







Cabinet



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Report for:	Cabinet
Title of report:	Treasury Management 2022/23 Mid-Year Performance Report
Date:	24/01/2023
Report on behalf of:	Cllr Graeme Elliot, Portfolio Holder for Corporate Services
Part:	1
If Part II, reason:	N/A
Appendices:	Appendix 1: Investment portfolio as at 30 September 2022 Appendix 2: Link Asset Services counterparty credit list as at 30 September 2022
Background papers:	Cabinet 15th February 2022 – Treasury Management Strategy (Appendix K to Budget 2022/23 Report)
Glossary of acronyms and any other abbreviations used in this report:	CIPFA-The Chartered Institute of Public Finance and Accountancy MPC- Bank of England Monetary Policy Committee CFR- Capital Financing Requirement

Report Author / Responsible Officer	
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Corporate Priorities	<ul style="list-style-type: none"> A clean, safe and enjoyable environment Building strong and vibrant communities Ensuring economic growth and prosperity Providing good quality affordable homes, in particular for those most in need Ensuring efficient, effective and modern service delivery
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	Climate and ecological emergency
Wards affected	All
Purpose of the report:	1. To report upon the mid-year information on Treasury Management performance for 2022/23.
Recommendation (s) to the decision maker (s):	1. That Cabinet recommends to Council acceptance of the report on Treasury Management performance for 2022/23.
Period for post policy/project review:	Not applicable. Treasury management performance is formally reported to Members twice a year on an ongoing basis.

1. **Background**

1.1 The purpose of this report is to update Cabinet on the performance of this Council's treasury management function during the first half of 2022/23, to the period 30 September 2022.

1.2 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."

The Council's Treasury Management team manages the Council's cash-flows in order to strike the optimal balance between the following three elements:

- The liquidity requirements for the Council's day-to-day business;
- Funding the Council's capital programme;
- Investing surplus monies in line with the Treasury Management Strategy.

2. **Governance**

2.1 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).

2.2 The Code requires:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of treasury management practices, setting out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report (this report) and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and execution and administration of treasury management decisions;
- This organisation nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy, policies and monitoring before recommendation to Full Council.

3. **Economic update**

3.1 The second quarter of 2022/23 saw the following:

- GDP grew by 0.2% in Q1 2022/23, so 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 of 9.9% year on year in August (9.0% in April) and domestic price pressures are 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;

- The 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.
- 3.2 During the first half of 2022, there were changes of both Prime Minister and Chancellor. In September 2022, various tax cuts were announced including a reduction in income tax, stamp duty, and the cancellation of the corporation tax rise due to take place in April.
- 3.3 Following further changes of Prime Minister and Chancellor in October 2022, some of the previously announced cuts in September were reversed, and new fiscal policies were announced in the November Autumn Statement that seek to ensure public finances are kept on a sound footing and any projected gaps, (possibly £50bn to £60bn), are fully funded from services efficiencies and/or net tax increases.
- 3.4 The MPC has increased interest rates eight times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. It is expected that the MPC may increase interest rates further and faster to a peak of 4.50% in June 2023.
- 3.5 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, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

4. Treasury Management Strategy Statement and Annual Investment Strategy update

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 15 February 2022.
- 4.2 The Council's Annual Investment Strategy, which is incorporated within the TMSS, outlines the Council's investment priorities as:
- Security of capital;
 - Liquidity;
 - Return on investment.
- 4.3 The Council aims to achieve the optimum return on investments within the context of the first two priorities. A breakdown of the Council's investment portfolio, as at 30 September 2022, is shown in Appendix 1.
- 4.4 Link Asset Services' full counterparty credit list, as at 30 September 2022, identifies those organisations with which the Council is able to place funds and is shown in Appendix 2.
- 4.5 All the Council's investments during the first six months of the current financial year have been placed in accordance with the approved strategy.

5. Investment Performance 2022/23

- 5.1 It is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return consistent 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 best value available in periods up to 12 months with high credit rated financial institutions.

