Oldham Council

Report to Audit Committee

Treasury Management Mid-Year Review Report 2022/23

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Reason for Decision

This report advises Audit Committee of the performance of the Treasury Management function of the Council for the first half of 2022/23 and provides a comparison of performance against the 2022/23 Treasury Management Strategy and Prudential Indicators.

Executive Summary

The Council is required to consider the performance of the Treasury Management function in order to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). This report therefore sets out the key Treasury Management issues for Members' information and review and outlines:

- An economic update for the first six months of 2022/23;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- Why there has been no debt rescheduling undertaken during 2022/23; and
- A review of compliance with Treasury and Prudential Limits for 2022/23.

The report is presented to the Audit Committee to enable it to have the opportunity to review and scrutinise the 2022/23 Treasury Management Mid-Year Review report prior to its presentation to Cabinet on 14 November 2022 and Council on 14 December 2022.

Recommendation

That the Audit Committee considers and comments upon the Treasury Management Mid-Year Review Report and commends to Cabinet the:

a) Treasury Management activity for the first half of the financial year 2022/23 and the projected outturn position

b) Amendments to both Authorised Limit and Operational Boundary for external debt as set out in the table at Section 2.4.5 of the report.

c) Amendments to the Capital Financing Requirement (CFR) as set out in the table at section 2.4.5

Treasury Management Strategy Mid-Year Review Report 2022/23

1 Background

1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested with low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 As a consequence, treasury management is defined as:

"The management of the local authority's investments and 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."

1.4 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. Within these new Codes as from 2020/21, all Local Authorities have been required to prepare a Capital Strategy which is to provide the following:

a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;

b) an overview of how the associated risk is managed; and

c) the implications for future financial sustainability.

This change in practice was confirmed by the 2021 revision to the Codes.

1.5 The Council has traditionally prepared a Capital Strategy, but the requirements of the Prudential and Treasury Management Codes required a revised format and content to ensure alignment with both Codes. A report incorporating the new requirements was presented to the 2022/23 Budget Cabinet and Budget Council meetings.

2 Current Position

2.1 Requirements of the Treasury Management Code of Practice

2.1.1 Treasury Management reports must be prepared in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2021).

2.1.2 The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

c) Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** (this report**)** and an Annual Report (stewardship report) covering activities during the previous year.

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. In Oldham, this responsibility is delegated to the Director of Finance.

e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

2.1.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2022/23;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- Why there has been no debt rescheduling undertaken during 2022/23; and
- A review of the compliance with Treasury and Prudential Limits for 2022/23;

2.2 Economic Update for the First Six Months of the Financial Year

2.2.1 There has been much turbulence in the economy during the first six months of 2022/23, particularly during September after the "fiscal event" introduced by the then Chancellor of the Exchequer. The second quarter of 2022/23 saw:

- Gross Domestic product (GDP) revised upwards in Q1 2022/23 to +0.2% quarter on quarter (q/q) from -0.1%, which meant the UK economy avoided recession;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- Consumer Price Index (CPI) inflation ease to 9.9% year on year (y/y) in August, having been 9.0% in April, but domestic price pressures show little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100 basis points (bps) over the quarter, taking Bank Rate to 2.25% with further rises expected I the coming months;
- Gilt yields surge and sterling fall following the "fiscal event" of the then Prime Minister and Chancellor on 23 September.

2.2.2 The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

2.2.3 There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% month on month (m/m)) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although the fall is likely due to the heat wave in the summer months, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

2.2.4 The fall in the composite Purchasing Managers Index (PMI) from 49.6 in August to a 20-month low preliminary reading of 48.4 in September pointed to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence was at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There were also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

2.2.5 The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. The Labour Force Survey (LFS) showed employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there were 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3 month y/y rate of average earnings growth rose from 5.2% in June to 5.5%.

2.2.6 Consumer Price Index (CPI) inflation eased from 10.1% in July to 9.9% in August, though inflation had not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. With the oil price just below $90 per barrel at the end of August, it is highly likely that fuel prices will fall further in the coming months.

2.2.7 However, utility price inflation was expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). At the end of September, the Government froze utility prices at that level for two years and it was expected that energy price inflation would fall sharply after October and have a big downward influence on CPI inflation. Members must note that following a change in the Chancellor of the Exchequer, the Government freeze on utility prices has been reduced from an initial 2-year period and ends in April 2023.

