AUDIT COMMITTEE – 8TH NOVEMBER 2022

Report of the Head of Finance
Lead Member: Councillor Tom Barkley

Part A

ITEM 6 TREASURY MANAGEMENT UPDATE – MID-YEAR REVIEW FOR THE 6 MONTHS APRIL-SEPTEMBER 2022

Purpose of Report

This report reviews the Treasury Management Strategy and the Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators for the first six months of 2022/23.

Recommendation

That it be recommended to Council to note this mid-year review of the Treasury Management Strategy Statement, Prudential Borrowing and Treasury Indicators plus the Annual Investment Strategy, as set out in Part B.

Reason

To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the Revised CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement, that funding of capital expenditure is taken within the totality of the Council's financial position, and that borrowing and Investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

Policy Justification and Previous Decisions

The Capital Strategy including the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy, Prudential & Treasury Indicators must be approved by Council each year and reviewed half yearly. This review is set out in the attached report as Part B. The Strategy for the year was approved by Council on 10th February 2022.

Implementation Timetable including Future Decisions and Scrutiny

This report will be presented to Cabinet on 17th November 2022 for onward recommendation to the full Council meeting of 23rd January 2023.

The report is available for scrutiny by the Scrutiny Commission at the regular meeting scheduled for 14th November 2022 if required.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management

There are no direct risks arising from the recommendation in this report. Risks associated with the Treasury Policy, etc. and in general are set out within Part B.

Key Decision: No

Background Papers: None

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Part B

1. Background

1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

> a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
>
> an overview of how the associated risk is managed.
>
> the implications for future financial sustainability.

1.2 Treasury Management

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 ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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.

Accordingly, treasury management is defined as:

> "The management of the local authority's borrowing, 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".

1.3 Regulatory framework

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

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

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

3. 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 and an Annual Report, (stewardship report), covering activities during the previous year.

4. 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.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit Committee:

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

1. An economic update for the first part of the 2022/23 financial year;
2. A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
3. The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
4. A review of the Council's investment portfolio for 2022/23;
5. A review of the Council's borrowing strategy for 2022/23;
6. A review of any debt rescheduling undertaken during 2022/23;
7. A review of compliance with Treasury and Prudential Limits for 2022/23.

2. Economic and Interest Rate Scenario

2.1 Economics update

It may be noted that this report was drafted in a period where high levels of volatility were being experienced in the financial markets, and projections set out in the report may become rapidly outdated. Day to day operational decisions however, do take into account the latest information available.

- The second quarter of 2022/23 saw:
  - GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
  - Signs of economic activity losing momentum as production fell due to rising energy prices;
  - CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing 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 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
  - Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September.
- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, 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.
- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is 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 are 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.
- 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. Labour Force Survey (LFS) 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 are now 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 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has 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%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is 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). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- 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 suggests 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.
- During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.
- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has 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 policy meeting on 3rd November 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 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.
- The 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 Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike 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.

- Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (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 we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for 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 forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.
- 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 21st June) 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 sharply 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 extraordinary 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 did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28th September, 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%.
- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. 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.
- After a shaky start to the year, the S&P 500 and 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 is 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.

2.2 Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 27th September 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 the ravages of ultra-high wholesale gas and electricity prices.

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, but its job is that much harder now.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

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

3. Treasury Management Strategy Statement and Annual Investment Strategy

3.1 Update

The Treasury Management Strategy Statement, (TMSS), for 2022/23 was approved by this Council on 21st February 2022. There are no changes in this report to the TMSS since 21st February 2022 Council in the light of economic and operational movements during the year.

To note the current Operational Boundary borrowing limits and the Authorised limits are part of the prudential guidelines and these remain as they were previously reported.

The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be similar to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under borrowing by other cash resources.

Operational boundary	*2022/23 Estimate £'000*	*2023/24 Estimate £'000*	*2024/25 Estimate £'000*
Debt	108,090	108,090	108,090
Non-financial investments	28,000	28,000	28,000
Total	**136,090**	**136,090**	**136,090**

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.

Authorised limit	*2022/23 Estimate £'000*	*2023/24 Estimate £'000*	*2024/25 Estimate £'000*
Debt	130,000	130,000	130,000
Non-financial investments	28,000	28,000	28,000
Total	**148,000**	**158,000**	**158,000**

4. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	**Full Year Budget £'000**	**Actual Spend 31/9/2022 £'000**	**Variance 31/9/2022 £'000**
Bedford Square	1,868	1,201	667
Enterprise Zone	13,000	0	13,000
Regeneration Scheme	15,000	0	15,000
Town Deal Schemes	2,970	0	2,970
Shepshed Public Realm	1,065	13	1,052
Carbon Neutral	1,095	0	1,095
DFG Grant	2,496	91	2,405
Other General Fund schemes	4,051	629	3,422
General Fund Total	**41,546**	**1,935**	**39,611**
HRA	**12,034**	**769**	**11,265**
Total Capital Expenditure	**53,580**	**2,704**	**50,876**

The Actual Capital spend is slow for the first half of the year, with an underspend on General Fund £39.6m of which £28m relates to provisional Regeneration and Enterprise Zone Schemes should an opportunity arise in this year and the next 2 years. A large amount of HRA new contracts commence September 2022. Capital monitoring is reported to Finance and Performance Scrutiny each July, October, January and an outturn report each year.

