SLOUGH BOROUGH COUNCIL

REPORT TO:	Cabinet
DATE:	21 November 2022
SUBJECT:	Treasury Management Mid-Year Report
PORTFOLIO:	Councillor Rob Anderson Lead Member for Financial Oversight and Council Assets
CHIEF OFFICER:	Steven Mair, Executive Director Finance and Commercial (s151)
CONTACT OFFICER:	Miriam Adams, Finance Manager - Treasury Peter Worth, Finance Lead Technical Advisor
WARD(S):	All
KEY DECISION:	YES
EXEMPT:	Public
DECISION SUBJECT TO CALL IN:	YES
APPENDICES:	1 – Economic Outlook 2 – Approved Counterparty List

1. Summary and Recommendations

1.1. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance. Members are requested to note the report which summarises treasury activity for the first half of 2022-23.

Recommendations:

1.2. Cabinet is recommended to:

a) Note the Treasury Management activities for the first half of 2022/23 is set out in the body of this report.

b) Approve the revised treasury debt maturity profile limit indicator. Para 2.63

c) Approve the revised limits for investments and service loans. Appendix 2

Reason:

1.3. To promote effective financial management relating to the Council's borrowing and investment powers contained in the Local Government Act 2003, associated regulations and guidance.

1.4. Managing down the Council's overall loan debt portfolio and debt charges forms a key part of the Council's path to financial recovery.

Commissioners Review

1.5 The Commissioners have reviewed the report and agree with the contents

2. Report

Introduction

2.1. The Council has powers to borrow and investment money under Part 1 of the Local Government Act 2003. In applying these powers, the Council is required to have regard to statutory guidance issued by the Secretary of State and Codes of Practice issued by CIPFA. The Council is obliged to follow these documents unless there is good reason not to.

2.2. The Statutory Guidance requires the Council to:

a) Agree a treasury strategy for borrowing;

b) Prepare an annual investment strategy; and

c) Prepare an interim and annual treasury management review.

2.3. The Treasury Management Strategy (TMS) approved by Council 10 March 2022 met the requirements of 2.2 a) and b). This report meets the requirements of 2.2 c).

Background

2.4. As reported in the TMS in March 2022, the Council's borrowing had reached £760m at 31 March 2021, which was the third highest per head of population amongst all unitary authorities. In particular around 50% of this was short-term temporary borrowing from other local authorities exposing the Council to financial risks including changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

2.5. CIPFA published its revised Treasury Management Code of Practice (the TM Code) and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish. This Council adopted the revised reporting requirements with effect from 2022/23 as was reported in its Treasury Management Strategy.

2.6. Treasury risk management at the Council is conducted within the framework of the TM Code. This Code now also includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

External Context

The Economic background

2.7. The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further. The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

2.8. Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions. UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

2.9. The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

2.10. The Bank of England (BoE) increased the official Bank Rate to 2.23% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

2.11. On 23rd September the UK Government, following a change in leadership, announced a raft of measures in a "mini budget", loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

2.12. Eurozone CPI inflation reached 9.1% year on year in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial Markets

2.13. Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

2.14. Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

2.15. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Credit review

2.16. Between July and October, rating agencies revised the outlook on a number of counterparties from stable to negative and vice versa.

Local Context

2.17. On 30th September 2022, the Council had net borrowing of £571.822m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

2.18. These factors are summarised in Table 1 below showing the balance sheet summary and liability benchmark.

Table 1

Position at 31 March	Actual 2020/21 Unaudited £m	Actual 2021/22 Unaudited £m	Forecast 2022/23 £m	Forecast 2023/24 £m	Forecast 2024/25 £m
General Fund CFR	531.849	496.475	468.983	419.452	394.409
Capitalisation Direction (GF cost)		201.006	59.104	42.962	29.211
HRA CFR	194.154	136.533	136.533	136.533	136.533
Total CFR	**726.003**	**834.014**	**664.620**	**598.947**	**560.153**
*Less Other debt liabilities					
PFI and Leasing	(35.835)	(34.402)	(33.062)	(31.253)	(29.111)
Loans CFR	**690.168**	**799.612**	**631.558**	**567.694**	**531.042**
External Borrowing	735.000	641.000	582.000	499.000	385.000
Under / (over) borrowing	**(44.832)**	**158.612**	**49.558**	**68.694**	**146.042**
*Less Balance sheet resources					
Useable GF Reserves	3.000	20.000	30.500	31.500	25.000
Useable HRA Reserves	10.978	8.193	8.871	9.934	10.515
Investments (new borrowing)	**(30.854)**	**186.805**	**88.929**	**110.128**	**181.557**

2.19. It should be noted that the above table is based on the unaudited data for 2020/21 and 2021/22. Therefore, the CFR projections may alter as the accounts are prepared and the audits of the previous years' accounts are completed.