- 5.2 As shown in section 3.5, the latest interest forecast sets out a view that both short and long-dated interest rates will be elevated, as the Bank of England seeks to manage inflation. Given this environment and that the bank rate may continue to rise into mid-2023, investment returns are expected to improve on recent years returns.
- 5.3 The Council held £131.003m of investments as at 30 September 2022 (£139.090m at 31 March 2022). The average investment return for the first six months of the year was 1.12%. In comparison, the Council achieved 0.07% in the first 6 months of 2021/22.
- 5.4 The Council's investment return for the first half of 2022/23 displays a £777k favourable variance against half-yearly budgeted figure of £171k. This reflects the much higher rate of returns available as described in section 5.2.

6. Borrowing

The Capital Financing Requirement

- 6.1 The Council's Capital Financing Requirement (CFR) is the Council's underlying need to borrow for capital purposes. The CFR is forecasted to be £348.30m as at 31/03/2023. This includes the fixed interest rate borrowing from the Public Works Loan Board (PWLB) following the introduction of HRA Self Financing and for General Fund capital expenditure requirements.

Current Borrowing Arrangements

- 6.2 As a Local Authority, the Council is able to borrow from PWLB, which operates within the Debt Management Office (DMO), an Executive Agency of HM Treasury.
- 6.3 The PWLB charges interest on the loans it issues to local authorities. Any borrowing undertaken by the Council will be carried out in line with its approved Treasury Management Strategy. If required, the Council is able to utilise existing cash balances to fund some of its future capital programme instead of undertaking new external borrowing.

Debt rescheduling

- 6.4 Debt rescheduling opportunities have previously been very limited, following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling was undertaken in the 6-month period to 30 September 2022. Since 30 September, economic conditions have made debt repayment more favourable for the Council. The Council repaid General Fund borrowing to the PWLB with an original principal loan value of £10.5m during December 2022. The discount received on repayment was £0.6m, giving a final loan repayment value of £9.9m. Prudent and affordable debt rescheduling will continue to be considered by the Council.

Compliance with Treasury and Prudential Limits

- 6.5 It is a statutory duty for the Council to determine, and keep under review, the affordable borrowing limits. During the half year ended 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 Chief Finance Officer envisages no difficulties for the current or future years in complying with these indicators.

7. The Council's Capital Expenditure (Prudential Indicators)

- 7.1 Prudential indicators are set yearly as part of the Council's Treasury Management Strategy. They set the annual limits on borrowing and provide a basis for assessing the affordability of financing costs, external debt and capital expenditure.

Prudential Indicators for Capital Expenditure

- 7.2 The table below shows the revised estimates for capital expenditure and financing with the changes since the capital programme was agreed in February 2022, as at the end of September 2022

Capital Expenditure by Service	2022/23 Original Budget £M	2022/23 Revised Forecast as at September 2022 £M
General Fund	22.854	8.640
HRA	67.92	51.237
Total	90.774	59.877
Financed by:		
Capital grants & S106	5.002	4.456
Capital receipts & reserves	70.925	51.821
Revenue	4.649	3.284
Borrowing	10.199	0.316
Total financing	90.774	59.877

- 7.3 The table below shows the CFR and the expected debt position over the period; termed the 'Operational Boundary'. The changes to the forecast CFR are due to revision of the Capital Programme and incorporation of the actual outturn position from 2021/22 and programme slippage and underspends in 2022/23.

	2022/23	2022/23
	Original Estimate £M	Revised Forecast £M
Prudential Indicator – Capital Financing Requirement		
CFR – General Fund	19.26	12.271
CFR – HRA	341.28	331.394
Total CFR	360.54	343.665
Net movement in CFR from 31/03/21	9.486	(1.386)
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	347.974	347.974
Other long term liabilities (leases)	0.188	0.188
Total debt 31 March 2022	348.162	348.162

Prudential Indicator for Borrowing Activity

- 7.4 The key control over 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 the next two financial years.
- 7.5 The table highlights that the Council's gross borrowing is forecast to be below its CFR.

	2022/23	2022/23
	Original Estimate £M	Revised Estimate £M
Gross borrowing	347.974	347.974
Plus other long term liabilities (leases)	0.188	0.188
Less investments	-35.386	-131.003
Net borrowing	312.776	217.159
CFR (year-end position)	360.54	343.660

- 7.6 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 annually by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. As at 30 September 2022, the Council had borrowing and other long term liabilities of £349.680m, which is £60.32m under the authorised limit.

