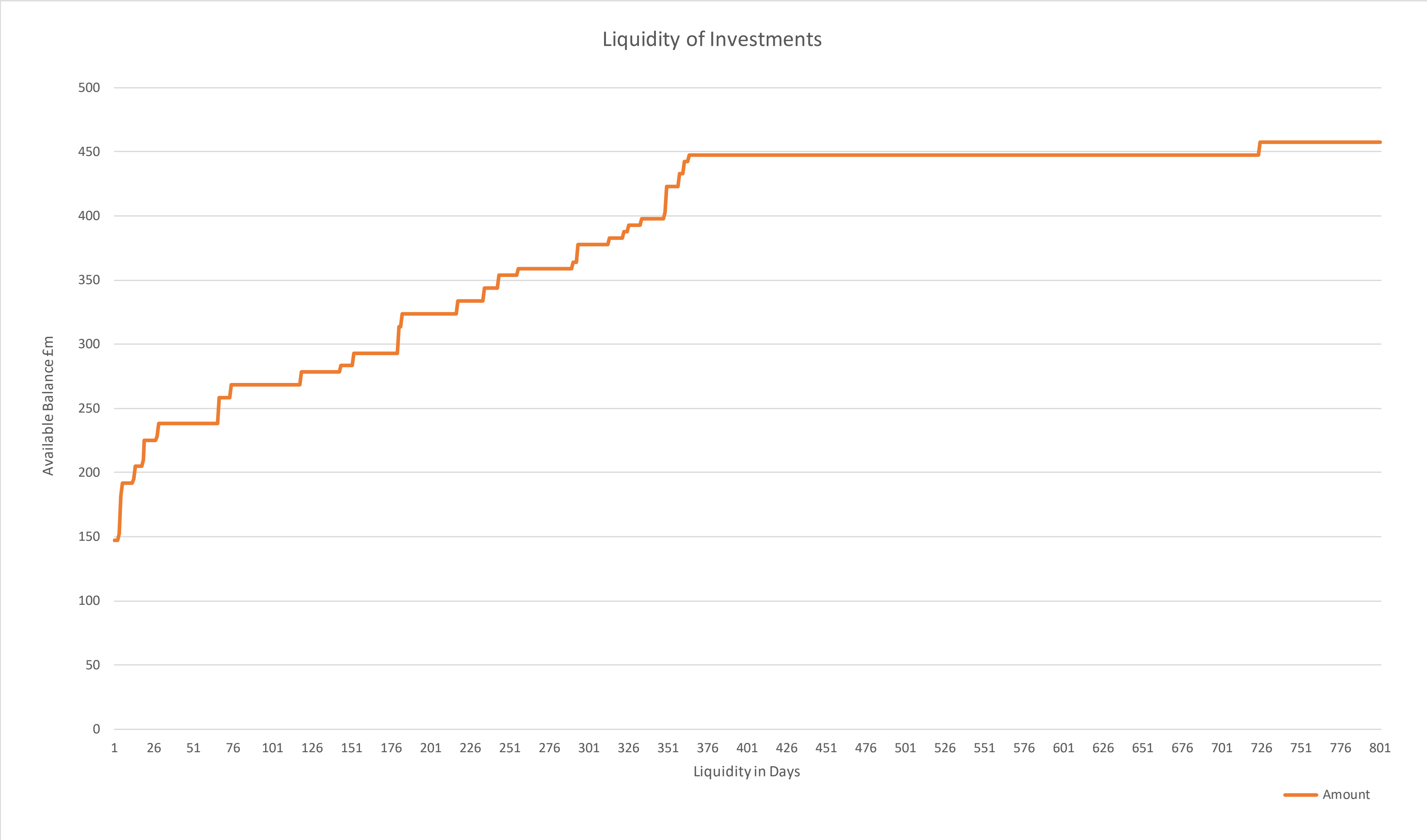
Maturity structure of the debt portfolio	31.3.22 £m	31.3.23 £m
Under 12 months	0.00	0.00
12 months and within 2 years	0.00	0.00
24 months and within 5 years	0.00	0.00
5 years and within 10 years	18.00	22.00
10 years and within 20 years	38.70	34.70
20 years and within 30 years	19.00	80.75
30 years and within 40 years	245.70	183.95
Total	**321.40**	**321.40**