4.2 Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing 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.

Capital Expenditure Finance By:-	**£'000**
S106 Funding	1,059
Other External Funding	7,520
RCCO	5
Capital Receipts	4,714
External Borrowing	28,000
Reinvestment Reserve	33
Capital Plan Reserve	214
Total GF Funding	**41,546**
HRA S106 Funding	1
HRA Financing Fund/MRR	10,862
HRA Capital Receipts	1,171
Total HRA Funding	**12,034**
Over Total Funding	**53,580**

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Capital Financing Requirement	*2021/22 Actual £'000*	*2022/23 Original Budget £'000*	*2023/24 Original Budget £'000*	*2024/25 Original Budget £'000*
CFR - (Fleet-Less MRP)	2,086	1,788	1,490	1,192
CFR – (Commercial Activites Less MRP)	22,716	22,422	22,119	21,806
CFR – (Regeneration Less MRP)	0	15,000	14,810	14,614
CFR - (Enterprize Zone - No MRP)	0	13,000	13,000	13,000
CFR – (HRA No MRP)	81,820	81,820	81,820	81,820
Total CFR	**106,622**	**134,030**	**133,239**	**132,432**
Movement in CFR represented by:		(27,408)	791	807
Net financing need for the year (above)	0	28,000	0	0
Less MRP charge	(583)	(592)	(791)	(807)
Movement in CFR	**(583)**	**27,408**	**(791)**	**(807)**

The current MRP policy is that a full years MRP will be made in the year after capital expenditure has incurred and when the assets are fully operational. MRP charged £583k for 2021/22 based on the assets purchased in 2020/21, annual MRP charges will be made based on the table above.

4.4 Limits to Borrowing Activity

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. 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 2021/22 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.

	2021/22 Actual £'000	*2022/23 Estimate £'000*	*2023/24 Estimate £'000*	*2024/25 Estimate £'000*
External Debt at 1 April	81,190	81,190	81,190	81,190
Expected change in Debt	0	28,000	28,000	28,000
Actual debt at 31 March	**81,190**	**109,190**	**109,190**	**109,190**
Capital Financing Requirement	106,622	134,030	133,239	132,432
Under borrowing	**25,432**	**24,840**	**24,049**	**23,242**

5. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 10th February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

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 the current economic climate, 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

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

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function OR i*nsert any changes to the criteria you wish to make, with supporting criteria.*

CDS prices

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

Investment balances

The internal investment balance at 30th September 2022 is £54m. Internal investments portfolio yield for the first 6 months of the year is 1.21% (0.18% 2021/22) against a benchmark 90 day backward looking Sonia rate 0.91%, the performance exceeded the benchmark. Actual Internal investment Income 30th September 2022 earned £310k.

The interest & rental income earned by the Council's £5m External Property Funds' Lothbury & Hermes investments as at 30th September 2022 is £92k net return 1.4% (£92.5k 2021/22 net return 1.58%) This is a good rate of return for this half year in comparison to internal investment rate of 1.21% and 12 months backward Sonia rate 0.37%.

The original valuation of Lothbury Property Investment was £2.417m and for the first half of 2022/23 the value is £2.631m overall valuation increase of £214k to date.

The original valuation of Hermes Property Investment was £2.5m and for the first half of 2022/23 the value is £2.683m overall valuation increase £184k to date.

In summary, the Council's budgeted annual investment return for 2022/23 is £300k, the total interest earned to date is £402k including Property Funds to date. (£387k in 2021/22), given the Council has been able to take advantage of the increased interest rates on some investments the actual investment income has outperformed the budget to date.

The Head of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2022/23.

6. Borrowing

The Council's capital financing requirement (CFR) for 2022/23 is £134,030m. The CFR 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; however, Table 4.4 shows the Council has actual borrowings in 2022/23 of £81,190m, this is £2m of an external loan which matures in 2024 and £79,190m HRA Debt, and has utilised £24,210m of cashflow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2022

Gilt yields and PWLB rates were on a generally rising trend throughout H1 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September.

The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%, It is not clear at this stage whether this would represent a peak rate, and at what point rates could be expected to fall.

