Public Document Pack

Please note that the following documents were published separately from the main agenda for this meeting of the Performance Scrutiny Committee to be held on Thursday, 17th November 2022 at 6.00 pm in Committee Rooms 1-2, City Hall.

7. Treasury Management and Prudential Code Update Mid-Year Report 30 September 2022 (Pages 3 - 20)

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Item No. 7

PERFORMANCE SCRUTINY COMMITTEE **17 NOVEMBER 2022**

SUBJECT:	**TREASURY MANAGEMENT AND PRUDENTIAL CODE UPDATE MID YEAR REPORT – 30TH SEPTEMBER 2022**
REPORT BY:	**CHIEF EXECUTIVE & TOWN CLERK**
LEAD OFFICER:	**COLLEEN WARREN, FINANCIAL SERVICES MANAGER**

1. Purpose of Report

1.1 This report covers the Council's treasury management activity and the actual prudential indicators for the period 1st April 2022 to 30th September 2022. This is in accordance with the requirements of the Prudential Code.

2. Executive Summary

2.1 The Treasury Management position and performance results for the 6 months ended 30th September 2022 are set out as follows.

2.1.1 Investment Portfolio

The Council held £64million of investments as at 30th September 2022. The investment profile is shown in Appendix A.

Of this investment portfolio 100% was held in low risk specified investments, the requirement for the year being a minimum of 25% of the portfolio to be specified investments. During the 6 months to 30th September on average 100% of the portfolio was held in low risk specified investments and an average of 0% of the portfolio was held in non-specified investments (with other local authorities).

Liquidity – The Council seeks to maintain liquid short-term deposits of at least £5 million available with a week's notice. The weighted average life (WAL) of investments for the year was expected to be 0.08 years (29 days). At 30th September 2022 the Council held liquid short term deposits of £24 million and the WAL of the investment portfolio was 0.17 years (61 days). The WAL of the investment portfolio is higher than expected.

Security - The Council's maximum security risk benchmark for the portfolio as at 30th September 2022 was 0.012%, based on the historic risk of default of the counterparties and types of accounts in which the council's funds are place – this equates to a potential loss of £0.008m on an investment portfolio of £64m. This represents a very low risk investment portfolio.

Yield – The Council achieved an average return of 1.3% on its investment portfolio for the 6 months ended 30th September 2022. This compares favourably with the target SONIA rate at 30th September of 1.22%.

2.1.2 External Borrowing

At 30th September 2022 the Council held £130.070 million of external borrowing, of which 100% were fixed rate loans (Appendix A).

As at 30th September 2022, the average rate of interest paid during quarters 1 and 2 on external borrowing was 3.01%. This is lower than the budgeted rate set in the MTFS 2022-27 of 4.25%; there has been a reduction in external borrowing during the first 6 months of the year as some borrowing has been repaid and internal balances used to fund expenditure.

3. Background

3.1 The prudential system for capital expenditure is well established. One of the requirements of the Prudential Code is to ensure adequate monitoring of the capital expenditure plans, prudential indicators (PIs) and treasury management response to these plans. This report fulfils that requirement and includes a review of compliance with Treasury and Prudential Limits and the Prudential Indicators at 30th September 2022. The Treasury Management Strategy and Prudential Indicators were previously reported to and approved by Council on 1st March 2022.

3.2 This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.

3.3 This report highlights the changes to the key prudential indicators, to enable an overview of the current status of the capital expenditure plans. It incorporates any new or revised schemes previously reported to Members. Changes required to the residual prudential indicators and other related treasury management issues are also included.

4. Prudential Indicators

4.1 This part of the report is structured to provide an update on:

- 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.

4.2 <u>Capital Expenditure</u>

The table below shows the revised estimates for capital expenditure that have been approved by or are subject to Executive approval since Council approved the original budget in March 2022.

Capital Expenditure	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
General Fund	19,407	30,156
HRA	21,721	22,133
Total	**41,128**	**52,289**

4.3 Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above) and the expected financing arrangements for this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council in the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt.