2.2.8 Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggested that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

2.2.9 During 2022, there has been a change of both Prime Minister and Chancellor. At the end of September (as advised above) there was a step change in Government policy via the "fiscal event". The Government's huge fiscal loosening from its proposed significant tax cuts have added to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Most of the proposals in place at the end of September contributed to a destabilising of the economy resulting in further considerable change. Members must note that at the time of writing, both the Prime Minister Liz Truss and the Chancellor Kwasi Kwarteng have both left office. The Chancellor has been replaced by Jeremy Hunt who has reversed a significant portion of the announcement made in the "fiscal event" and the Prime Minister Liz Truss has resigned meaning there is now another leadership context to elect the next Prime Minister

2.2.10 Fears that the Government has no fiscal anchor on the back of these announcements has meant that the pound weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the Government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the next policy meeting on 3 November 2022 and the Government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23 November but has subsequently been moved forward to 31 October 22. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

2.2.11 The Monetary Policy Committee (MPC) has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Federal Reserve Board (Fed) and European Central Bank (ECB) raised rates by 75 basis points (bps) in their most recent meetings. The Bank of England's latest 50 basis points increase looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

2.2.12 Since the fiscal event on 23 September 2022, markets are now expecting the MPC to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the Government's fiscal loosening, the tight labour market and sticky inflation expectations means the current forecasts are expecting the MPC to raise interest rates by 100 bps at the policy meetings in November (to 3.25%) and 75 bps in December (to 4%) followed by further 50 bps increases in February and March (to 5.00%). Market expectations as to what the MPC will do are volatile. If Bank Rate climbs to these levels, the housing market looks very vulnerable, which is one reason why the peak in our treasury advisors forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

2.2.13 Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21 June 2022) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharp at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the Government's fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank of England did two things. Firstly, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31 October. Secondly, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14 October 2022. In theory, the Bank is restarting QE, although for financial stability rather than monetary policy reasons.

2.2.14 Since the Bank's announcement on 28 September 2022, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

2.2.15 The Bank continued with QE at the long end beyond 14 October 2022 in order to maintain greater stability across gilt markets following the volatility in the aftermath of the "fiscal event" (Mini Budget). So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

2.2.16 After a shaky start to the year, the Standard and Poors (S&P) 500 and Financial Times Stock Exchange (FTSE) 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 was 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

2.3 **Interest Rate Forecast**

2.3.1 The Council's treasury advisor, the Link Group, has provided the following forecast of interest rates (at the end of Q2) over the period from December 2022 to September 2025 together with Public Works Loan Board (PWLB) Rates which are presented at certainty rates (gilt yields plus 80 bps).

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

2.3.2 The forecast on 27 September 2022 (the end of the half year) sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the Government is providing a package of fiscal loosening to try and protect households and businesses from ultra-high wholesale gas and electricity prices.

2.3.3 The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control. The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

2.4 **Treasury Management Strategy Statement and Annual Investment Strategy Update**

2.4.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved at the Council meeting on 2 March 2022. The underlying TMSS approved previously now requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out in the next sections of this report.

2.4.2 A decrease is required to both the overall Authorised Limit (the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003 above which the Council does not have the power to borrow) and Operational Boundary (the expected borrowing position of the Council during the year) for external debt. This indicator is made up of external borrowing and other long-term liabilities, Private Finance Initiatives (PFI) and Finance Leases. The revision to the limits aligns to the reduction in the Capital Financing Requirement as outlined at paragraph 2.4.4 and 2.4.5 below.

2.4.3 The Council has the following PFI and Public Private Partnership (PPP) Schemes each contributing to the Other Long-Term Liabilities element of the Authorised Limit and the Operational Boundary, thus making them both higher than if the Council was not required to present PFI schemes in this way:

- Gallery Oldham and Library
- Sheltered Housing (PFI2)
- Radclyffe and Failsworth Secondary Schools
- Chadderton Health & Well Being Centre
- Street Lighting
- Housing (PFI4)
- Blessed John Henry Newman RC College (Building Schools for the Future)

2.4.4 It will be necessary to reduce the Capital Financing Requirement (CFR) by £45.434m. Whilst approved capital expenditure / funding carry forwards from 2021/22 caused an initial increase, this is more than offset by estimated re-phasing and re-alignment and other anticipated adjustments in the 2022/23 capital programme resulting in the reduced CFR.