2.20. As reported in the TMS approved in March 2022, the over-borrowing in 2020/21 indicates that the Council was in effect, borrowing for a revenue purpose. Whilst this can happen occasionally, it demonstrates that the Council was operating close to the statutory borrowing limits. The statutory limits for 2020/21 were the operational boundary of £808m and the authorised limit of £859m. Therefore, the Council was close to but did not exceed the statutory limits.

2.21. The total CFR increased in 2021/22 by £108m which is largely due to the impact of the Capitalisation Direction of £201m. What the Capitalisation Direction does is to transfer a deficit from the General Fund to the balance sheet, which then allows the "capitalised" revenue expenditure to be funded either from Minimum Revenue Provision (MRP) over 20 years or from capital receipts. The Capitalisation Direction sums in subsequent years reflect the forecast General Fund deficits for those years, which have been factored into the Council's budget forecasts.

2.22. The total CFR is forecast to reduce significantly by £169m from £834m in 2021/22 to £665m in 2022/23. This is principally due to the forecast capital receipts due in 2022/23 which not only allow the Council to reduce the CFR and thus reduce the MRP charge in 2023/24 and subsequent years, but also allows the Council to reduce its overall borrowing level, and thus reduce interest charges in the medium-term.

Cash flow £m	2020/21	2021/22	2022/23	2023/24	2025/25
Capex increasing Loans CFR	35.562	0.000	3.150	0.000	1.500
MRP on Loans CFR	(7.911)	(9.789)	(17.308)	(13.826)	(11.618)
Net cash (inflow) outflow	**27.651**	**(9.789)**	**(14.158)**	**(13.826)**	**(10.118)**

2.23. The treasury management position on 30th September 2022 and the change over the six months is shown in Table 2 below.

Table 2

	31.3.22 Balance £m	Movement £m	30.9.22 Balance £m	30.9.22 Rate %
Long-term borrowing				
Market loans	13	0	13	4.15
PWLB	365	-4	361	
	378	**-4**	**374**	
Short-term borrowing	344	-74	270	1.67
Total borrowing	**722**	**-78**	**644**	
Long-term investments	75	-13	63	
Short-term investments	14	-14	0	0.00
Cash and cash equivalents	70	-61	9	
Total investments	**159**	**-87**	**72**	
Net [borrowing]	**562**	**10**	**572**	

Borrowing

2.24. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investments assets primarily for yield. This Council intends to avoid this activity in order to retain its access to PWLB loans.

2.25. The Council currently holds £165m in commercial investments at 31 March 2022 (i.e. held as investment property) that were purchased prior to the change in the CIPFA Prudential Code. As part of the Council's asset disposal strategy, the Council has declared these assets surplus and these will be sold in order to fund the Council's Capitalisation Direction and reduce long-term borrowing.

Borrowing Strategy and Activity

2.26. As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

2.27. Over the April – September 2022 period short term PWLB rates rose dramatically, particular in late September 2022 after the Chancellor's 'mini-budget', included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies. Exceptional volatility threatened financial stability, requiring Bank of England intervention in the gilt market. Over a twenty-four-hour period some PWLB rates increased to 6%, before the intervention had the desired effect, bringing rates back down by over 1% for certain maturities. A truly wild and unprecedented period in fixed income markets, with a direct impact on PWLB rates.

2.28. Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5-year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%

2.29. At 30th September, the Council held £644m of loans, (a decrease of £78m) from March 2022 £722m.

2.30. Outstanding loans on 30th September are summarised in Table 3A below.

Table 3A

	31.3.22 Balance £m	Net Movement £m	30.9.22 Balance £m	30.9.22 Weighted Average Rate %	30.9.22 Weighted Average Maturity (years)
Public Works Loan Board	365	-4	361	2.603	13.9
Banks (fixed-term)	13	0	13	4.153	39.65
Local authorities (short-term)	344	-74	270	1.305	0.906
Total borrowing	**722**	**-78**	**644**		

Other Debt Activity

2.31. Although not classified as borrowing, the Council has outstanding at 31st March 2022 £34m of capital finance in the form of PFI and finance leases. After repayment of prior years liabilities, total debt other than borrowing stood at £33m on 30th September.

Treasury Investment Activity

2.32. CIPFA's revised TM Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business. The Council holds £9.3m of invested funds and cash balances representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £130k and £28m.

