APPENDIX A

2022/23 MID-YEAR TREASURY MANAGEMENT STRATEGY REVIEW

1. Introduction

1.1 The current CIPFA Code of Practice on Treasury Management requires a mid-year review of the Council's Treasury Management Strategy. The Code requires reporting on the following:

The Council's capital expenditure forecast and prudential indicators;

An economic update for the first part of the 2022/23 financial year;

A review of the Council's borrowing strategy for 2022/23;

A review of the Council's investment portfolio for 2022/23;

A review of compliance with the Treasury and Prudential limits for 2022/23.

1.2 Regular monitoring reports are currently provided to Audit Committee to review Treasury Management activities and quarterly monitoring reports on the Prudential Indicators are also submitted to the Resources Portfolio Holder.

1.3 This report is structured to highlight the key changes to the Council's capital activity (including prudential indicators), the economic outlook, and the actual and proposed treasury management activity (borrowing and investment).

2. Changes to the Financing of the Capital Programme

2.1 The table below draws together the main strategy elements of the capital expenditure plans and the expected financing arrangements. The net financing requirement 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 Original Estimate £m**	**2022/23 Revised Estimate £m**
Non HRA	54.109	75.835
HRA	29.318	29.318
Total spend	**83.427**	**105.153**
Financed by:		
Capital receipts	0.033	0.087
Capital grants	35.689	43.514
Contributions	3.688	4.360
Revenue	20.816	23.128
Total Financing	**60.226**	**71.089**
Net financing requirement for the year	**23.201**	**34.064**

2.2 A number of new schemes have been added to the capital programme since the original strategy, as funding streams have been finalised and confirmed. The largest scheme relates to the requirement to buy vehicles for the new Strategic Environment contract which has resulted in a borrowing requirement of approximately £10 million.

3. Prudential Indicator – Capital Financing Requirement

3.1 The following table shows the Capital Financing Requirement (CFR), which is the underlying external need to borrow for a capital purpose. It is increased each year by any new borrowing and decreased by the statutory revenue charge for the repayment of debt (Minimum Revenue Provision).

Capital Financing Requirement	**2022/23 Original Estimate £m**	**2022/23 Revised Estimate £m**
CFR – Non Housing	253.669	262.997
CFR – Housing	181.083	179.866
Other Long Term Liabilities *	47.196	47.197
Total CFR	**481.948**	**490.060**

* - Includes on-balance sheet PFI & PPP schemes and finance leases.

3.2 **It is recommended that the revised estimate for the 2022/23 Capital Financing Requirement be approved.**

3.3 A further prudential indicator shows the expected debt position over the period. The Operational Boundary indicator is then based on the probable external debt. It is not an overall limit but an expectation of activity.

Operational Boundary	**2022/23 Original Estimate £m**	**2022/23 Revised Estimate £m**
Gross Borrowing	336.973	340.397
Other Long Term Liabilities	47.196	47.197
Total	**384.169**	**387.594**
Operational Boundary	**430.000**	**430.000**

4. Limits to Borrowing Activity

4.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, gross borrowing will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the 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.

	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
Gross Borrowing	336.973	340.397
Plus Other Long Term Liabilities*	47.196	47.197
Expected Total Gross Borrowing	**384.169**	**387.594**
CFR (Est. year-end position)	**481.948**	**490.060**
Internal Borrowing Requirement	**97.779**	**102.466**

*Includes on balance sheet PFI & PPP schemes and finance leases.

4.2 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 any revisions approved by Members. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised limit for external debt	2022/23 Original Indicator £m	2022/23 Revised Indicator £m
Maximum allowable borrowing (including HRA headroom)	453.669	462.997
Other long term liabilities*	47.196	47.197
Total	**500.865**	**510.194**

*Includes on balance sheet PFI & PPP schemes and finance leases.

4.3 **It is recommended that the revised indicator for the 2022/23 Authorised Limit be approved.**

5. Economic Performance Update & Interest Rate Expectations (Source – Link Group)

5.1 *Interest Rate Forecast 9th August 2022 – (Source: Link Group)*

Quarterly Forecast %	Bank Rate	Investment Rates			Public Works Loan Board Borrowing Rates		
		3 month	6 month	1 year	5 year	25 year	50 year
Sep-22	2.25	2.50	2.90	3.20	2.80	3.40	3.10
Dec-22	2.50	2.80	3.10	3.30	3.00	3.50	3.20
Mar-23	2.75	3.00	3.10	3.20	3.10	3.50	3.20
Jun-23	2.75	2.90	3.00	3.10	3.10	3.50	3.20
Sep-23	2.75	2.80	2.90	3.00	3.00	3.50	3.20
Dec-23	2.50	2.50	2.80	2.90	3.00	3.40	3.10
Mar-24	2.50	2.40	2.70	2.80	2.90	3.40	3.10
Jun-24	2.25	2.30	2.60	2.70	2.90	3.30	3.00
Sep-24	2.25	2.30	2.50	2.40	2.80	3.30	3.00
Dec-24	2.25	2.30	2.50	2.40	2.80	3.20	2.90
Mar-25	2.25	2.20	2.40	2.40	2.80	3.20	2.90

5.2 Since the start of 2022 it has been clear that central banks in the developed economies have placed the dampening down of inflation pressures front and centre of their primary objectives, even if it comes at the cost of sluggish growth. In recent months, central banks in the developed economies have significantly quickened the pace of their monetary policy tightening.

