

# Treasury Management Strategy Statement and Annual Investment Strategy

**Mid-Year Review Report  
2022/23**

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# 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. These require all local authorities 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.”

# 2. Introduction

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 Finance, Audit and Risk Committee:

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

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

## 3. Economics and interest rates

### 3.1 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 fell 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 23<sup>rd</sup> 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.
- 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 23<sup>rd</sup> 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 21<sup>st</sup> 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 31<sup>st</sup> October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14<sup>th</sup> 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 28<sup>th</sup> 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 14<sup>th</sup> October or it decides to delay quantitative tightening beyond 31<sup>st</sup> 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.

### 3.2 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 1<sup>st</sup> November 2012.

The latest forecast on 27<sup>th</sup> 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 1<sup>st</sup> 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 |  |
| <b>BANK RATE</b>              | 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 Update

The Treasury Management Strategy Statement, (TMSS), for 2022/23 was approved by the Council on 11th February 2022.

- There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

## 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.

### 5.1 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 1st quarter.

| Capital Expenditure by Service               | 2022/23 Working Estimate<br>£m | Current Position<br>£m | 2022/23 Revised Estimate<br>£m |
|--|--------------------------------|------------------------|--------------------------------|
| Asset Management                             | 5,003                          | 3,931                  | 4,674                          |
| Community Services                           | 368                            | 223                    | 376                            |
| Computer Software and Equipment              | 914                            | 198                    | 939                            |
| Corporate Items                              | 82                             | 0                      | 82                             |
| Growth Fund Projects                         | 713                            | 0                      | 713                            |
| Leisure Facilities                           | 1,536                          | 575                    | 1,485                          |
| Museum & Arts                                | 2,094                          | 14                     | 94                             |
| Parking                                      | 961                            | -54                    | 833                            |
| Renovation & Reinstatement Grant Expenditure | 461                            | 273                    | 461                            |
| Waste  | 120                            | 58                     | 158                            |
| <b>Total capital expenditure</b>             | <b>12,252</b>                  | <b>5,218</b>           | <b>9,815</b>                   |

### 5.2 Changes to the 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                        | 2022/23 Working Estimate<br>£m | Current Position<br>£m | 2022/23 Revised Estimate<br>£m |
|--|--------------------------------|------------------------|--------------------------------|
| <b>Total capital expenditure</b>           | <b>12,252</b>                  | <b>5,218</b>           | <b>9,815</b>                   |
| <b>Financed by:</b>                        |                                |                        |                                |
| Capital receipts and Set Aside Receipts    | 10,526                         | 4,812                  | 8,302                          |
| Other third party grants and contributions | 1,306                          | 230                    | 1,255                          |
| S106 Receipts                              | 250                            | 176                    | 258                            |
| Revenue                                    | 170                            | 0                      | 0                              |
| <b>Total financing</b>                     | <b>12,252</b>                  | <b>5,218</b>           | <b>9,815</b>                   |
| <b>Borrowing requirement</b>               | <b>0</b>                       | <b>0</b>               | <b>0</b>                       |

### 5.3 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 and the Operational Boundary for External Debt

|  | 2022/23<br>Original<br>Estimate<br>£m | Current Position<br><br>£m | 2022/23<br>Revised<br>Estimate<br>£m |
|--|---------------------------------------|----------------------------|--------------------------------------|
| <b>Prudential Indicator – Capital Financing Requirement</b>              |                                       |                            |                                      |
| <b>Total CFR</b>   | -3,183                                | -4,391                     | -2,536                               |
| <b>Prudential Indicator – the Operational Boundary for external debt</b> |                                       |                            |                                      |
| Borrowing  | 2,700                                 | 377                        | 2,700                                |

### 5.4 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 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.

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 for external debt | 2022/23<br>Original<br>Indicator | Current Position | 2022/23<br>Revised<br>Indicator |
|------------------------------------|----------------------------------|------------------|---------------------------------|
| Total                              | 7,700                            | 377              | 7,700                           |

## 5. Borrowing

The Council's capital financing requirement (CFR) for 2022/23 is £3.183m. 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. The CFR is negative as the Council has more cash investments than borrowing.

