Treasury Management Mid-Year Report 2022/23 (Paul French – Corporate Head of Finance)

Synopsis of report:

The report sets out the treasury activity for the first six months of the 2022/23 financial year.

Recommendations:

For information

1 Context of report

1.1 The Prudential and Treasury Management Codes, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), require all local authorities to prepare Treasury Management and Capital Strategies.

1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 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 that the Council can meet its capital spending obligations. 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.

1.4 CIPFA define treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.5 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These are:

- Prudential and Treasury Indicators and Treasury Management Strategy (TMS)
- A mid year Treasury Management Report (this report)
- An annual Treasury Management Report

1.6 The Council has delegated responsibility for the implementation and regular monitoring of its treasury managemnet policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Assistant Chief Executive, who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices (TMP).

1.7 These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Select Committee.

1.8 The Council has adopted both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition (the TM Code) and the Prudential Code and this report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the relevant CIPFA Codes and Department for Levelling Up, Housing and Communities (DLUHC - formerly MHCLG) Guidance.

1.9 The Council's Treasury Management Strategy, Annual Investment Strategy and Prudential indicators for 2022/23 were considered by the Corporate Management Committee at its meeting held on 20 January 2022, and the Overview and Scrutiny Select Committee at its meeting on 3 February 2022 before final approval by full Council on 10 February 2022.

2. Economy and Outlook for Interest Rates

Treasury Management Consultants

2.1 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Following a tendering exercise, Link Group (Link) were awarded a new contract from September 2021. This contract is for the period of three years (with an option to further extend for additional two years). Although Link provide advice to the Council, responsibility for final decision making always remains with the Council and its officers.

Economic Update

2.2 The Council's treasury advisor, Link Asset Services, has provided the economic update in the following paragraphs (it should be noted that this was prior to the resignation of Liz Truss as Prime Minister and the installation of Jeremy Hunt as Chancellor of the Exchequer):

2.3 The first half of 2022/23 saw:

- GDP revised upwards in Q2 2022/23 to +0.2% quarter on quarter from -0.1% (in Q1 2022/23), 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% year on year in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

2.4 The UK economy grew by 0.2% quarter on quarter in Q2 2022/23, though revisions to historic data left it below pre-pandemic levels.

2.5 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.

2.6 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% quarter on quarter 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 rise of £4.6bn.

2.7 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%.

2.8 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.

2.9 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.

2.10 Nonetheless, the rise in services CPI inflation from 5.7% year on year in July to a 30-year high of 5.9% year on year 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.

2.11 During the first half of the year 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

2.12 Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

2.13 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.

2.14 Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

2.15 Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

2.16 Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

2.17 There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

2.18 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.

Outlook for Interest Rates

2.19 Part of Link Asset Services' service is to assist the Council in formulating a view on interest rates. The latest forecast on 27 September 2022 (see below) 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.

2.20 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.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

3 Debt Management Strategy

3.1 The Council's underlying need to borrow, known as the Capital Financing Requirement (CFR), represents the level of unfinanced capital expenditure. Part of the Council's treasury activity is to address the funding requirements for this borrowing need.

3.2 During last year, the Council maintained an under-borrowed position. This means that the borrowing need, was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow, was used as an interim measure - This is known as "internal borrowing"

3.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years and in the last year in particular it has made sense to use our spare balances in this way as investment rates have been close to zero. With £51m under borrowed at the end of last year, this effectively saved the council £1m a year in loan interest payments.

3.5 Total borrowing as at 30 September 2022 was as follows:

Investment Sector	Outstanding at 1 April 2022	New Borrowing	Borrowing Repaid	Outstanding at 30 Sep 2022
	£000	£000	£000	£000
HRA - PWLB	100,000	-	-	100,000
General Fund – PWLB	499,000	-	-	499,000
General Fund – Non PWLB	54,731	-	273	54,458-
	653,731	**-**	**273**	**653,458**