PWLB maturity certainty rates year to date to 30th September 2022

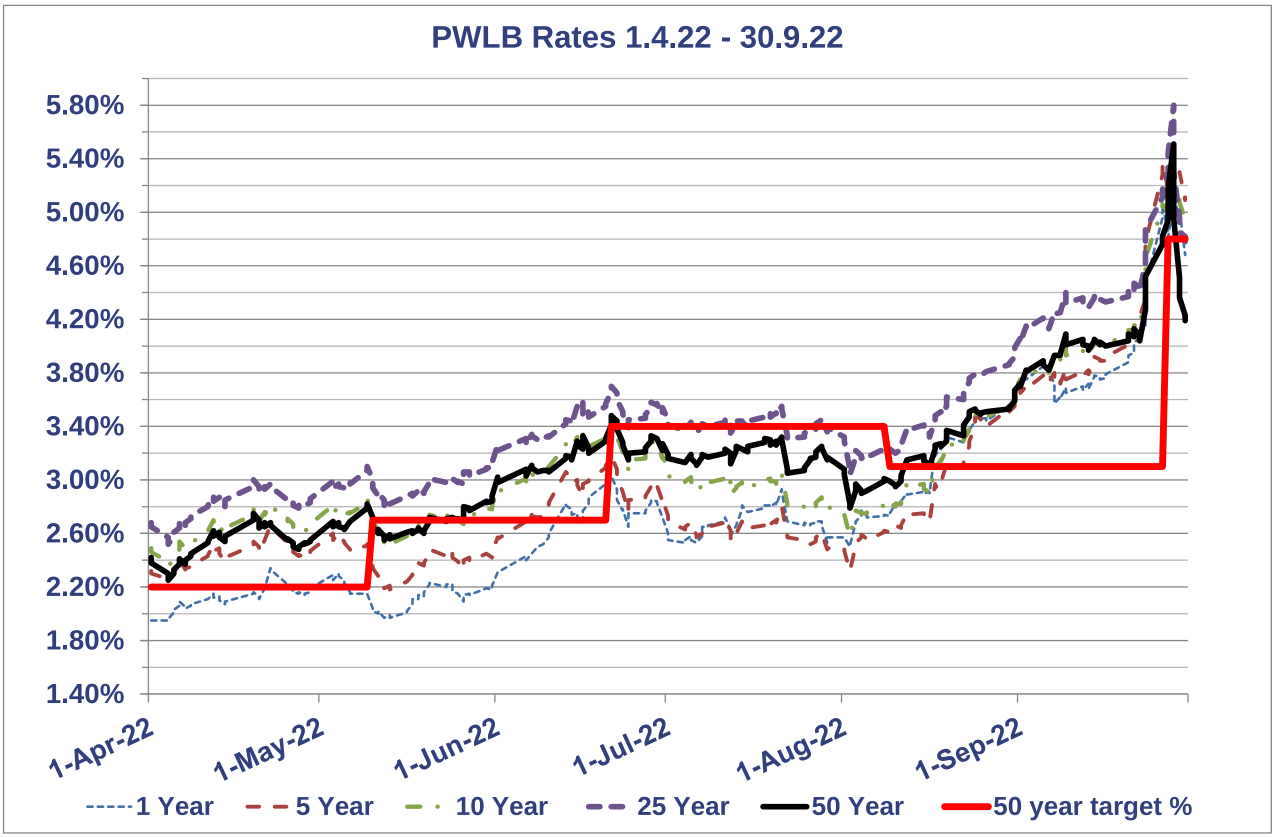
Gilt yields and PWLB rates were on a rising trend between 1st April and 30th September.

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. It is anticipated that further borrowing will not be undertaken during this financial year.

Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), no new external borrowing has been undertaken. The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our 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.

7. Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. No new external borrowing was undertaken during the half year.