Maturity structure of investments	31.3.22 £m	31.3.23 £m
Longer than 1 year	-	30.45
Up to 1 year	458.36	427.23
Total	**458.36**	**457.68**

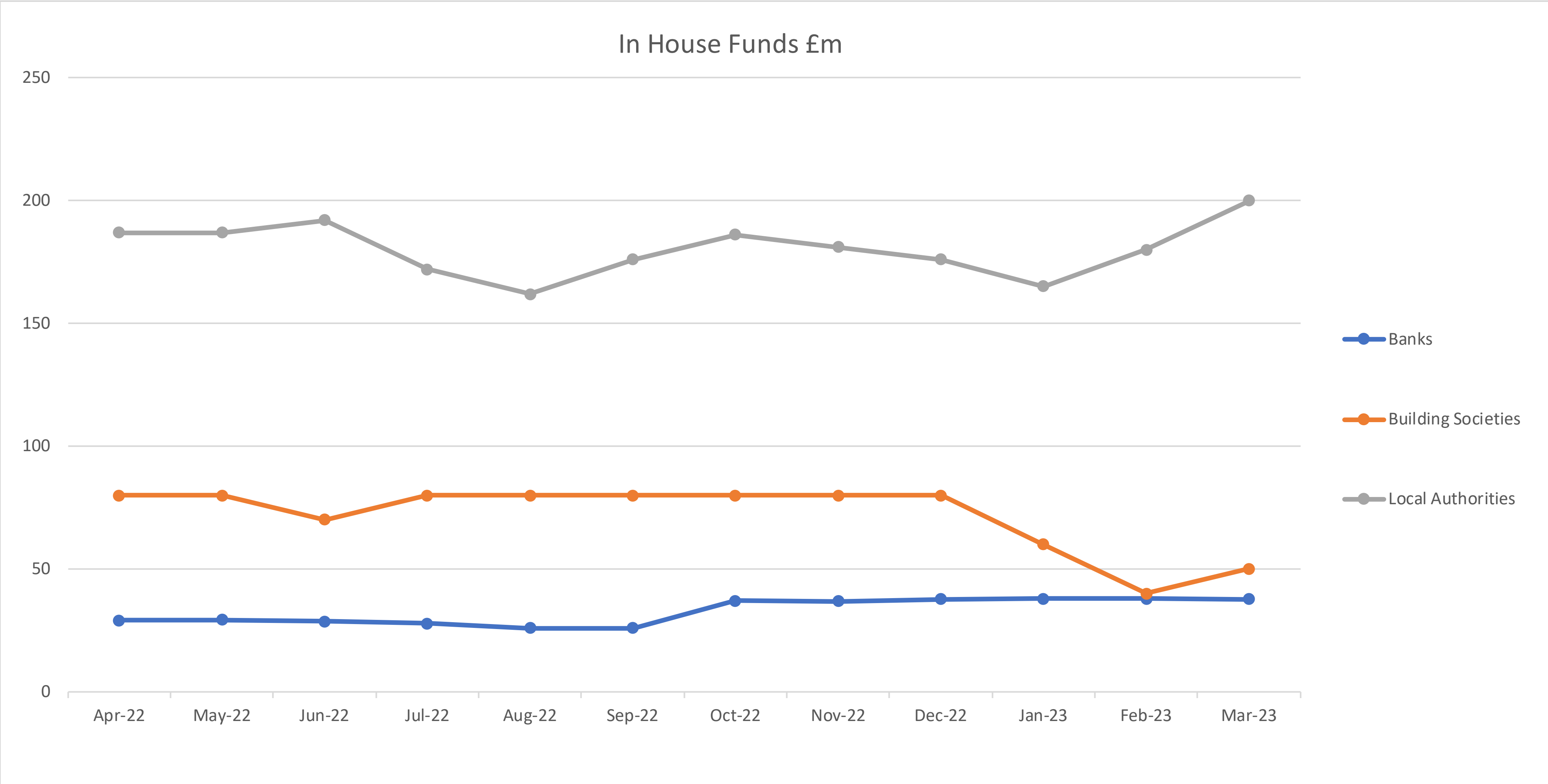
Annex 2: Investment Portfolio

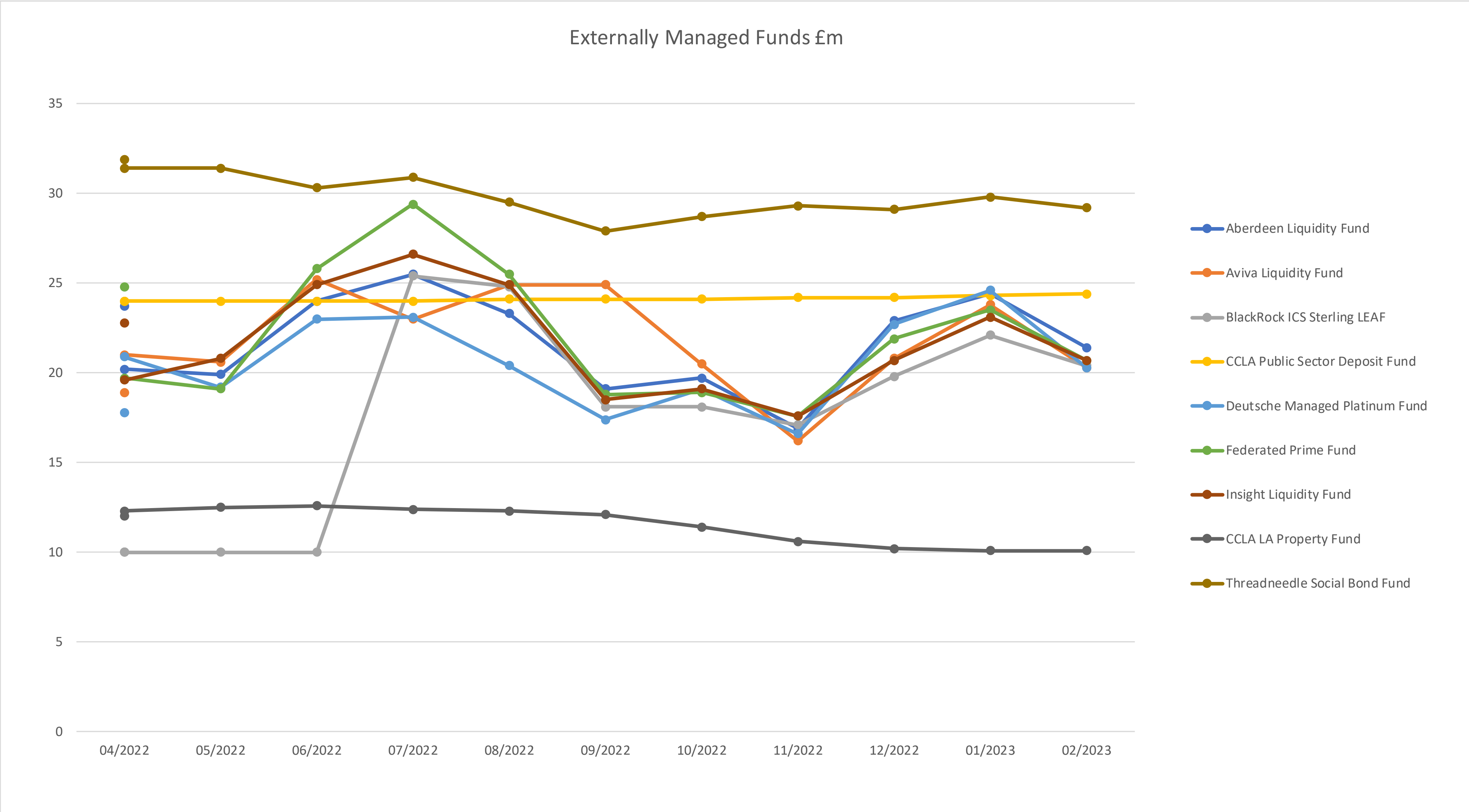



Treasury Investments - Average Interest 2021/22
Moray Council 4.65000%
Leeds City Council 4.55000%
Liverpool City Council 4.55000%
Conwy County Borough Council 4.50000%
Kirklees Council 4.50000%
Medway Council 4.40000%
Leeds Building Society 4.28000%
Yorkshire Building Society 4.20000%
West Dunbartonshire Council 4.20000%
Deutsche Managed Sterling Platinum 4.17903%
Skipton Building Society 4.16000%
Lloyds Bank plc 4.15000%