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



Loans Outstanding at 30 September 2022:

|                          | Amount | Average Interest Rate |
|--------------------------|--------|-----------------------|
|                          | £k     | %                     |
| Public Works Loans Board | 377    | 10.19                 |

To manage refinancing risk, the Council sets limits on the maturity structure of its borrowing. However these indicators are set relatively high to provide sufficient flexibility to respond to opportunities to repay or take out new debt (if it was required), while remaining within the parameters set by the indicators. Due to the low level of existing borrowing, the under 12 months limits have a broad range to allow for cash-flow borrowing (if it was required).

Estimated outstanding debt:

| Year                                   | Forecast Borrowing £m | Forecast other long-term liabilities £m * | Less: Internal Borrowing £m | Forecast Total External Debt £m | Operational Boundary £m | Authorised Limit £m |
|--|-----------------------|---|-----------------------------|---------------------------------|-------------------------|---------------------|
| 31 <sup>st</sup> March 2023 (Forecast) | 0.367                 | 0.727                                     | 0                           | 1.550                           | 2.1                     | 7.1                 |
| 31 <sup>st</sup> March 2024 (Forecast) | 0.347                 | 0.675                                     | 0                           | 0.951                           | 1.6                     | 6.6                 |
| 31 <sup>st</sup> March 2025 (Forecast) | 0.909                 | 0.485                                     | 0.584                       | 0.810                           | 1.5                     | 6.5                 |
| 31 <sup>st</sup> March 2026 (Forecast) | 6.569                 | 0.408                                     | 6.264                       | 0.713                           | 1.5                     | 6.5                 |
| 31 <sup>st</sup> March 2026 (Forecast) | 7.641                 | 0.329                                     | 7.351                       | 0.619                           | 1.4                     | 6.4                 |

\* Comprises the finance lease relating to Letchworth Multi-storey car park and impact of the finance lease for waste vehicles.

The external borrowing forecast can be used to give an indication of the borrowing that may be required, which is combined with outstanding existing borrowing. The Council will also borrow for short-term cash-flow needs if required. The actual borrowing that is taken out will depend on the latest forecasts and the offers that are available at the time that it is required. There will also be a consideration of when any other borrowing becomes due, with the aim of achieving a spread of these dates. This is to try and avoid refinancing risk. The Council is required to set indicators for the maturity structure of its borrowing. Given the low level of borrowing that the Council currently has and is forecast to have, it is considered appropriate to maintain full flexibility as to the exact duration of any borrowing undertaken.



To manage refinancing risk, the Council sets limits on the maturity structure of its borrowing. However, these indicators are set relatively high to provide sufficient flexibility to respond to opportunities to repay or take out new debt (if it was required), while remaining within the parameters set by the indicators. Due to the low level of existing borrowing, the under 12 months limits have a broad range to allow for cash-flow borrowing (if it was required).

| Maturity Period      | Lower % | Upper % |
|----------------------|---------|---------|
| Under 12 months      | 0       | 100     |
| 12 months to 2 years | 0       | 50      |
| 2 years to 5 years   | 0       | 60      |
| 5 years to 10 years  | 0       | 100     |
| 10 years to 20 years | 0       | 100     |
| 20 years and above   | 0       | 100     |

The Prudential Indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

| Year    | Estimated cost of borrowing £m | Forecast net revenue budget £m | Estimated cost of borrowing as a % of net revenue budget |
|---------|--------------------------------|--------------------------------|--|
| 2022/23 | 0.039                          | 18.067                         | 0.216  |
| 2023/24 | 0.037                          | 16.650                         | 0.222  |
| 2024/25 | 0.062                          | 15.860                         | 0.393  |
| 2025/26 | 0.318                          | 15.619                         | 2.037  |
| 2026/27 | 0.379                          | 15.529                         | 2.442  |

The Council is required to set a prudential indicator that estimates financing costs (cost of borrowing less income from investments) as a percentage of its net revenue budget.

| Year    | Estimated cost of borrowing £m | Less: Forecast of interest earned £m | Net Financing Costs £m | Forecast net revenue budget £m | Estimated cost of borrowing as a % of net revenue budget |
|---------|--------------------------------|--------------------------------------|------------------------|--------------------------------|--|
| 2022/23 | 0.039                          | 1.126                                | -1.087                 | 18.607                         | -5.842   |
| 2023/24 | 0.037                          | 1.210                                | -1.173                 | 16.650                         | -7.045   |
| 2024/25 | 0.062                          | 1.066                                | -1.004                 | 15.860                         | -6.330   |
| 2025/26 | 0.318                          | 0.761                                | -0.443                 | 15.619                         | -2.836   |
| 2025/26 | 0.379                          | 0.736                                | -0.357                 | 15.529                         | -2.299   |

## 6. Debt Rescheduling

No debt rescheduling was undertaken during the quarter

## 7. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

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

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

## 8. Annual investment strategy

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 11th 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 24 months.