3.6 A full list of borrowings held at the 30 September is set out at Appendix A

4 Annual Investment Strategy

4.1 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

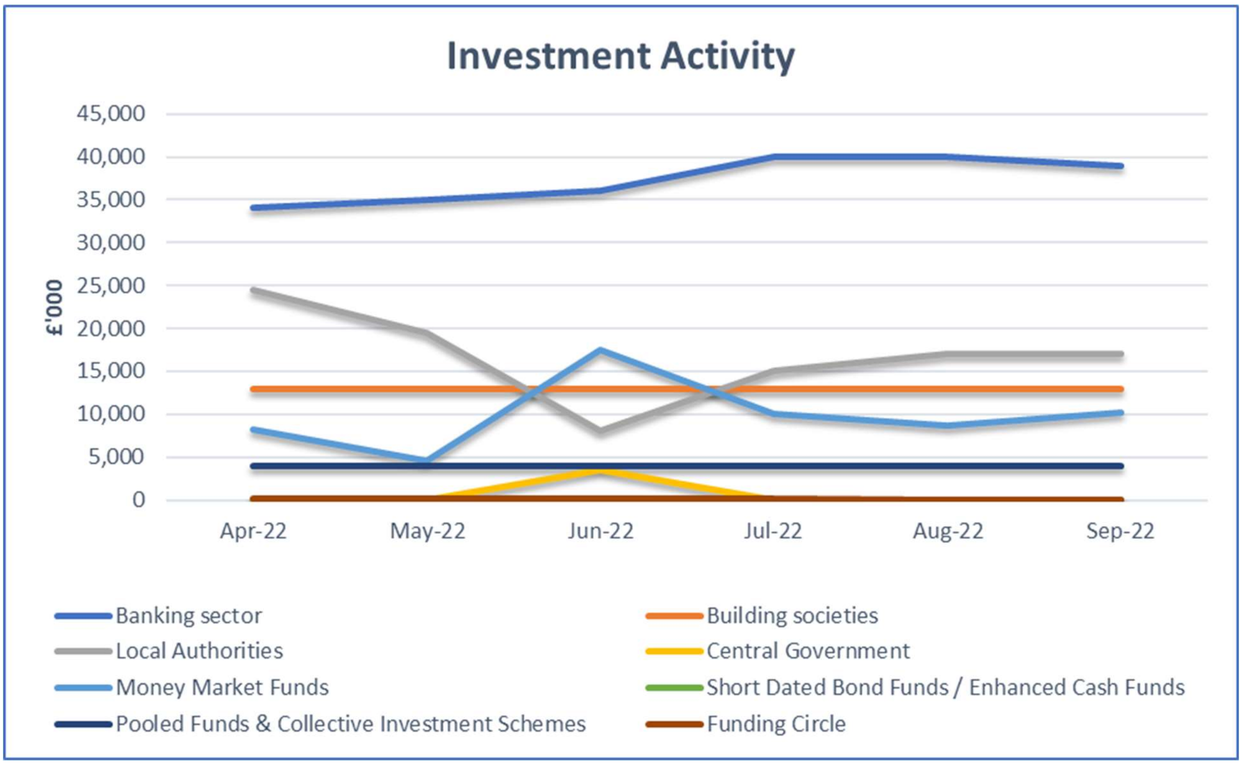
4.2 The Council's investment policy is governed by DLUHC investment guidance and is reflected in the Annual Investment Strategy approved by the Council each year. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions.

4.4 The Council held £83.3m of investments at 30 September 2022 and the investment activity during the first six months of the year, which has been principally driven by the availability of counterparties that meet the criteria set out in the Annual Investment Strategy, can be seen from the table below:

Investment Sector	Outstanding at 1 April 2022	New Investments	Investments Recalled	Outstanding at 30 Sep 2022
	£000	£000	£000	£000
Specified Investments				
Banking sector	23,000	37,000	21,000	39,000
Building societies	16,000	22,000	25,000	13,000
Local Authorities	24,500	17,000	24,500	17,000
Central Government	0	3,500	3,500	0
Money Market Funds	9,820	45,750	45,370	10,200
Unspecified Investments				
Pooled & Collective Investment Schemes	4,000	0	0	4,000
Funding Circle	104	0	28	76
	77,424	**125,250**	**119,398**	**83,276**

4.5 The monthly movement in balances between these categories is set out in Table 6 below and reflects the available counterparties and investment rates at that time.



4.6 A full list of investments held at the 30 September is set out at Appendix A.

4.7 The Council's cash balances comprise revenue and capital resources and cash flow monies (creditors etc) and the level of funds available is mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. Traditionally the amount of income the council has to invest increases during the year before dropping back down in February and March. This is predominantly due to Council Tax and Business

Rates being collected over ten monthly instalments but paid over to preceptors over a 12month cycle.