Warrington Borough Council 4.15000%
Santander UK plc 4.14000%
CCLA The Public Sector Deposit 4 4.11666%
Aviva Investors Sterling Liquidity Fund 3 GBP Inc 4.09983%
Insight Liquidity Sterling C3 4.08132%
Aberdeen Liquidity Fund - Sterling Fund Class L-1 4.05190%
Federated Prime Rate Sterling Liquidity 3 4.04095%
Santander UK plc 4.04000%
London Borough of Haringey 4.00000%
South Somerset District Council 4.00000%
South Somerset District Council 4.00000%
North East Lincolnshire Council 4.00000%
Kirklees Council 4.00000%
Eastbourne Borough Council 4.00000%
London Borough of Hillingdon 4.00000%
North Lanarkshire Council 3.90000%
West Dunbartonshire Council 3.90000%
Cornwall Council 3.80000%
CCLA Local Authorities Property Fund 3.75541%
Leeds Building Society 3.60000%
Stockport Metropolitan Borough Council 2.75000%
Highland Council 2.75000%
BlackRock ICS Sterling Liquid Environmentally Aware Fund 2.55338%
CT UK Social Bond Fund 2.17190%
North Lanarkshire Council 1.97000%
North Wales Fire And Rescue Authority 1.30000%
Windsor and Maidenhead Royal Borough Council 1.25000%
Blackpool Council 0.70000%
Blackpool Council 0.70000%
Gloucester City Council 0.45000%
Gloucester City Council 0.45000%
Aberdeenshire Council 0.35000%
Lancashire County Council 0.35000%
Derbyshire County Council 0.25000%
0.00000%
1.00000%
2.00000%
3.00000%
4.00000%
5.00000%
Interest