Authorised limit for external debt	2022/23 Original Indicator £M	Current Position £M
Borrowing	347.974	349.680
Other long term liabilities	0.188	0.188
Total	348.162	349.868

8. Options and alternatives considered

None. A mid- year treasury management review is a statutory requirement.

9. Consultation

The Council liaises with Link Asset Services, its Treasury advisors.

10. Financial and value for money implications:

In accordance with the CIPFA Treasury Management in the Public Services Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.

11. Legal Implications:

There are no direct legal implications arising from this report.

12. Risk implications:

A prudent approach to investment is required to minimise the risk to the Council of investment losses, as outlined in the Council's Treasury Management Strategy 2022/23. This report provides an update on the delivery of that strategy.

13. Equalities, Community Impact and Human Rights:

A Community Impact Assessment is not required. There are no Human Rights Implications.

14. Statutory Comments

Monitoring Officer:

No comments to add to the report.

Deputy S151 Officer:

This is a Deputy S151 Officer report. Comments are contained within the body of the report.

15. Conclusion:

The Treasury Management Mid- Year Report for 2022/23 provides an updated position for the Council's 2022-23 treasury activities and highlights compliance with policies previously approved by Members. Its approval is required for the Council to meet its statutory obligations in respect of Treasury Management activities.

Appendix 1: Investment portfolio as at 30 September 2022

Borrower	Deposit Type	Principal	Date Lent	Date Repayable	Interest Rate	Duration (Days)	Approved Duration	DBC Limit(M)
National Westminster Bank PLC (RFB)	Call Account	503,114	30/09/2022	01/10/2022	0.01	1	12 months	14.5
Blackrock MMF	MMF	1,000,000	30/09/2022	01/10/2022	1.94	1	100 days	9
Goldman Sachs MMF	MMF	5,500,000	30/09/2022	01/10/2022	1.98	1	100 days	9
Insight Liquidity MMF	MMF	9,000,000	30/09/2022	01/10/2022	2.05	1	100 days	9
National Westminster Bank Plc (RFB)	Investment	3,000,000	28/03/2022	28/03/2023	1.65	365	12 months	14.5
National Westminster Bank Plc (RFB)	Investment	5,000,000	30/03/2022	18/10/2022	1.32	202	12 months	14.5
SMBC Bank International Plc	Investment	1,000,000	19/04/2022	19/10/2022	1.40	183	6 months	11
Nationwide Building Society	Investment	1,000,000	19/04/2022	19/10/2022	0.93	183	6 months	11
Santander UK Plc	Investment	5,000,000	13/05/2022	11/11/2022	1.42	182	6 months	11
Coventry Building Society	Investment	1,000,000	16/05/2022	16/11/2022	1.21	184	6 months	11
SMBC Bank International Plc	Investment	3,000,000	20/05/2022	18/11/2022	1.55	182	6 months	11
Santander UK Plc	Investment	2,000,000	17/06/2022	16/12/2022	1.94	182	6 months	11
SMBC Bank International Plc	Investment	3,000,000	20/06/2022	19/12/2022	1.95	182	6 months	11
Coventry Building Society	Investment	3,000,000	24/06/2022	23/12/2022	1.75	182	6 months	11
Skipton Building Society	Investment	4,500,000	01/07/2022	30/12/2022	1.50	182	6 months	11
Leeds Building Society	Investment	1,000,000	01/07/2022	07/10/2022	1.26	98	100 days	9
Yorkshire Building Society	Investment	1,500,000	08/07/2022	14/10/2022	1.25	98	100 days	9
Santander UK Plc	Investment	2,000,000	22/07/2022	20/01/2023	2.17	182	6 months	11
Debt Management Office	Investment	3,500,000	01/08/2022	18/10/2022	1.63	78	60 months	N/A
Debt Management Office	Investment	7,500,000	01/08/2022	16/11/2022	1.69	107	60 months	N/A
SMBC Bank International Plc	Investment	4,000,000	08/08/2022	25/11/2022	2.13	109	6 months	11
Barclays Bank Plc (NRFB)	Investment	2,000,000	10/08/2022	03/02/2023	2.32	177	6 months	11
National Westminster Bank Plc (RFB)	Investment	2,000,000	12/08/2022	11/08/2023	2.70	364	12 months	14.5
Nationwide Building Society	Investment	8,000,000	18/08/2022	16/02/2023	2.31	182	6 months	11
Nationwide Building Society	Investment	2,000,000	19/08/2022	17/02/2023	2.35	182	6 months	11
Clydesdale Bank Plc	Investment	1,000,000	22/08/2022	04/11/2022	1.85	74	100 days	9
Barclays Bank Plc (NRFB)	Investment	2,000,000	25/08/2022	24/02/2023	2.76	183	6 months	11
Yorkshire Building Society	Investment	3,500,000	26/08/2022	02/12/2022	1.95	98	100 days	9
Coventry Building Society	Investment	1,000,000	01/09/2022	22/02/2023	2.52	174	6 months	11
Clydesdale Bank Plc	Investment	8,000,000	01/09/2022	09/12/2022	2.15	99	100 days	9
Coventry Building Society	Investment	2,000,000	02/09/2022	24/02/2023	2.56	175	6 months	11
Debt Management Office	Investment	1,500,000	06/09/2022	05/10/2022	1.82	29	60 months	N/A
Yorkshire Building Society	Investment	2,000,000	09/09/2022	15/12/2022	2.22	97	100 days	9
Barclays Bank Plc (NRFB)	Investment	3,000,000	14/09/2022	18/01/2023	2.70	126	6 months	11
Debt Management Office	Investment	2,000,000	15/09/2022	15/12/2022	2.30	91	60 months	N/A
Debt Management Office	Investment	5,000,000	15/09/2022	18/01/2023	2.54	125	60 months	N/A
Santander UK Plc	Investment	2,000,000	16/09/2022	10/03/2023	3.15	175	6 months	11
Debt Management Office	Investment	1,500,000	20/09/2022	19/01/2023	2.61	121	60 months	N/A
Debt Management Office	Investment	3,000,000	21/09/2022	20/02/2023	2.83	152	60 months	N/A
Debt Management Office	Investment	1,500,000	22/09/2022	13/01/2023	2.60	113	60 months	N/A
Close Brothers Ltd	Investment	9,000,000	23/09/2022	17/03/2023	3.40	175	6 months	11
Barclays Bank Plc (NRFB)	Investment	2,000,000	28/09/2022	06/01/2023	3.52	100	6 months	11