Breach of Counterparty limits

4.8 On Friday 30 September the Council invested in a £1million Certificate of Deposit (CD) with Credit Suisse for the duration of 3 months. Unfortunately, one of the three ratings agencies downgraded Credit Suisse's rating to bbb+ in August, which is below Council's minimum rating level for this type of institution, but our treasury system did not remove the counterparty as a lending option as expected when the new credit ratings were uploaded into Treasury Management System. As the Council's risk management policy is to take the lowest of the three credit ratings, this investment did not meet the Council's criteria at the time of the investment and therefore a breach occurred which was reported to Council Members in accordance with our treasury procedures.

4.9 When the error was discovered, officers considered an option of selling the CD in the second hand market at a marginal loss (confirmed by the market brokers). However, taking into account the size and short-term nature of the investment, the probability of risk of non-recovery was deemed as low, especially taking comfort that two other credit rating agencies still rate the bank the equivalent of A- which still meets Council's short-term investment criteria. Based on that, it was concluded to do nothing for the time being – i.e. to continue to hold the investment until maturity.

4.10 At the start of November, S&P Global Ratings (S&P) downgraded the Long Term of Credit Suisse AG to 'A-' from 'A'. At the same time, the Outlook on the Long Term Rating was changed to Stable from Negative. S&P notes that the Stable Outlooks reflect the rating agency's expectation that Credit Suisse will maintain robust capital, funding, and liquidity positions to mitigate the risks inherent in the implementation of the new strategy. S&P expect the bank will steadily execute its transformation plan, delivering on the targets that are fully within its control (such as cost cutting) and applying strong risk management and governance to the investment bank downsizing.

4.11 Since this error was picked up, officers have been in contact with the treasury system suppliers to establish what went wrong and new preventive controls and procedures have now been introduced to ensure that this does not happen again.

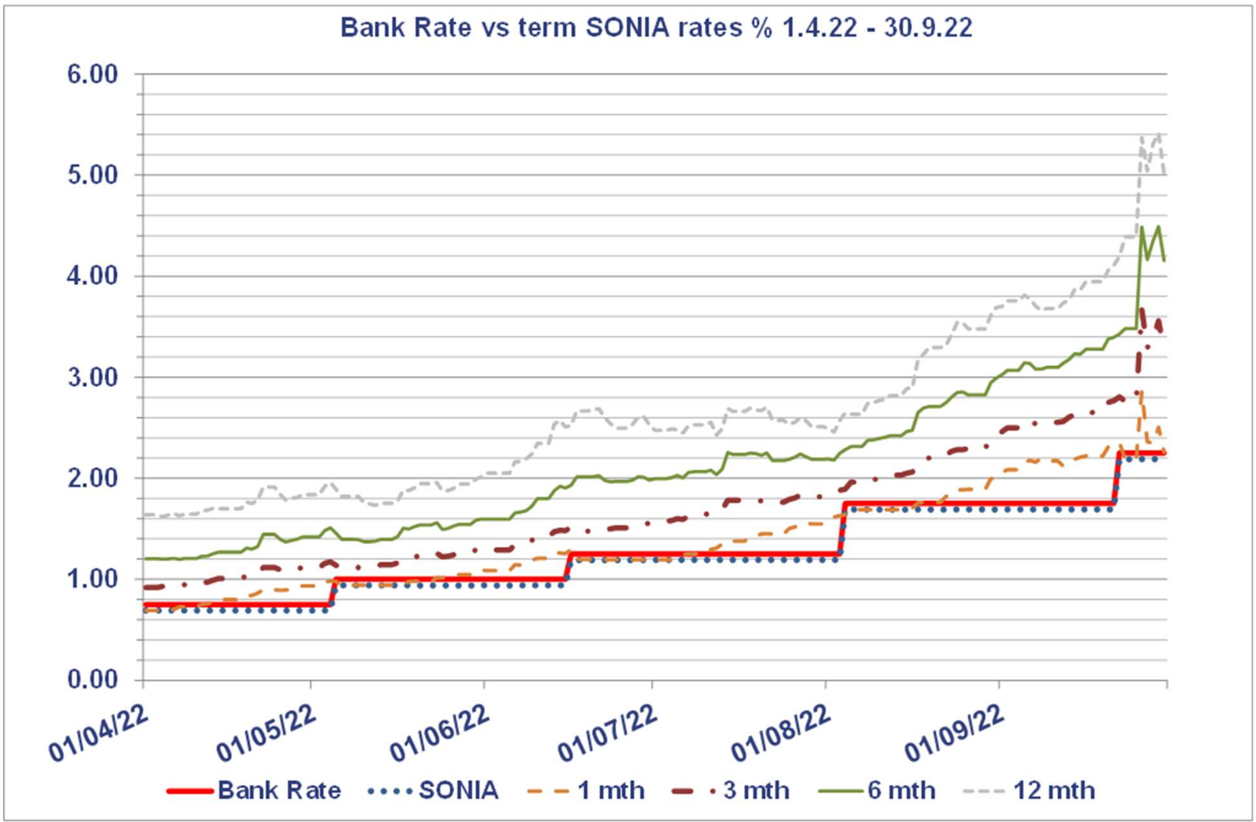
4.12 The current investment counterparty criteria selection approved in the TMSS is currently meeting the requirements of the treasury management function, however, with the build up of Minimum Revenue Provision balances being set aside in an unusable reserve to repay future debt liabilities when they become due, officers will be recommending changes in the Treasury Management Strategy for 2023/24 when it is reported in January.