2.4.5 Members are therefore requested to comment on the key changes to the 2022/23 prudential indicators as set out in the table below which show the original and recommended revised figures:

Prudential Indicator 2022/23	Original £'000	Recommended Revised Prudential Indicator £'000
Authorised Limit	548,000	495,500
Operational Boundary	523,000	475,500
Capital Financing Requirement	520,247	474,813

2.5 **The Council's Capital Position (Prudential Indicators)**

2.5.1 This section of the report presents the Council's capital expenditure plans and their financing, the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow together with compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

2.5.2 The table below shows the anticipated half year position and the revised budget for capital expenditure. This will be explained more fully in the Month 6 Financial Monitoring Report presented to Cabinet. It therefore highlights the changes that have taken place and are forecast since the capital programme was agreed at the Council meeting on 2 March 2022.

Capital Expenditure by Service	2022/23 Original Estimate £'000	2022/23 Revised Estimate £'000
Community Health and Adult Social Care	2,547	1,868
Children's Services	5,425	7,686
Communities	908	446
Place and Economic Growth	75,875	49,068
Housing Revenue Account	3,383	571
Corporate/ Information Technology	5,590	4,679
Capital, Treasury & Technical Accounting	4,000	4,000
Funding for Emerging Priorities	2,520	0
Closing balance	**100,248**	**68,318**

2.5.3 The above table shows an anticipated decrease in the capital programme of £31.930m at month 6 compared to the March 2022 position, with current forecast spend of £68.318m. During the summer months the Council undertook the Annual Review of the Capital Programme in line with the practice of recent years. The review identified a requirement for significant re-profiling across a number of schemes. Most of the re-phasing moved into the years 2023/24 and 2024/25.

Changes to the Financing of the Capital Programme

2.5.4 The table below draws together the main strategy elements of the capital expenditure plans (above) highlighting the original supported (£53.258m) and unsupported elements i.e., requiring borrowing (£46.990m), and the expected financing (revised position) arrangements of this capital expenditure. The borrowing need element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

2.5.5 The overall net reduction in the capital programme has resulted in a change in the mix of funding sources required in 2022/23; a decrease in total financing and also reducing the forecast borrowing need by £23.259m from £46.990m to £23.731m.

Capital Expenditure	2022/23 Original Estimate £'000	2022/23 Forecast Position £'000
Total Capital Expenditure	100,248	68,318
Financed by:		
Capital receipts	(4,472)	(5,365)
Capital grants – Ringfenced	(33,787)	(24,677)
Capital grants – Un-ringfenced	(11,714)	(13,928)
Other Contributions	(2)	(92)
Revenue	0	(54)
HRA Revenue	(3,283)	(471)
Total Financing	**(53,258)**	**(44,587)**
Borrowing Need	**46,990**	**23,731**

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

2.5.6 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. As previously mentioned in paragraph 2.4.4, the CFR needs to decrease by £45.434m. It also shows the expected debt position over the period (the Operational Boundary). This indicator has decrease to reflect the revisions to the forecast year end position of the capital programme.

	2022/23 Original Estimate £'000	2022/23 Revised Estimate £'000
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	520,247	474,813
CFR – housing	0	0
Total CFR	**520,247**	**474,813**
Net movement in CFR		**(45,434)**
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	316,500	269,000
Other long-term liabilities	206,500	206,500
Total debt 31 March	**523,000**	**475,500**

Limits to Borrowing Activity

2.5.7 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose.

2.5.8 Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

2.5.9 The CFR calculation is shown in the table below and the Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator as there is £108.515m headroom between total debt and the CFR.

	2022/23 Original Estimate £'000	2022/23 Revised Estimate £'000
Gross borrowing	195,993	161,749
Plus: other long- term liabilities*	204,736	204,549
Total Debt	**400,729**	**366,298**
CFR* (year-end position)	520,247	474,813
Headroom	**119,518**	**108,515**

* - Includes on balance sheet PFI schemes and finance leases

2.5.10 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under Section 3 (1) of the Local Government Act 2003. Presented in the table below is the original and the revised Authorised Limit.