Indicators 1&2	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
Capital Expenditure		
General Fund	19,407	30,156
HRA (including New Build)	21,721	22,133
Total Expenditure	**41,128**	**52,289**
Financed by (General Fund):		
Capital receipts	2,534	3,259
Capital grants & contributions	9,611	18,389
Revenue/Reserve Contributions	203	209
Borrowing need (GF)	**7,059**	**8,299**
Financed by (HRA):		
Capital receipts	1,791	3,469
Capital grants & contributions	495	495
Depreciation (HRA only)	8,941	10,243
Revenue/Reserve Contributions	6,194	4,374
Borrowing need (HRA)	**4,300**	**3,552**

The principal changes in the financing, from the original estimates approved in March 2022 are as a result of the re-profiling of expenditure and new projects funded by a combination of grants and borrowing. The most significant of the changes is in relation to the inclusion of the Towns Fund programme, for which the Council is the Accountable Body, in the General Investment Programme. The Council is not directly delivering all of the Towns Fund Programme.

4.4 <u>The Capital Financing Requirement (CFR), External Debt and the Operational Boundary</u>

The table below shows the Capital Financing Requirement, which is the Council's underlying need to borrow for a capital purpose. It also shows the expected debt position over the period, which is termed as the Operational Boundary.

Indicators 3 & 4	**2022/23 Original Estimate £000**	**2022/23 Revised Estimate £000**
General Fund – CFR	69,398	71,798
HRA - CFR	78,189	78,003
Total CFR	147,587	149,801
Net movement in CFR	**4,456**	**6,943**

Indicator 5	**2022/23 Original Estimate £000**	**2022/23 Revised Estimate £000**
Borrowing	139,000	122,000
Other long term liabilities *	0	0
Total Debt 31 March	**139,000**	**122,000**

* Other long term liabilities includes Finance leases- a change in accountancy practice is currently estimated to result in finance liabilities in 24/25 onwards which will be reported in the Treasury Management Strategy

The Council is currently under-borrowed against the CFR, as, whilst the Council has adequate cash balances and employs internal resources until cash flow forecasts indicates the need for additional borrowing or rates are available that reduce the cost of carrying debt. PWLB borrowing rates have increased and forecasts show that they will remain elevated for some little while. £5m short term borrowing has been undertaken during the period. Over £8m of borrowing is maturing in 2022/23 with a view to not being replaced in the current climate whilst balances remain high.

The HRA borrowing requirement is considered independently from that of the General Fund. Further borrowing is anticipated and will be reported as part of the MTFS and Treasury Management Strategy.

4.5 <u>Limits to Borrowing Activity</u>

The first key control over the Council's borrowing activity is a prudential indicator to ensure that over the medium term, net borrowing 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 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.

Indicator 6	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
Gross Borrowing	139,000	122,000
Investments	(30,000)	(45,000)
Net Borrowing	**109,000**	**77,000**
CFR	147,587	149,900
Net borrowing is below CFR	**38,587**	**72,900**

Due to changes in accounting practice the CFR in future years will include lease liabilities that are currently not recognised on the balance sheet. The council is engaged in establishing the amounts of these liabilities (previously treated as operating leases and treated as rental expenditure) and estimates will be made in the Treasury Management Strategy.

The Chief Finance Officer reports that no difficulties are envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the budget report.

A breakdown of the loans and investments profile is provided in Appendix A.

A further two prudential indicators control the overall level of borrowing. These are:

1. **The Authorised Limit** – This 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.

2. **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. CIPFA anticipate that this should act as an indicator to ensure the authorised limit is not breached.

Indicator 7 – **Authorised limit for external debt***	**2022/23 Original Estimate £000**	**2022/23 Current Position £000**	**2022/23 Revised Estimate £000**
Borrowing	156,991	130,070	151,970
Other long-term liabilities**	1,380	0	0
Total Authorised limit	**158,371**	**130,070**	**151,970**

Indicator 8 – **Operational boundary for external debt***	**2022/23 Original Estimate £000**	**2022/23 Current Position £000**	**2022/23 Revised Estimate £000**
Borrowing	148,523	130,070	137,000
Other long-term liabilities**	1,200	0	0
Total Operational Boundary	**149,723**	**130,070**	**137,000**

* The highest level of external debt during the first half of 2022/23 was £130.070m.

** Other long-term liabilities include Finance leases.

There have been revisions to the capital programme since the Medium-Term Financial Strategy was set in March 2022 which have impacted on authority's capital financing requirement and as a result, to the figures calculated for the operational boundary for borrowing. The limits for the Operational Boundary allow for previous use of internal borrowing to be replaced by external borrowing should the Chief Finance Officer decide that it is appropriate and prudent to do so.

Other Prudential Indicators

4.6 Appendix B details the updated position on the remaining prudential indicators and the local indicators.

5. Treasury Management Strategy 2021/22 to 2023/24 Update

5.1 Economics update

- 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.