5.3 The latest increase in the official Bank Rate, in August 2022 saw the Monetary Policy Committee (MPC) rise rates by 0.50% from 1.25% to 1.75%, but the committee was careful to keep its options open regarding future decision-making. It amended its forward guidance in a couple of ways. First, it added that "policy is not on a pre-set path" and that the MPC will decide the "appropriate level of Bank Rate at each meeting". Second, it now says that "further changes" rather than "further increases" in Bank Rate "will reflect the Committee's assessment of the economic outlook and inflationary pressures". The first change suggests that rates will not automatically rise by 0.50% at the next few meetings and that the higher rates go, the more important the level. The second change appears to open the door to rate cuts further ahead.

5.4 The current forecast is for a further 0.50% increase in the official Bank Rate in September 2022, with further increases in November 2022 and February 2023. However, the timing and size of the increases will be data dependent and, potentially, influenced by the actions of the US Federal Open Market Committee. Further down the road, it is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us, but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and the forecast recession may be prolonged.

5.5 In terms of inflation, the CPI measure of inflation is now likely to peak at upwards of 13% in Q4 2022 and the MPC will note the influence gas/electricity price hikes have on this number, and how wages data is performing. Currently wages are rising at above 4%, excluding bonuses, and above 6%, including bonuses. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market, where employers are out-bidding each other to ensure they have the pick of a limited labour pool.

5.6 Gilt yields have risen significantly in recent months based on market anticipation of future bank rate increases. The overall longer-run trend is for gilt yields and PWLB rates to rise moderately in the near-term, given the extent to which market expectations are already priced in and then to fall back once inflation starts to fall through 2023.

6. Debt Activity during 2022/23

6.1 The Council is currently under-borrowed to address investment counterparty risk and the cost of carrying investments. This approach is subject to interest rate risk, as longer term borrowing rates may rise, however, this position is being carefully monitored.

6.2 The under-borrowing position has been accommodated by using Council reserves and balances and thereby reducing the level of funds available for investment. Ultimately, as reserves and balances are used, borrowing will need to be undertaken to replenish the funds used.

6.3 To date, during 2022/23, no debt rescheduling or long term borrowing has been undertaken.

6.4 The Council holds a number of liquidity funds which have cash instantly available if funds were unexpectedly required. However, if necessary, short-term borrowing remains readily available and could be undertaken to meet cash flow requirements, with interest rates around 1.75%-2.00% although these rates are likely to change proportionally in line with any interest rate changes.

6.5 The Director of Resources and Deputy Chief Executive, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

7. Investment Portfolio 2022/23

7.1 **Key Objectives** - The Council's investment strategy is to safeguard the re-payment of the principal and liquidity of its investments on time in line with the Department for Levelling Up, Housing and Communities requirements: the investment return is a tertiary objective. Counterparty risk is of primary concern.

Security, Liquidity and Yield Benchmarking on Investments

7.2 Security, or counterparty risk, arises when the Council places investments with banks and financial institutions. The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria in accordance with Fitch, Moody's and Standard and Poor's Rating Service. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with an institution unless they meet the minimum requirements of the investment criteria.

Current Investment Position

7.3 The initial budget for 2022/23 assumed a return for in-house investments of 0.25% in line with interest rate forecasts at the time, however since then a number of rate rises have occurred which have pushed market rates to a much higher level. Current forecasts and performance to date suggest that the rate of return will be in the region of 1.40% to 1.60% for 2022/23. Additional interest earned as a result of this increase will be contributed to treasury reserves to support future savings plans.

7.4 The current average SONIA (Sterling Overnight Interbank Average) rate, the Council's benchmark for investment returns, for 2022/23 is 1.1124%.

Investment Counterparty Criteria

7.5 The current investment counterparty criteria approved in the Treasury Management Strategy Statement by Full Council on 8th February 2022 is currently meeting the requirement of the Treasury Management function.

8. Treasury Management Indicators

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

	2022/23 Original Estimate	2022/23 Latest Estimate
General Fund	11.90%	10.52%
HRA	15.82%	15.37%

9. Treasury Management Prudential Indicators

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

9.2 **Upper Limits On Variable Rate Exposure** – Similar to the previous indicator this covers a maximum limit on variable interest rates.

	2022/23 Original Indicator	2022/23 Latest Indicator
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	30%	30%

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

Maturity Structure of fixed borrowing (against maximum position)	2022/23 Original Indicator	2022/23 Current Position
Under 12 months	20%	0.1%
12 months to 2 years	20%	0.1%
2 years to 5 years	50%	1.7%
5 years to 10 years	50%	2.0%
10 years to 20 years	60%	8.3%
20 years to 30 years	60%	14.8%
30 years to 40 years	80%	45.1%
40 years to 50 years	80%	27.9%
50 years and above	80%	0.0%

9.4 **Total principal sums invested greater than one year** – These limits are set to reduce the need for early sale of an investment, and show limits to be placed on investments with final maturities beyond each year-end.

	2022/23 Original Indicator £m	2022/23 Current Position £m
Maximum principal sums invested longer than 365 days	15	0

9.5 The Director of Resources and Deputy Chief Executive has observed all the constraints imposed by the Council's standing orders and financial regulations, as well as the approved Treasury Management Policy Statement. No transactions were undertaken with organisations not on our approved credit criteria list.