Authorised Limit for External Debt	2022/23 Original Indicator £'000	2022/23 Revised Indicator £'000
Borrowing	336,500	284,000
Other long-term liabilities*	211,500	211,500
Total	**548,000**	**495,500**

* - Includes on balance sheet PFI schemes and finance leases.

2.5.11 The table above shows a reduction in the Authorised Limit of £52.5m due to the reduction in the capital programme and the associated financing.

2.6 **Borrowing**

2.6.1 It is proposed in this report that the Council's CFR for 2022/23 is revised to £474.813m and this denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

2.6.2 The table within paragraph 2.5.9 shows the Council has expected year end borrowings of £366.298m and will have utilised £108.515m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require on-going monitoring in the event that upside risk to gilt yields prevails.

2.6.3 The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. The borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

2.6.4 At this point it is not anticipated that borrowing will be undertaken during this financial year.

2.6.5 The Council applied in September 2022 for the certainty rate reduction. This entitles the Council to receive a 20-basis point rate reduction on the prevailing rate of PWLB on any borrowing undertaken from 1 November 2022 to 31 October 2023.

2.6.6 Current PWLB certainty rates and gilt yields were on a rising trend between 1 April and 30 September.

2.6.7 The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to 4.80% in September 2022. The PWLB rates are set out in the following table and show for a selection of maturity periods over the first half of 2022/23, the range (high and low points) in rates and the average rates over the period. In addition, Appendix 2 tracks the movement in the PWLB certainty rate over the period April to September 2022 across the same range of loan terms as is used in the table below.

Maturity Rates	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	04/04/22	13/05/22	04/04/22	04/04/22	04/04/22
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/22	28/09/22	28/09/22	28/09/22	28/09/22
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

2.7 **Debt Rescheduling**

2.7.1 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

2.7.2 However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

2.8 **Compliance with Treasury and Prudential Indicators**

2.8.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23 and continues to manage its treasury affairs in a prudent manner. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

2.8.2 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

2.9 **Annual Investment Strategy**

2.9.1 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 2 March 2022. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity.

2.9.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In current economic climate as detailed in 2.3, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness

2.9.3 Following the Governments "fiscal event" on 23 September 2022, both Standard and Poor's (S&P) and Fitch have placed the UK sovereign debt rating on a Negative Outlook reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

Investment Counterparty criteria

2.9.4 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS Prices

2.6.13 It is noted that sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment Balances

2.6.14 The Council held £107.700m of investments, including property funds as at 30 September 2022 (£105.300m at 31 March 2022). A full list of investments as at 30 September is included at Appendix 1. A summary of investments by type is included in the table below.

2.6.15 The Council ensures enough funds are kept in either instant access accounts and/ or on-call accounts to meet its short-term liquidity requirements. As at 30 September the Council held £42.700m in Money Market Funds. Rates on Money Markets are currently quite high compared to previous years therefore higher balances are currently invested whilst the market is volatile as these rates increase quickly.

Investment Type	Total at 30 September 2022 £'000
Property	15,000
Fixed (Term Deposits) Bank / Building Society	35,000
Certificates of Deposit (CD)	15,000
Money Market Fund (MMF)	42,700
Total	**107,700**

2.6.16 The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2022/23.

2.6.17 The Council's investment strategy looks to achieve a return on its investment of Sterling Overnight Index Average (SONIA) plus a 5% mark up. The Council will maintain sufficient cash reserves to give it its necessary liquidity and may place investments up to 10 years if the cash flow forecast allows and the credit rating criteria is met. Performance against this benchmark was as follows:

Benchmark	Benchmark Return SONIA +5%	Investment Interest Earned £	Council Performance
7 days	1.25%	247,951	1.11%
1 month	1.17%	9,500	0.61%
3 months	0.96%	26,504	0.78%
6 months	0.70%	486,366	1.72%
Total Interest		**770,321**	
Average Return first 6 months	**1.02%**		**1.39%**

2.6.18 The Council's performance on its cash investments due to the current volatility in the market only exceeded its target in the 6 month period, but average return exceeded across all investment periods as can be seen in the table above. These investments have earned £0.770m to date.

2.6.19 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

2.6.20 The table below shows the bank rate and SONIA for a selection of maturity periods over the first half of 2022/23, the range (high and low points) in rates and the average rates over the period.