Current medium term interest rate forecasts are shown below:

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

5.2 Borrowing Activity

5.2.1 The uncertainty over future interest rates increases the risks associated with treasury activity. As a result, the Council will take a cautious approach to its treasury strategy.

5.2.2 Long-term fixed interest rates are on a generally rising trend. The Chief Finance Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. The approved funding of the current capital programme does require borrowing to be taken during 22/23 and the forthcoming years. In addition to this there has been internal borrowing (i.e. using cash balances), to fund previous years' capital expenditure, which may need to be replaced at some point in the future with external borrowing. The current key challenge is anticipating the optimum point at which any future borrowing should be taken. Any future borrowing will increase cash holding at a time when counterparty risk remains high and investment returns are low. In this scenario, borrowing is likely to be postponed until cash flow need is more apparent.

5.2.3 Opportunities for debt restructuring will be continually monitored. Action will be taken when the Chief Finance Officer feels it is most advantageous.

5.3 Investment Strategy 2022/23 to 2024/25

5.3.1 The objectives of the Council's investment strategy are the safeguarding of the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following on from the economic background above, the current investment climate is one of over-riding risk consideration i.e. that of counterparty security risk. As a result of these underlying concerns, officers continue to implement an operational investment strategy, which tightens the controls already in place in the approved investment strategy.

5.3.2 The Council held £64million of investments as at 30th September 2022 and the investment profile is shown in Appendix A.

5.4 Risk Benchmarking

The Investment Strategy for 2022/23 includes the following benchmarks for liquidity and security. Yield benchmarks are contained within section 6.

5.4.1 *Liquidity* – The Council has no formal overdraft facility and seeks to maintain liquid short-term deposits of at least £5 million available with a weeks' notice which has been increased in the light of the pandemic to ensure adequate liquidity.

The weighted average life (WAL) of investments for the year was expected to be 0.08 years (29 days). At 30th September 2022 the Council held liquid short term deposits of £24 million and the WAL of the investment portfolio was 0.17 years (61 days).

The Chief Finance Officer can report that liquidity arrangements were adequate during the year to date

5.4.2 *Security* – The Council's maximum security risk benchmark for the portfolio as at 30th September 2022 was 0.012%, which equates to a potential loss of £0.008m on an investment portfolio of £64m. This is equivalent to the budgeted maximum risk of 0.012% in the Treasury Management Strategy. It represents a very low risk investment portfolio which carries a very much lower level of risk than Link's model portfolio and other local authorities within our benchmarking group.

The target set within the 2022/23 Strategy is that a minimum of 25% of the portfolio must be held in low risk specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this overall benchmark during the year to date. At 30th September 2022, 100% of the investment portfolio was held in low risk specified investments.

6. Yield Benchmarking

6.1 At the point of writing this report the benchmarking information is unavailable however, should this become available before the committee a supplementary report will be provided at the meeting.

7. Strategic Priorities

7.1 One Council - Through its Treasury Management Strategy the Council seeks to reduce the amount of interest it pays on its external borrowing and maximise the interest it achieves on its investments.

8. Organisational Impacts

8.1 Finance

The financial implications are covered in the main body of the report.

8.2 Legal

The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the MHCLG Investment Guidance when carrying out their treasury management functions.

8.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

Due to the nature of the report, no specific Equality Impact Analysis is required.

9. Risk Implications

9.1 The Local Government Act 2003, the Prudential Code and the Treasury Management Code of Practice include a key principal that an organisations appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing.

10. Recommendations

10.1 It is recommended that members note the Prudential and Local Indicators and the actual performance against the Treasury Management Strategy 2022/23 for the half-year ended 30th September 2022.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	Two
List of Background Papers:	Treasury Management Strategy 2022/23 (Approved by Council March 2022)
Lead Officer:	Colleen Warren, Financial Services Manager Telephone (01522) 873361

Appendix A

Borrowing Profile at 30th September 2022

	Long term borrowing	
	Fixed rate	Variable rate
	£ 000	£ 000
PWLB loans	94,070	0
Other Market loans	16,000	0
Local Authority loans	20,000	0
TOTAL	**130,070**	**0**

Investment Profile at 30th September 2022

	Total Principal invested	Short term	
		Fixed rate	Variable rate
	£ 000	£ 000	£ 000
UK Banks & Building societies (including Call accounts)	**40,000**	40,000	0
UK Money Market Funds	**24,400**	0	24,400
TOTAL	**64,400**	**40,000**	**24,400**

Updated Position on the Remaining Prudential and Local Indicators

Affordability Prudential Indicators

Actual and estimates of the ratio of financing costs to net revenue stream – This indicator identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the net revenue stream.