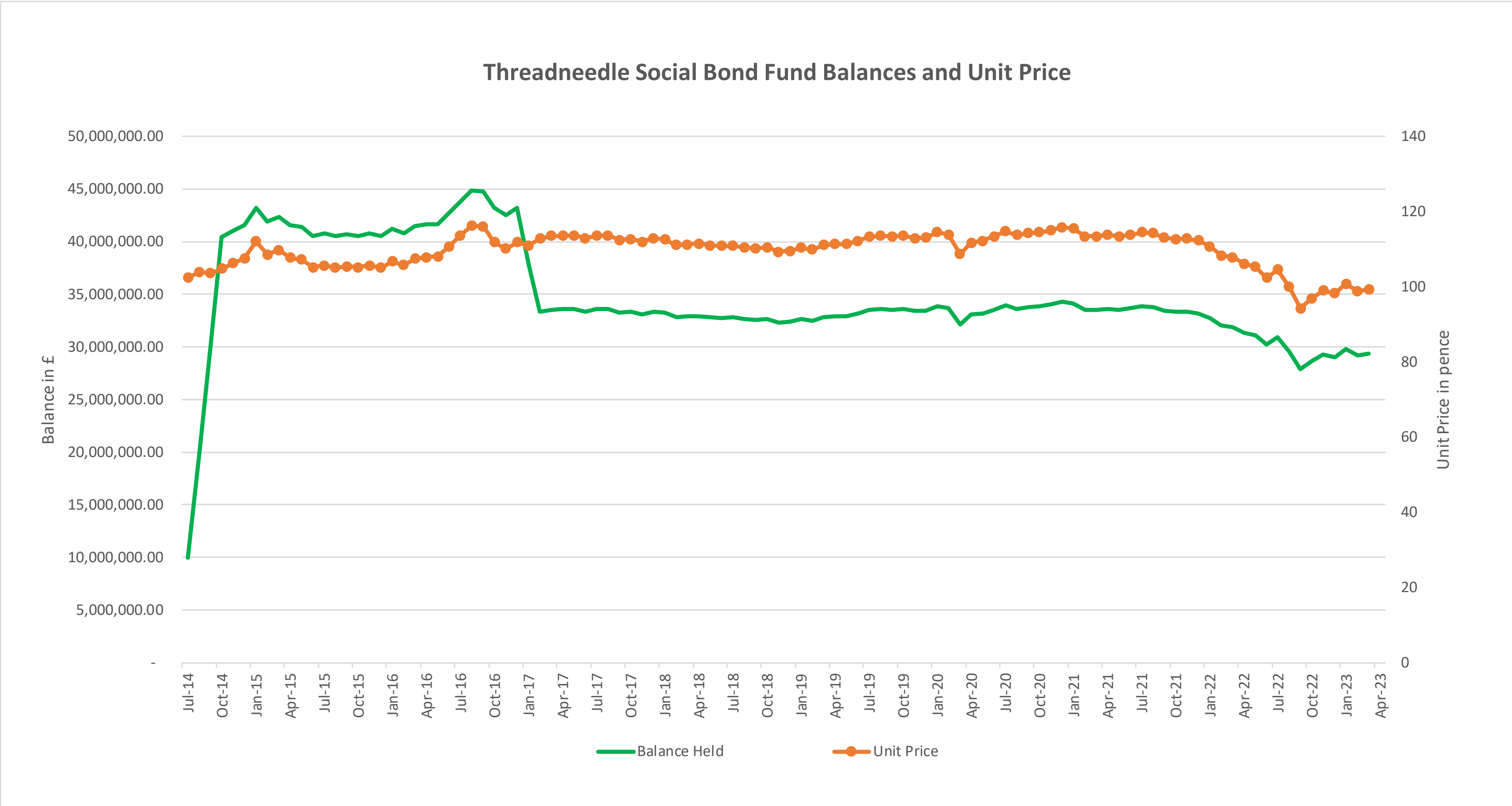
Liquidity of Investments
500
450
400
350
300
250
200
150
100
50
0
Available Balance £m
1
26
51
76
101
126
151
176
201
226
251
276
301
326
351
376
401
426
451
476
501
526
551
576
601
626
651
676
701
726
751
776
801
Liquidity in Days
Amount


In House Funds £m
250
200
150
100
50
0
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22
Jan-23
Feb-23
Mar-23
Banks
Building Societies
Local Authorities