### Creditworthiness.

Following the Government's fiscal event on 23<sup>rd</sup> 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.

### 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 average level of funds available for investment purposes during the first half of the financial year was **£59M**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds **£20M** core cash balances for investment purposes (i.e. funds available for more than one year).

|                        | Amount<br>£        | Average<br>Interest Rate % |
|------------------------|--------------------|----------------------------|
| <b>Managed By NHDC</b> |                    |                            |
| Banks                  | 15,000,000         | 2.54                       |
| Building Societies     | 5,000,000          | 1.97                       |
| Local Authorities      | 0                  | 0                          |
| Government             | 37,000,000         | 1.94                       |
| <b>Total</b>           | <b>57, 000,000</b> | <b>2.16</b>                |

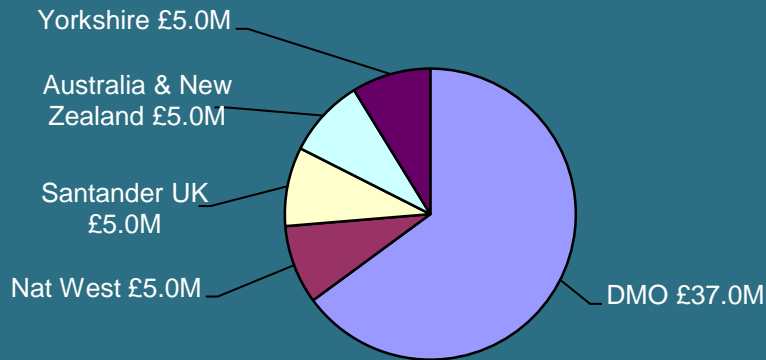
In percentage terms, this equates to:

|                    | Percentage |
|--------------------|------------|
| Government         | 65         |
| Banks              | 26         |
| Local Authorities  | 0          |
| Building Societies | 9          |

The approved 22/23 strategy is that no more than 60% of investments should be placed with Building Societies and Property Funds with a maximum value of £23M. The value at 30 September was £5M.

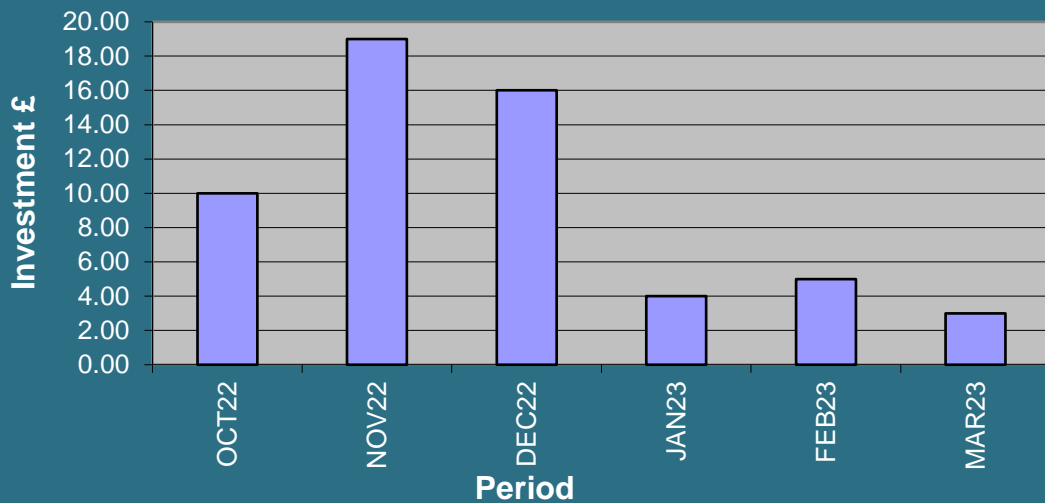
The pie chart below shows the spread of investment balances as at 30 September 2022. This is a snapshot in time that demonstrates the diversification of investments.