Ratio of Financing Costs to Net Revenue Stream

Indicators 9 & 10	**2022/23 Original Estimate £000**	**2022/23 Current Position £000**
General Fund	26.8%	24.5%
HRA	31%	30.4%

The ratios are broadly in line with expectations.

Treasury Management Prudential Indicators

The first treasury indicator requires the adoption of the CIPFA Code of practice on Treasury Management. This Council adopted the Code of Practice on Treasury Management on 1st March 2011 (revised 2021), and as a result adopted a Treasury Management Policy & Practices statement.
There are four further indicators:

Upper Limits On Variable Rate Exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Upper Limits On Fixed Rate Exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

These indicators are complemented by four local indicators:
- Limit on fixed interest rate investments
- Limit on fixed interest rate debt
- Limit on variable rate investments
- Limit on variable rate debt

During the first half of the year the highest and lowest exposure to fixed and variable rates were as follows:

Indicators 11 & 12	2022/23 Limit (Upper) £million	2022/23 Max Q1 & Q2 £million	2022/23 Min Q1 & Q2 £million
Upper limits on interest rate exposures			
Upper limits on fixed interest rates	134.0	104	90
Upper limits on variable interest rates	55.4	(34)	(22)

*Indicators are negative as they relate to investments only – the council has no variable rate debt

	2022/23 Limit %	2022/23 Max Q1 & Q2 %
Local indicator limits based on debt only		
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	0%
Local indicator limits based on investments only		
Limits on fixed interest rates	100%	64%
Limits on variable interest rates	75%	59%

The use of variable rate, instant access instruments increased at the beginning of the pandemic to ensure that the council had liquid funds available to meet payments to support businesses and council activities. The 75% limit on variable rate investments was exceeded on nil days between April and September.

Maturity Structures Of Borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

Indicator 13	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
Maturity Structure of fixed borrowing (Upper Limits)		
Under 12 months	40%	40%
12 months to 2 years	40%	40%
2 years to 5 years	60%	60%
5 years to 10 years	80%	80%
10 years and above	100%	100%
Maturity Structure of fixed borrowing (Lower Limits)		
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above*	10%	10%

As at 30th September 2022 the maturity structure of borrowing during the first half of the year was as follows:

Indicator 13	At 30/9/2022	At 31/3/2023

Maturity Structure of fixed borrowing	%	%
Under 12 months	6%	6%
12 months to 2 years	10%	10%
2 years to 5 years	2%	2%
5 years to 10 years	9%	9%
10 years and over	73%	73%

Total Principal Funds Invested – These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

Indicator 14	2022/23 Original Estimate £000	2022/23 Revised Estimate £000	2023/24 Original Estimate £000	2023/24 Revised Estimate £000	2024/25 Original Estimate £000	2024/25 Revised Estimate £000
Maximum principal sums invested > 1 year	£7m	£0m	£7m	£0m	£7m	£0m

As at 30th September 2022, there were no principal funds invested over 1 year.

Local Prudential Indicators

In addition to the statutory and local indicators listed above the Director of Resources has set four additional local indicators aimed to add value and assist in the understanding of the main indicators. These are:

1. Debt – Borrowing rate achieved against SONIA rate

	2022/23 Target %	2022/23 Actual – 30th September %
Debt – borrowing rate achieved (i.e. temporary borrowing of loans less then 1 year)	Less than SONIA rate	No temporary loans taken

2. Investments – Investment rate achieved against the SONIA rate

2022/23 Target %	2022/23 Average Actual – 30th September %	2022/23 Investment Interest Earned – 30th September £'000
Greater than SONIA rate	Achieved average 1.302% compared to 1.22% SONIA rate	382

The interest rate achieved on investments compares favourably to the SONIA rate due to the use of fixed term, fixed rate investments, plus the greater use of semi-fixed rate call accounts and money market funds which pay a premium over the SONIA rate.

3. Average rate of interest paid on the Council's debt during the year (this will evaluate performance in managing the debt portfolio to release revenue savings).

	2022/23 Target %	2022/23 Average Q1&Q2 %
Average rate of interest paid on Council debt	4.25%	3.15%

4. The amount of interest on debt as a percentage of gross revenue expenditure. The results against this indicator will be reported at the year-end.

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