Appendix 2: Link Asset Services counterparty credit list as at 30 September 2022

Country	Counterparty	Approved Duration	DBC Limit (M)
U.K	Al Rayan Bank Plc	6 months	11
U.K	Bank of Scotland PLC (RFB)	6 months	11
U.K	Barclays Bank PLC (NRFB)	6 months	11
U.K	Barclays Bank UK PLC (RFB)	6 months	11
U.K	Close Brothers Ltd	6 months	11
U.K	Clydesdale Bank PLC	100 days	9
U.K	Goldman Sachs International Bank	6 months	11
U.K	Handelsbanken Plc	12 months	12.5
U.K	HSBC Bank PLC (NRFB)	12 months	12.5
U.K	HSBC UK Bank Plc (RFB)	12 months	12.5
U.K	Lloyds Bank Corporate Markets Plc (NRFB)	6 months	11
U.K	Lloyds Bank Plc (RFB)	6 months	11
U.K	National Bank Of Kuwait (International) PLC	6 months	11
U.K	NatWest Markets Plc (NRFB)	6 months	11
U.K	Santander Financial Services plc (NRFB)	6 months	11
U.K	Santander UK plc	6 months	11
U.K	SMBC Bank International Plc	6 months	11
U.K	Standard Chartered Bank	6 months	11
U.K	Coventry BS	6 months	11
U.K	Leeds BS	100 days	9
U.K	Nationwide BS	6 months	11
U.K	Skipton Building Society	6 months	11
U.K	Yorkshire BS	100 days	9
U.K	National Westminster Bank PLC (RFB)	12 months	14.5
U.K	The Royal Bank of Scotland Plc (RFB)	12 months	14.5