Maturity Rates	Bank Rate	SONIA	7 DAY SONIA	30 DAY SONIA	90 DAY SONIA	180 DAY SONIA
Low	0.75%	0.69%	0.69%	0.57%	0.39%	0.23%
Date	01/04/22	28/04/22	29/04/22	01/04/22	01/04/22	01/04/22
High	2.25%	2.19%	2.19%	1.82%	1.55%	1.22%
Date	22/09/22	30/09/22	30/09/22	30/09/22	30/09/22	30/09/22
Average	1.28%	1.22%	1.19%	1.11%	0.91%	0.67%
Spread	1.50%	1.50%	1.50%	1.26%	1.16%	0.99%

Property Fund

2.6.21 In the first six months of the year the Councils investment within the Churches, Charities and Local Authorities (CCLA) property fund has generated a return of (3.18%).

2.10 Other Key Issues

2.10.1 The Council has a number of Lender Option Borrower Option (LOBO) loans that have a call date within the next few months. The lender has the option to increase the interest rate when each loan reaches its call date.

2.10.2 These loans currently have an interest rate lower than the market rate. Due to the current volatility and increasing borrowing rates within the market, these loans could possibly have the interest rate increased at the call date. The Council would then have the option to accept the increased interest rate or could repay the loans. The treasury team will monitor this situation and report back to the Audit Committee at a future date on any loans that have been repaid.

2.10.3 The Council repaid £6.600m of loan stock which had reached its maturity date at the end of September 2022, thus reducing its level of outstanding debt as this borrowing has not been replaced.

3 Options/Alternatives

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Audit Committee has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the Committee considers and comments upon the Treasury Management Mid-Year Review Report and commends to report to Cabinet.

5 Consultation

5.1 Consultation has taken place with Link Asset Services (the Council's Treasury Management Advisors), and Senior Officers. The report is presented to the Audit Committee for scrutiny prior to its consideration by Cabinet and Council.

6 Financial Implications

6.1 All included within the report.

7 Legal Services Comments

7.1 None.

8 Co-operative Agenda

8.1 The Council ensures that any Treasury Management decisions comply as far as possible with the ethos of the Co-operative Council.

9 Human Resources Comments

9.1 None.

10 Risk Assessments

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in both Internal and the External Auditors' reports presented to the Audit Committee.

11 IT Implications

11.1 None.

12 Property Implications

12.1 None.

13 Procurement Implications

13.1 None.

14 Environmental and Health & Safety Implications

14.1 None.

15 Equality, community cohesion and crime implications

15.1 None.

16 Equality Impact Assessment Completed?

16.1 No.

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 FLC-18-22

19 Background Papers

19.1 The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

File Ref: Background papers are contained with Appendices 1, 2A, 2B & 2C
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20 Appendices