2.33. The investment position is shown in table 4 below.

Table 4

	31.3.22 Balance £m	Net Movement £m	30.9.22 Balance £m	30.9.22 Income Return %	30.9.22 Weighted Average Maturity days
Banks - Lloyds bank balance	66.11	-63.63	2.48	0.00	1
Bank Notice and Reserve Account	4.00	0.00	4.00	1.03	95
Government (incl. local authorities)	14.00	-14.00	0.00	N/A	N/A
Money Market Funds	0.13	2.73	2.86	2.11	1
Other Pooled Funds - Property funds	12.57	-12.57	0.00	N/A	N/A
Total treasury Investments	**96.81**	**-87.47**	**9.34**		

2.34. Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Externally Managed Pooled Funds:

2.35. In June 2015, the Council invested £10m in externally managed strategic pooled property funds. The objective of these was to generate regular revenue income.

2.36. The value of strategic pooled funds vary (Variable Net Asset Value) but are an excellent way of diversifying the Council's investment portfolio. These funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

2.37. The Council liquidated its investments in pooled property funds over the period March-July 2022. This has been used to support paying off temporary borrowing. Proceeds of £13,227,524.27 were received meaning that the Fund had appreciated in value by over £3m.

Non-Treasury Investments

2.38. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

2.39. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return.

2.40. The Council has over the years invested its money for three broad purposes:

- Where it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

2.41. The 2022/23 investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focused on the second and third of these categories.

Service Investments: Loans

2.42. Contribution - Council lends money to its subsidiaries, schools housing associations and its employees.

2.43. Security – The main risk when making service loans is that the borrower will be unable to repay the principal lent and / or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set in the 2022/23 Treasury Management Strategy:

Category of Borrower	**31.09.2022 actual**			**2022/23**
	Balance owing £000s	**Loss Allowance at 30.09.22 £000s**	**Value at 30.09.2022 £000s**	**Approved Limit £000s**
Slough Children First	5.000	0	5,000	5.000
St Bernards School	67	0	67	130
SUR – Old Library Site – senior debt	2.585	0	2.585	
SUR – Old Library Site – loan notes	3.428	0	3.428	13.558
James Elliman Homes Ltd	51.700		51,700	65.900
GRE5	9.600		9,600	10,000
Total	**72.380**	**0**	**72.380**	**100.000**

2.44. Following approval under the TMS, the loan agreement with GRE 5 Ltd was executed in August 2022, and expenditure totalling £9.6m which had been incurred by the Council on the company's behalf was transferred into the loan account. The loan to GRE 5 is being repaid by the company on receipts of grant from Homes England.

2.45. The loans to James Elliman Homes Ltd, St Bernards School and Slough Children First have all been advanced at below commercial rates (known as soft loans).

2.46. The loans to SUR and GRE 5 Ltd have been advanced to generate income yield ofincome yield of at least 5% which compares favourably to the best performing Treasury Investment the CCLA Property Fund which generated 4.83% income between April 2022 to July 2022 before liquidation to repay temporary loans.

Service Investments: Shares

2.47. Contribution – The Council invests in shares of its subsidiaries to support local public services.

2.48. Security – one of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares were set in the Treasury Management Strategy. Since the approval of the Treasury Management Strategy in March, the Council has closed all dormant wholly owned companies.

Category of Company	31.09.2022 actual			2022/23
	Amounts Invested £	Gains or losses £	Value at 30.09.2022 £	Approved Limit £
Subsidiary companies:				
GRE 5 Ltd	455,001		455,001	
Development Initiative for Slough Housing Ltd	2		2	
Slough Children First Ltd	1		1	
James Elliman Homes Ltd	1		1	
Joint Venture:				
Slough Urban Renewal LLP (JV)	100		100	
Total	**455,105**		**455,105**	**500,000**

Commercial Investments: Property

2.49. Over the past 5 years the Council has invested substantially in commercial property with the intention of generating a surplus to support the revenue budget.

2.50. Security – In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase costs including taxes and transaction costs. The Council's investment property portfolio was revalued at 31 March 2022. For those investment properties schedule for sale up to date valuations were obtained in September and October 2022. Overall the underlying assets provide security for debt repayment and capital investment, but there have been some significant losses, which is to be expected in any property investment portfolio.

2.51. Liquidity – compared to other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions.

2.52. During 2022/23, no new assets were purchased by the Council and as part of the Council's asset disposal strategy, all investment property will be sold in order to generate capital receipts to reduce Council borrowing.

Treasury Performance

2.53. The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below at 30 September. The borrowing interest forecast assumes £140m receipts from asset sales in November 2022 and additional PWLB borrowing of £40m in October 2022.