Investment income and debt interest

4.13 Aside from the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income gained by the Council are the level of interest rates, cash flow and the level of reserves and balances. The impact of capital cash flows – receipts from sales, and timing of capital projects – also has a significant impact on cash flows.

4.14 The original estimate for investment income for 2022/23 was based on the Council achieving an average interest rate of 0.50%. Currently the Council is at 1.10%, and it is likely to increase further in the year with the anticipated rises of base rate.

4.15 The average rate of interest generated is in line with the Council's benchmark rates which follows a similar pattern as follows:



NB: SONIA (Sterling Overnight Index Average) is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors

QUARTER ENDED 30/9/2022						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	2.25	2.19	2.86	3.67	4.49	5.41
High Date	22/09/2022	30/09/2022	26/09/2022	26/09/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.28	1.22	1.39	1.70	2.12	2.62
Spread	1.50	1.50	2.17	2.75	3.29	3.79

The table above, for completeness, covers both the first and second quarters of 2022/23.

4.16 By way of comparison the Council's investment performance month by month for the year to date is set out below. This shows the average interest rates achieved from our investments each month and reflects the value in keeping investments short in an unpredictable rising market.

Month	**Interest Rate (%)**
April 2022	0.61
May 2022	0.75
June 2022	0.87
July 2022	1.19

August 2022	1.42
September 2022	1.72
Average Rate YTD	**1.10**

4.17 Included in the above table are our investments in two CCLA Pooled Funds. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long term horizons they provide investors with strong levels of interest (in the form of dividends) relative to other forms of investment. However past performance has also shown that the capital values of these assets can be subject to volatility over relatively short time frames. The movement in these funds during the year has been as follows:

	Original Investment £'000	**Value 31 March 2022 £'000**	**Value 31 Sep 2022 £'000**	**Average Dividend Return %**
CCLA Property Fund	2,000	2,710	2,731	4.80
CCLA Diversified Income Fund	2,000	2,079	1,901	3.10

The differences between the Original Sums invested and the Values at 31 March each year are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account.

4.18 In addition to the normal money markets, the Council also invests in its own companies by way of loans provided to them for the purchase of assets from the Council (that the Council cannot hold itself) and via working capital loans. All such Loan Agreements have been approved by Full Council. The table below sets out these loans and the expected income to the Council in a full year.

Loan Type	**Original Investment £'000**	**Annual Interest £'000**	**Interest Rate %**
Development Loans - AddlestoneOne	25,326	1,276	5.04
Development Loans – Magna Square	11,838	500	4.22
Development Loans - Other	1,000	49	4.86
Working Capital Loans	445	34	7.54
Working Capital Loans	300	22	7.36
Working Capital Loans	1,800	133	7.40
Totals	**40,709**	**2,014**	

4.19 The estimate for investment income and debt interest for the current year at the start of the year was as follows:

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	347	96	443
Interest on loans to RBC companies	1,862	0	1,862
Dividend income	120	0	120
Interest paid on deposits and other balances	(1)	0	(1)

Net Investment Income	**2,328**	**96**	**2,424**
Debt Interest	(13,480)	(3,379)	(16,859)
Management Expenses	(27)	0	(27)
Net Investment Income / (Debt interest)	**(11,179)**	**(3,283)**	**(14,462)**

4.20 Based on current predictions using the data set out in the above paragraphs, the revised figures for 2022/23 are assumed to be as follows:

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	2,169	738	2,907
Interest on loans to RBC companies	1,806	-	1,806
Dividend income	120	-	120
Interest paid on deposits and other balances	(6)	-	(6)
Net Investment Income	**4,089**	**738**	**4,827**
Debt Interest	(13,469)	(3,379)	(16,848)
Management Expenses	(28)	-	(28)
Net Investment Income / (Debt interest)	**(9,408)**	**(2,641)**	**(12,049)**

5. Treasury Management Indicators

5.1 The CIPFA Code on Treasury Management requires the Council to approve a set of treasury management indicators by which the Council can measure its exposure to risk. The Council's treasury indicators were approved by Council on 10 February 2022.