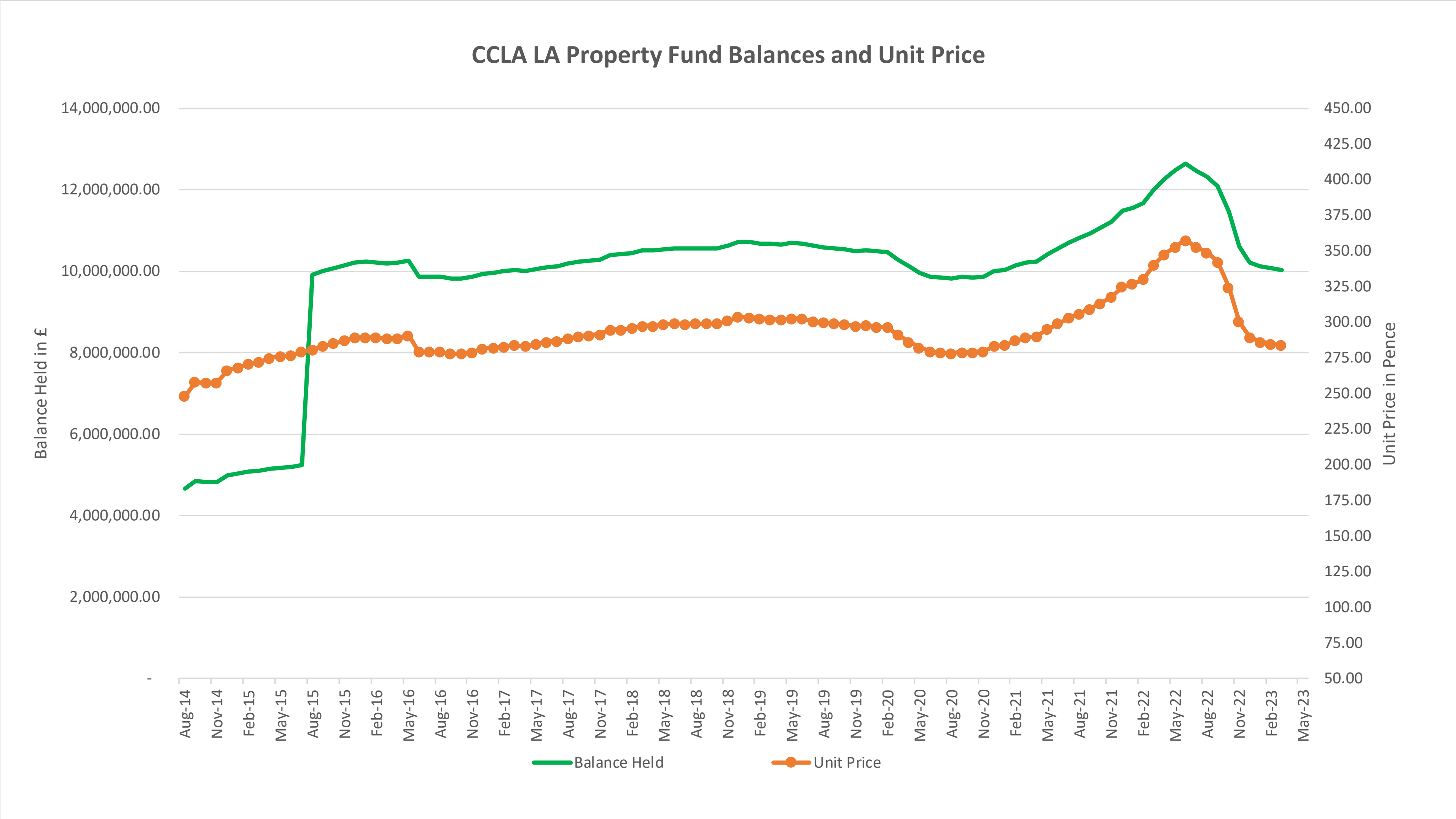


Externally Managed Funds £m
35
30
25
20
15
10
5
0
04/2022
05/2022
06/2022
07/2022
08/2022
09/2022
10/2022
11/2022
12/2022
01/2023
02/2023
Aberdeen Liquidity Fund
Aviva Liquidity Fund
BlackRock ICS Sterling LEAF
CCLA Public Sector Deposit Fund
Deutsche Managed Platinum Fund
Federated Prime Fund
Insight Liquidity Fund
CCLA LA Property Fund
Threadneedle Social Bond Fund

[Threadneedle Social Bond Fund Asset Value]