Table 6

	Actual 30.09.22 £m	**Forecast 31.03.23 £m**	**Interest Actual £m**	**Interest Budget £m**	**Over/ Under £m**
PWLB	**360.940**	**367.001**	**10.201**	10.134	**0.067**
Market and temporary Loans	**283.000**	**151.500**	**4.317**	4.500	**0.183**
Total borrowing	**643.940**	**518.501**	**14.518**	14.634	**0.25**
PFI and Finance leases	34.402	33.062			
Total debt					
Treasury Investments					
Money Market Funds	2.855	-	0.223	-	-
Lloyds bank Balance	2.483	-	-	-	-
Santander and other fixed deposits	4.000	4.000	0.180		
Total Treasury Investments	9.338	4.000	0.403	0.400	0.003
Non Treasury Investments					
Service investments: Loans	66.595	62.78	2.578	2.200	0.378
Service investments; Shares	0.455	0.455	N/A-	-	-
Commercial investments: Property	165.000	75.000	7.249-	7.000	0.249

Compliance

2.54. The Director of Finance (S151 Officer) reports that all treasury management activities undertaken during the half year to 30 September 2022 complied fully with the CIPFA Code of Practice and the Council's approved 2022/23 Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Operational Boundary and Authorised Limits

2.55. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7

	31.03.22 Maximum	30.9.22 Actual	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied? Yes/No
Borrowing	722	644	677	881	YES
PFI and Finance Leases	**35**	**34**	**36**	**36**	YES
Total debt	**755**	**678**	**713**	**917**	

The operational boundary is a management tool for in-year monitoring.

Investment Limits

2.56. Table 8 below shows compliance against investment limits approved in the 2022/23 treasury management strategy in March 2022.

Table 8

	Minimum credit criteria	Max % of total investments/ £ limit per institution	30.9.22 Actual £m	2022/23 Max maturity period	Complied? Yes/No
Specified Investments					
DMADF – UK Government	N/A	100%	NIL	6 months	N/A
Money market funds: CNAV and VNVAV	AAA	100%	2.855	Daily Liquidity	Yes
Local Authorities	N/A	100% / £20m	NIL	10 years	N/A
Lloyds Bank plc (the Council's bankers)	A+	£20m £5m	2.483	Overnight deposits** Up to 12 months	Yes
Term deposits with banks and rated building societies	A+	100%	£4m	Up to 3 years	Yes
Non Treasury Investments					
Loans (as a form of investment) to be made to organisations	N/A	£100M	62.78m	7 years	Yes
Shareholdings in limited companies and joint ventures £0.500					

2.57. It should be noted that the Lloyds balances at 31 March 2022 was £66m. This has been reduced to less than £20m, by transferring balances into money market funds. This reflects tighter cash management.

Treasury Management Indicators

2.58. The Council measures and manages its exposures to treasury management risks using the following indicators.

Liquidity

2.59. The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available via its cash flow to meet unexpected payments within a rolling twelve-month period. It can borrow each period without giving prior notice. All borrowing has remained within the CFR approved by Council in March 2022.

	30.9.22 Actual	2022/23 Target	Complied?
Total cash available within 3 months	9.38	£20m	Yes
Total sum borrowed in past 9 months without prior notice	-	-	Yes

Interest Rate Exposures

2.60. This indicator is set to control the Council's exposure to variable interest rate loans. The Council has no variable interest rate loans in its portfolio. All loans of fixed interest rates. The Council is however impacted by increasing in interest rates at the point of refinancing however this risk is mitigated by the use of capital receipts from asset sales to repay temporary loans.

Interest rate exposure indicator	30.9.22 Actual	2022/23 Limit	Complied?
Limits on fixed interest rates based on net debt	100%	100%	Yes
Limits on variable interest rates based on net debt	0%	60%	Yes

2.61. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing

2.62. This indicator is set to control the Council's exposure to refinancing risks. This indicator covers the risk of replacement loans being unavailable, not interest rate risk. The Council has no LOBOs with option dates as potential repayment date. The Barclays bank LOBOs was converted to fixed rate loans in 2016.