5.2 During the financial year to date, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The following paragraphs show the position as at 30 September against each of the indicators.

Interest rate exposures

5.3 This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding are:

Upper limits proposed on fixed and variable rate interest rate exposures expressed as the principal sums outstanding in respect of borrowing		
	Target £'000	**Actual £'000**
Upper limit on fixed interest rate exposures	693,570	643,458
Upper limit on variable interest rate exposures	0	(73,276)

5.4 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

5.5 The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. As most of the Council's investments mature within the financial year, GBP73.3mln are classed as variable rate investments. The Council has no variable rate borrowings to offset these against, hence the negative target figure in the table above.

Maturity structure of borrowing

5.6 This indicator is set to control the Council's exposure to refinancing risk. The upper limits on the maturity structure of fixed rate borrowing are set at their maximum because it is important to maintain this flexibility to allow the optimum debt structure to be put in place for any future redevelopment schemes.

Proposed upper and lower limits on the maturity structure of fixed rate borrowing			
	Upper	**Lower**	**Actual**
Under 12 months	25%	0%	1.53%
12 months and within 24 months	25%	0%	2.30%
24 months and within five years	25%	0%	1.53%
Five years and within 10 years	50%	0%	14.54%
10 years and above	100%	0%	80.11%

5.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days

5.8 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 proposed limits on the total principal sum invested to final maturities beyond the period end are:

Principal sums invested for periods longer than 364 days		
	Target £'000	**Actual £'000**
Limit on principal invested beyond one year	3,000	0

Borrowing limits

5.9 The Council's borrowing limits were set at the start of the financial year and are as follows:

Borrowing Limits	
	Target £'000
Approved Authorised Limit	720,710
Approved Operational Boundary	695,710
Actual borrowing as at 30 September	**653,458**

5.10 The Authorised Limit is a limit on the maximum amount the authority expects to borrow at any one point in time. The limit includes short-term borrowing. The Operational Boundary is the term used to describe the most likely scenario of cash flow movements and equates to the maximum level of external debt projected by the authority's estimates. The Authorised Limit differs in that it provides over and above the operational boundary for unusual cash movements (hence, one is a limit, the other a boundary).

6. Other Treasury Related Items

6.1 One of the requirements of the new CIPFA Treasury Codes is to ensure that Members and Officers undertaking treasury functions or scrutiny are adequately trained. Two training courses were made to the Council members relating to Treasury Management were undertaken in the first half of Oct 2022, one run by the Council's Finance officers and another one run by Link Asset Services).

7. Legal Implications

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

7.2 Section 15 of the Local Government Act 2003 provides the power for the Government to issue guidance about investments to which authorities are to have regard. This report takes account of the current and proposed guidance issued by the Government.

7.3 The Government has issued Regulations to require investment in share capital to be treated as capital expenditure. The Government state that this acts as a disincentive to local authorities to make such investments, as they would consume the authority's capital resources. However, the Government has excluded investments in money market funds, multilateral development banks and real estate investment trusts (REITs) from this definition, as it has no wish to deter authorities from considering these investments.

8. Environmental/Sustainability/Biodiversity implications

8.1 Ethical or Sustainable investing is becoming a more commonplace discussion within the wider investment community. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products however the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities.

8.2 The Council does not invest directly in any companies – other than our own - and our investments are limited to investments with the banking sector (term deposits etc) and investments in property (our investment properties). We do have £4million split between two pooled funds both managed by the CCLA and their approach to ESG can be found on their website: https://www.ccla.co.uk/sustainability/corporate-governance/approach-esg

9. Conclusion

9.1 With continued UK economic uncertainties, the Ukraine conflict, pan-European energy crisis, global recessions, and global market uncertainty generally, investment rates have been increasing throughout the first half of year 2022-23. An increasing base rate is hard to keep up with, especially given so much uncertainty as to when and how high increases in rates are likely to be. For this reason, officers are keeping investments short term to ensure that the time lag between increasing rate changes and reinvestment of maturities are kept to a minimum.

9.2 With the exception of one breach in counterparty limits, during the period the Council has operated within all the other treasury and prudential indicators set out in the Council's Treasury management Strategy and in compliance with its Treasury Management Practices.

(For Information)