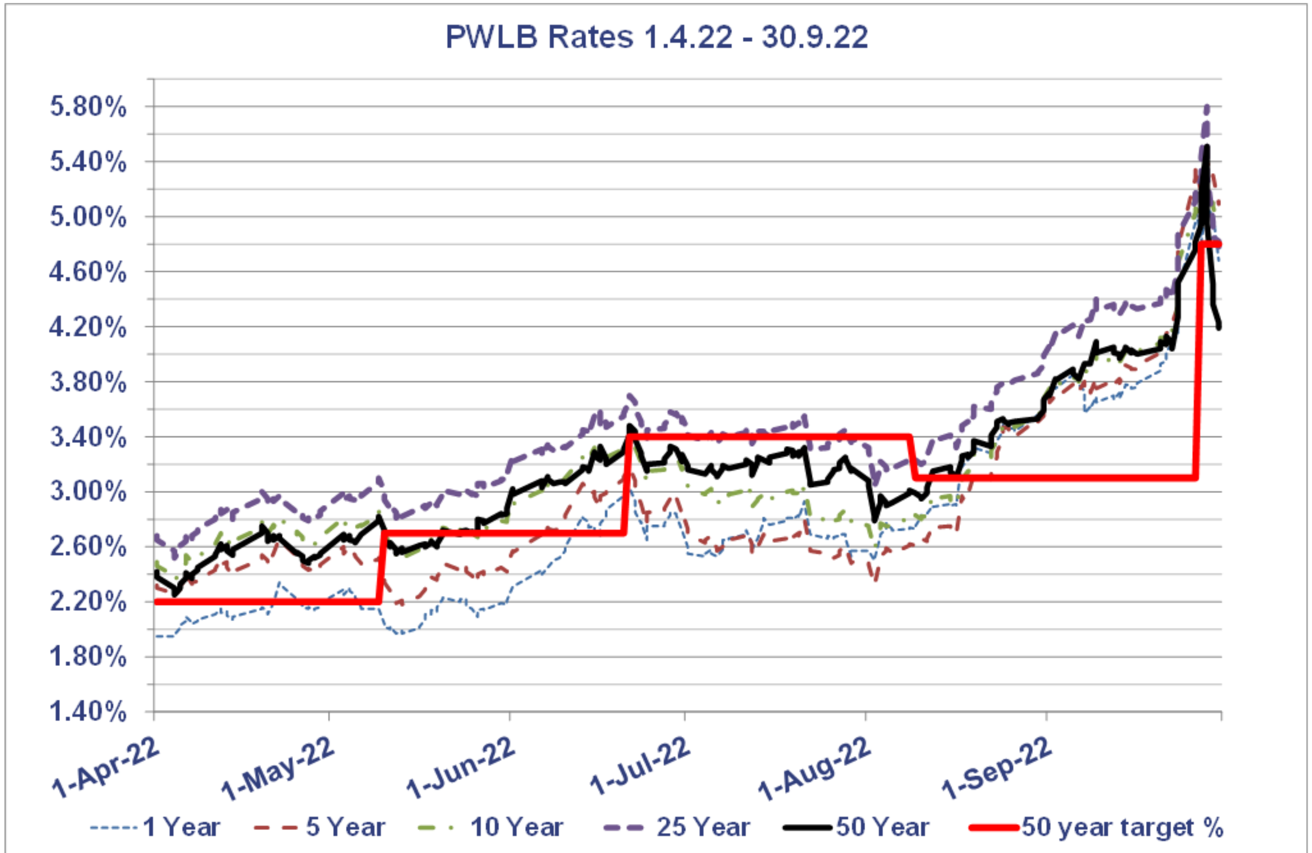
Appendix 1	Investments as at 30 September 2022
Appendix 2A	PWLB Certainty Rate Variations 2022/23
Appendix 2B	Comparison of Borrowing parameters to actual external borrowing - Table
Appendix 2C	Comparison of Borrowing parameters to actual external borrowing - Graph