## Placement of Investments 30th September 2022

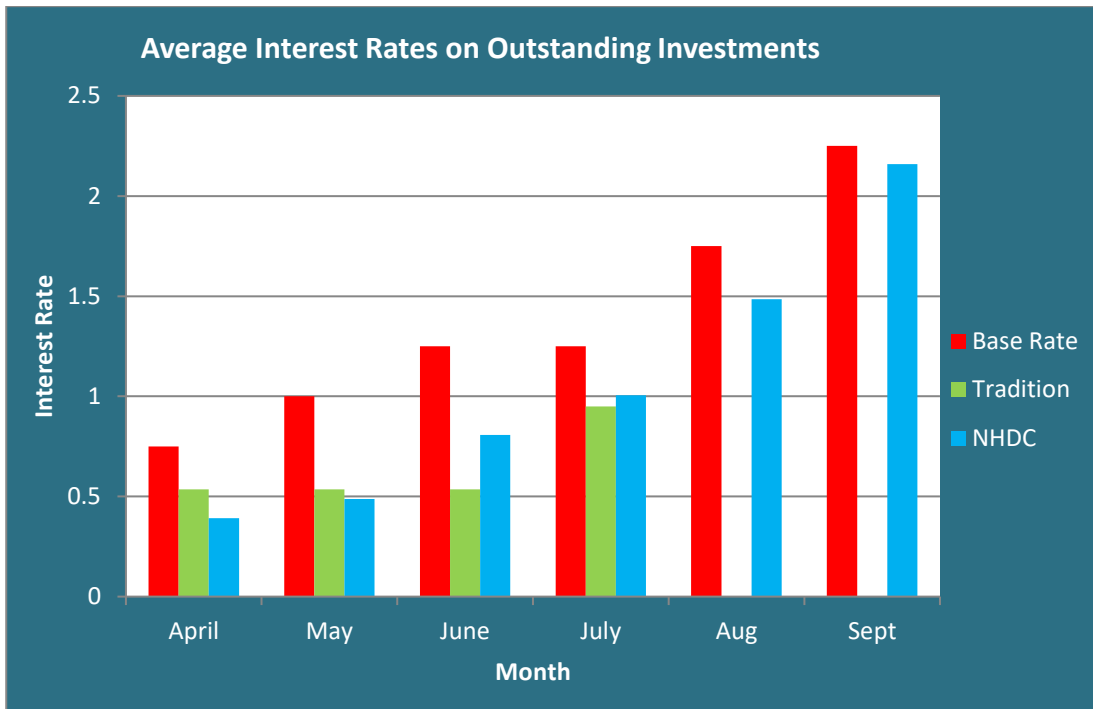


The chart below shows the Council's investment maturity profile.

## Investment Maturity 30th September 2022



The graph below shows the average rate of interest on outstanding investments at 30 September.



The Council only undertakes new investments through Tradition where the rate achieved (after fees) are greater than what the Council could achieve for a similar investment. The final Tradition deal matured in August.

**Approved limits**

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2022.

## APPENDIX 1: Prudential and Treasury Indicators for 2022-23 as at 30<sup>th</sup> September 2022

| Treasury Indicators                    | 2022/23 Budget<br>£'000 | 30.09.22 Actual<br>£'000 |
|--|-------------------------|--------------------------|
| Authorised limit for external debt     | 7,100                   | 377                      |
| Operational boundary for external debt | 2,000                   | 377                      |
| Gross external debt                    | 387                     | 377                      |
| Investments                            | 47,400                  | 57,000                   |
| Net borrowing                          | 47,013                  | 56,623                   |

|   |       |    |
|---|-------|----|
| Maturity structure of fixed rate borrowing - upper and lower limits |       |    |
| Under 12 months   | 19    | 19 |
| 12 months to 2 years  | 21    | 21 |
| 2 years to 5 years  | 155   | 57 |
| 5 years to 10 years   | 1,271 | 40 |

|   |            |   |
|---|------------|---|
| Upper limit for principal sums invested over 365 days | 18,000 Max | 0 |
|---|------------|---|

| Prudential Indicators                          | 2022/23 Budget<br>£'000 | 30.09.22 Actual<br>£'000 |
|--|-------------------------|--------------------------|
| Capital expenditure                            | 12,252                  | 5,296                    |
| Capital Financing Requirement (CFR)            | -3,183                  | -4,391                   |
| In year borrowing requirement                  | 0                       | 0                        |
| Ratio of financing costs to net revenue stream | -0.442                  | -3.25                    |