Appendices

Appendix 1: Portfolio of investments as at 30th September 2022

Appendix 2: Approved countries for investments as at 30th September 2022

Appendix 3: Glossary of Terms

APPENDIX 1: Investment Portfolio

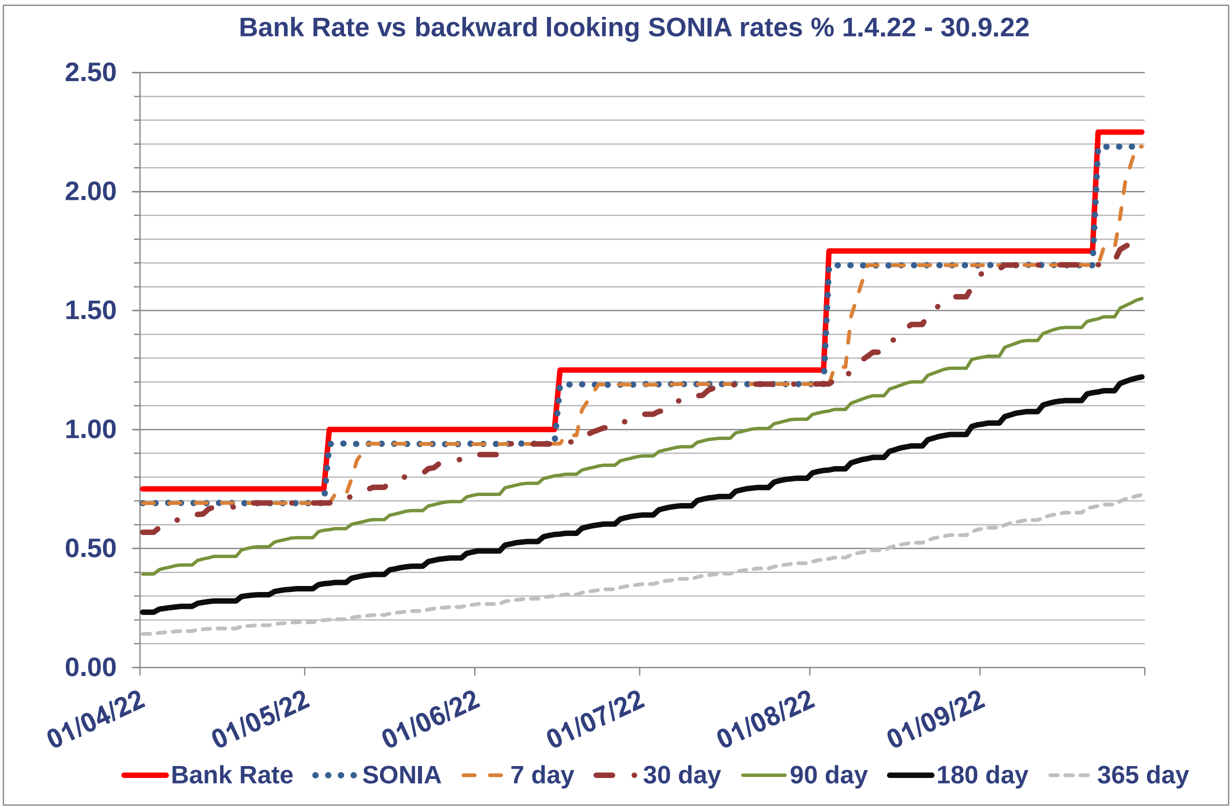
Investments held as at 30 September 2022	Maturity	£000
SMBC Bank International	13/10/2022	3,000
Standard Chartered Bank - Sustainable Deposit	14/11/2022	3,000
Lloyds Bank Corporate Markets	24/01/2023	3,000
Close Brothers	27/01/2023	2,000
HSBC	02/11/2022	4,000
Standard Chartered Bank - Sustainable Deposit	01/11/2022	2,500
HSBC	19/10/2022	5,000
HSBC	23/12/2022	5,000
HSBC	05/10/2022	2,000
Goldman Sachs International Bank	35 Day Notice	2,500
Santander	180 Day Notice	8,000
Federated Money Market Fund	1 Day Notice	10,620
Insight Money Market Fund	1 Day Notice	3,410
Total Managed Internally		**54,030**
Lothbury Property Fund	n/a	2,500
Hermes Property Fund	n/a	2,500
Total Managed Externally		**5,000**
TOTAL TREASURY INVESTMENTS		**59,030**

Internal Investment performance year to date as at 30 September 2022 (Excludes Property Funds)

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
3 month	0.91%	1.21%	£310k

QUARTER ENDED 30/9/2022

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	2.25	2.19	2.19	1.82	1.55	1.22	0.73
High Date	22/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	1.28	1.22	1.19	1.11	0.91	0.67	0.37
Spread	1.50	1.50	1.50	1.26	1.16	0.99	0.58


Bank Rate vs backward looking SONIA rates % 1.4.22 - 30.9.22
2.50
2.00
1.50
1.00
0.50
0.00
01/04/22
01/05/22
01/06/22
01/07/22
01/08/22
01/09/22
Bank Rate
SONIA
7 day
30 day
90 day
180 day
365 day

APPENDIX 2: Approved countries for investments as at 30th September 2022

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

APPENDIX 3: Glossary of Terms

Capital Financing Requirement

CFR is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of expenditure above, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

Operational Boundary

The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum 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.

Gross External Debt

This is the total amount borrowed by the Council at a point in time.

Investments

The budgeted figure is the estimated average funds available for investment during the year. The actual figure is the total amount invested as at 30th September for Internal Investments and 30th June Property Funds.

Net Borrowing

Net borrowing is gross external debt less investments.

Loans

In this mid-year (and previously) interest receivable has exceeded interest payable for the General Fund producing a negative number for net interest payable and a somewhat odd-looking negative ratio; this can be construed as indicating that the Council has no issues servicing General Fund loans at this time.