Appendix 1 Investments as at 30 September 2022

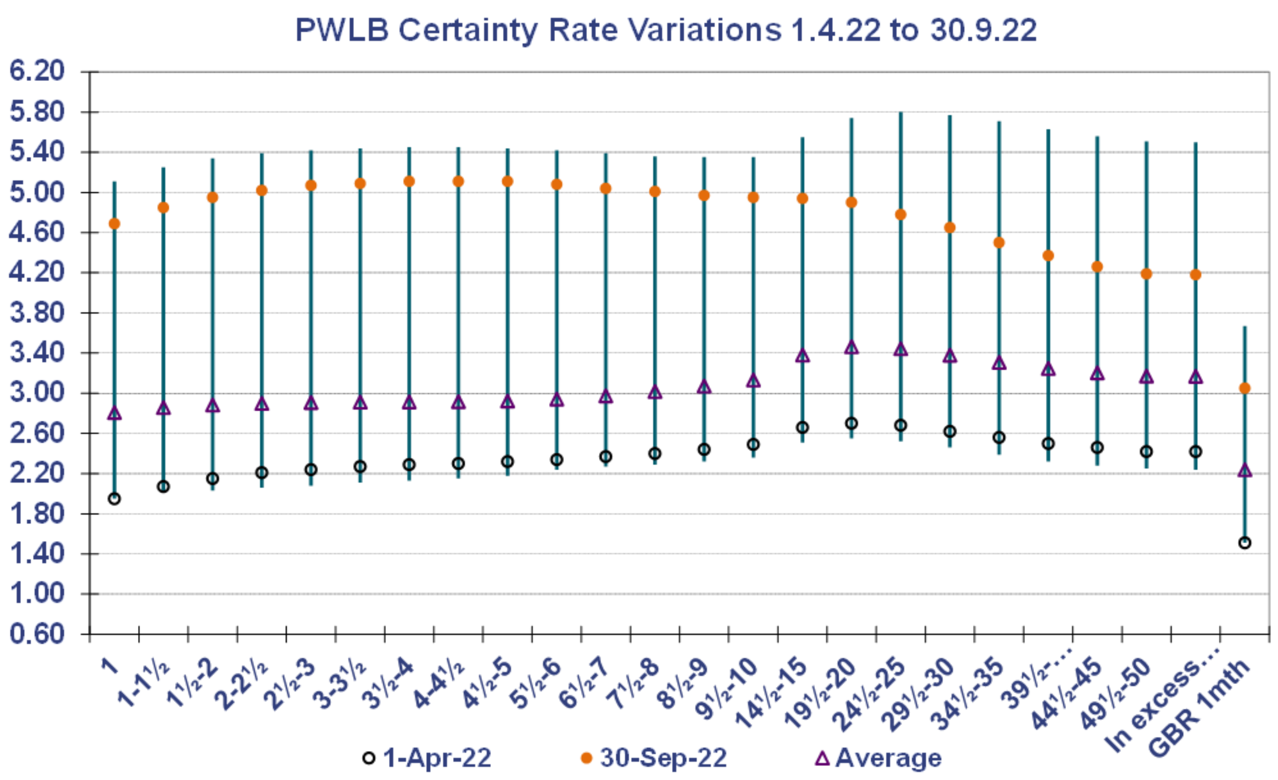
Investments	Type	30th September 2022 £'000	Interest Rate	Date of Investment	Date of Maturity
CCLA Property Fund	Property	15,000	3.18%	Prior Years	open
Total Property Fund		**15,000**			
Nationwide Building Society	Fixed	5,000	1.22%	19-May-22	21-Nov-22
Close Brothers Ltd	Fixed	5,000	1.30%	25-May-22	25-Nov-22
SMBC	Fixed	5,000	1.97%	28-Jun-22	28-Dec-22
Close Brothers Ltd	Fixed	5,000	2.00%	29-Jun-22	29-Dec-22
Goldman Sachs	Fixed	5,000	2.28%	01-Aug-22	01-Feb-23
SMBC	Fixed	5,000	2.48%	12-Aug-22	13-Feb-23
Santander UK PLC	Fixed	5,000	3.08%	08-Sep-22	08-Mar-23
Total Fixed Investments		**35,000**			
Lloyds Bank PLC	CD	10,000	1.97%	08-Jul-22	06-Jan-23
Santander PLC	CD	5,000	1.99%	14-Jul-22	14-Dec-22
Total Certificate of Deposit		**15,000**			
Invesco MM Fund	MMF	20,000	2.01%	23-Sep-22	
Federated MM Fund	MMF	13,770	2.05%	29-Sep-22	
Aberdeen Standard MM Fund	MMF	8,930	2.10%	30-Sep-22	
Total Money Market Fund		**42,700**			
Total		**107,700**			

Appendix 2

2A) PWLB Certainty Rate Variations 2022/23



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%



2B) Comparison of borrowing parameters to actual external borrowing (Table)

CAPITAL FINANCING REQUIREMENTS					
		Actual	Estimated	Estimated	Estimated
		2021/22	**2022/23**	**2023/24**	**2024/25**
CFR (including PFI and finance leases)		£'000	£'000	£'000	£'000
GFCFR		£468,895	£474,813	£498,419	£543,327
Total CFR		**£468,895**	**£474,813**	**£498,419**	**£543,327**
CFR (excluding PFI and finance leases)					
GFCFR		£255,259	£270,369	£304,646	£360,919
Total CFR		**£255,259**	**£270,369**	**£304,646**	**£360,919**
External Borrowing		**£167,597**	**£161,749**	**£201,749**	**£261,749**
Deferred Liabilities		**£213,448**	**£204,549**	**£193,773**	**£182,408**
Total Debt		**£381,045**	**£366,298**	**£395,522**	**£444,157**
Authorised Limit		£523,000	£495,500	£517,500	£572,500
Authorised Limit ex Deferred Liabilities		£303,000	£284,000	£318,000	£374,500
Operational Boundary		£498,000	£475,500	£497,500	£542,500
Operational Boundary ex Deferred Liabilities		£283,000	£269,000	£303,000	£359,500

2C) Comparison of borrowing parameters to actual external borrowing (Graph)