2.63. The Cabinet is asked to approve the revised upper and lower limits. The upper and lower limits on the maturity structure of all borrowing were:

Original Limits		Maturity Structure of Fixed Rate Borrowing	Revised Limits		Actual Fixed Rate Borrowing as at 30.09.22 £m	% Fixed Rate Borrowing as at 30.09.22	Compliance with Set Limits?
Upper Limit %	Lower Limit %		Upper Limit %	Lower Limit %			
70	0	under 12 months	70	0	303.939	47.20%	Yes
50	0	1 to 2 years	50	0	29.000	4.50%	Yes
35	0	3 to 5 years	35	0	4.000	0.62%	Yes
25	0	6 to 10 years	25	0	59.543	9.25%	Yes
25%	0	10 to 20 years	50%	0	152.624	23.70%	Yes
		20 to 30 years			61.833	9.60%	
		30 to 40 years			24.000	3.73%	
		40 to 50 years			9.000	1.40%	
		50 to years			0.000	0.00%	
		TOTAL			**643.939**	**100.00%**	

Principal Sums Invested for Periods Longer than a year

2.64. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2022/23 £m	2023/24 £m	2024/25 £m
Actual principal invested beyond year end	62.78	60.27	56.7
Limit on principal invested beyond year end	100	100	100
Complied?	Yes	Yes	Yes

3. Financial Implications

3.1. This report sets out the Councils performance against the Council's strategies for treasury management and investment activity for the year to date. The strategies approved by the Council in March 2022 are designed to bring the Council back onto a financially sustainable footing, principally by reducing debt, but also by disposing of assets.

4. Legal implications

4.1. The Local Government Act 2003 requires the Council to "have regard to" the Prudential Code and the Treasury Management Code, and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act, accompanying statutory guidance and Codes of Practice referred to through the capital finance regulations requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

5. Risk management implications

5.1. The key risks are:

Risk	Summary	Mitigation
Financial	Delay in realising capital receipts from asset sales will delay the Council's financial recovery	The Council has appointed external consultants to ensure best consideration is achieved through a managed asset disposal plan.
Interest rate risk	Interest rates rise thus increasing borrowing costs. The temporary borrowing portfolio exposes the Council the risk that interest costs will increase more than budgeted	The Council will convert a proportion of temporary borrowing into 3-5 year PWLB maturity loans timed to coincide with the forecast capital receipts.

6. Environmental implications

6.1. There are no specific implications.

7. Equality implications

7.1. There are no specific implications.

8. Procurement implications

8.1. There are no specific implications.

9. Workforce implications

9.1. There are no specific implications.

10. Property implications

10.1. There are no specific implications.

Background Papers

2022/23 Treasury Management Strategy.

<u>**Appendix 1**</u>

Economic Outlook

Treasury adviser's economic outlook for the remainder of 2022/23 based on 26th September 2022 interest rate forecast.

Maturity	28.10.2022	MINIMUM 2022-23	MAXIMUM 2022-23	AVERAGE 2022-23
1 YR	4.04	1.46	5.31	2.83
4.5 - 5 YR	4.52	1.83	5.64	3.03
6.5 - 7YR	4.54	1.91	5.59	3.07
9.5 - 10YR	4.57	2.03	5.65	3.2
14.5 - 15 YR	4.69	2.2	5.91	3.42
29.5 - 30YR	4.52	2.21	5.99	3.42
49.5 - 50YR	4.17	1.92	5.71	3.19

Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

The Bank of England's Monetary Policy Committee (MPC) is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages. The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024. Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

Background

Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the "Mini-Budget", poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The Government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

UK Government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a "circuit breaker" which stops rates rising much beyond 5.0%, but this remains an uncertainty.

<u>Appendix 2</u>

Approved Counterparties: The Council may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown. Approved list per Treasury Management Strategy revised.

<u>Table 4: Approved Investment Counterparties and Limits</u>

Credit Rating	**Minimum Credit Criteria**	**Max % of total investments / £ limit per institution**	**Max. maturity period**
Specified Investments			
DMADF -UK Government	N/A	100%	6 months*
Money market fund: CNAV and VNAV	AAA	100%	Daily Liquidity
Local authorities	N/A	100%/ £20m	10 years
Lloyds Bank plc (the Council's bankers)	A+	£20m £5m	Overnight deposits** Up to 12 months
Term deposits with banks and rated building societies	A+	50%/ £15m	Up to 3 years
Current and Ex-Government Supported banks	A+	50%/ £15m (previously nil limit)	Up to 1 year
Non-specified investments			
UK Government supported banks and Ex-Government supported banks	n/a	£70m or 50% of total investments	3 years
Pooled Vehicles: Enhanced Money Market Funds UK Government and Government Guaranteed securities Pooled Property Funds Short – Term Investment – grade Sterling denominated instruments	N/A	£25m	4 years
Service Loans	N/A	£100m	7 years
Shareholdings in limited companies and joint ventures	N/A	£0.500m	N/A

*DMO- is the maximum period offered by the Debt Management Office of H.M. Treasury
** Over £20m with the explicit agreement of the Director of Finance.