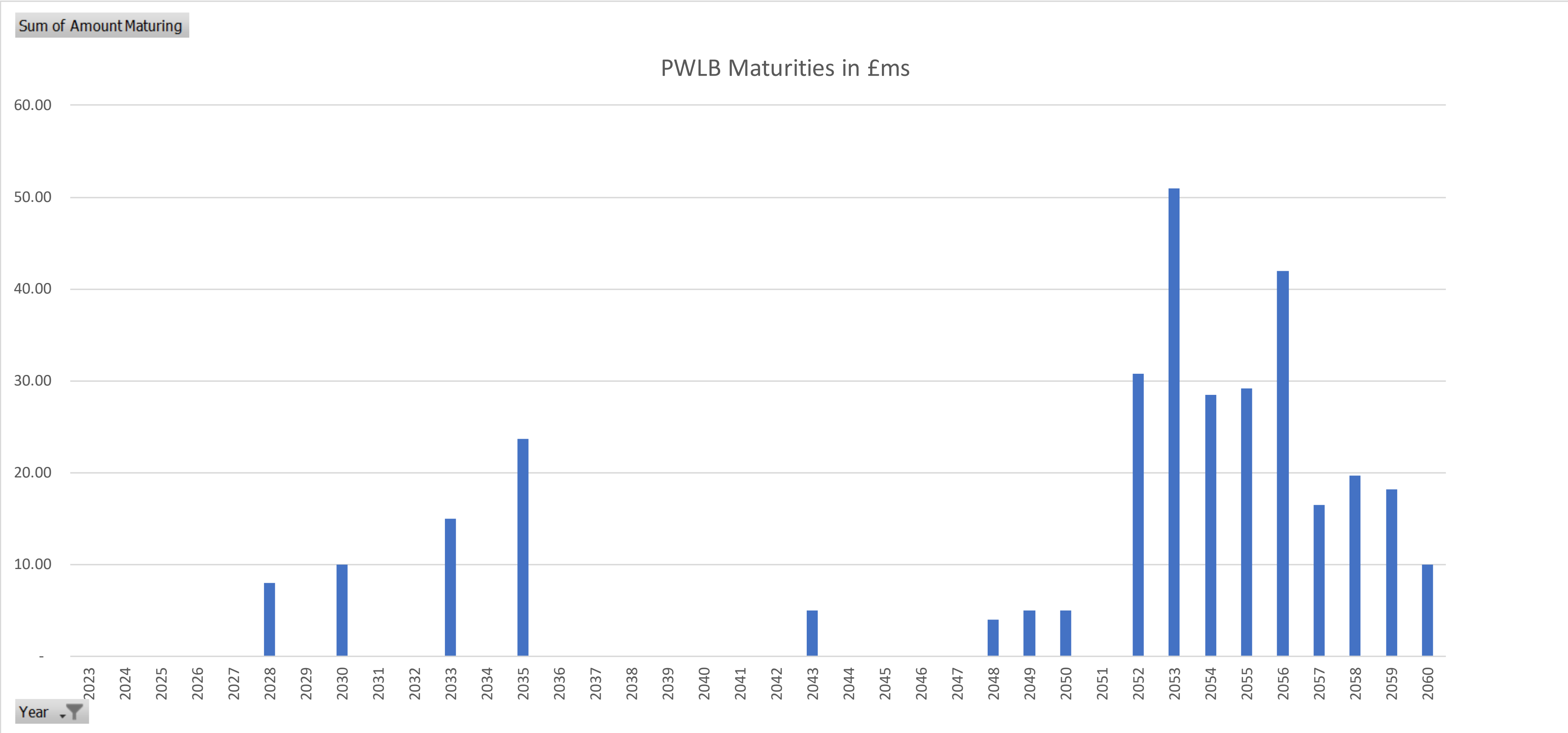


CCLA Property Fund Asset Value



Annex 3: Borrowing Portfolio

*N.B this does not include changes made in May 2023, as referenced in section 5.11 of this appendix.



Annex 4: The Economy and Interest Rates
Provided by Link Asset Services (Treasury Management Advisors)

The UK Economy

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and UK political developments, UK interest rates have been volatile across the curve, from the Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extraordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force reduced by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

The Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%. UK gilt yeilds increased significantly in September and reduced thereafter although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of $1.035 in September 2022, to $1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.