Cabinet

10 November 2022

Treasury Management Monitoring Report

Recommendation

That Cabinet notes and comments on Treasury Management activity and performance in respect of the first 6 months of the 2022/23 financial year.

1.0 Executive Summary

1.1 The Treasury Management Strategy sets out that Council has delegated to Cabinet responsibility for receiving and reviewing monitoring reports and acting on recommendations in respect of treasury management activity.

1.2 This report provides an update on treasury management activity and performance for the first six months of the 2022/23 financial year.

1.3 The following headlines are detailed in this report:

i.) Cash and Cash Equivalent balances have fallen by £3.62m.

ii.) Investment returns are recovering due to interest rates generally rising. Current investment returns 6 months into the year are higher than budgeted by £0.75m.

iii.) Security and liquidity continue to be the priority for investment balances. No credit defaults or liquidity issues have been experienced.

iv.) No new debt has been taken out and borrowing has remained within prudential limits.

2.0 Treasury Management

2.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet cash expenditure. Part of the purpose of treasury management operations is to ensure cashflow is planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity to meet cashflow before considering optimising investment returns.

2.2 The second main function of the treasury management service is to ensure sufficient funding is in place for 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 taken out may be restructured to meet Council risk or cost objectives.

2.3 Accordingly, Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice 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."

2.4 This report has been written in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

i.) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

ii.) Creation and maintenance of Treasury Management Practices which set out the way the Council will seek to achieve those policies and objectives.

iii.) 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.

iv.) 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.

v.) 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 Resources and Fire & Rescue Overview and Scrutiny Committee.

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

i.) A review of the Treasury Management Strategy Statement and Annual Investment Strategy (Section 3);

ii.) A review of the Council's investment portfolio for 2022/23 (Section 4);

iii.) A review of the Council's borrowing strategy for 2022/23, including comments on any debt rescheduling undertaken during 2022/23 (Section 5);

iv.) The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators (Appendix H of this report);

v.) A review of compliance with Treasury and Prudential Limits for 2022/23 (Section 6); and

vi.) An economic update for the first half of the 2022/23 financial year (Appendix F).

3.0 Treasury Management Strategy and Annual Investment Strategy

3.1 The Treasury Management Strategy Statement, (TMSS), and Investment Strategy (IS) for 2022/23 were approved by Council on 8 February 2022. Having reviewed the strategies there are no recommended policy changes to the TMSS or IS at this point in the year.

4.0 Investments Review

4.1 The Council has an investment portfolio funded by reserves and cash arising from daily receipts being more than payments on a short-term basis.

4.2 As directed by the Treasury Management Strategy, security and liquidity has been prioritised above the requirement to maximise returns. A cautious approach is taken to lending to financial institutions, and credit quality information regarding the institutions on the Council's approved Lending List is monitored.

4.3 The Council's investment portfolio as of 30 September 2022 was as follows:

Table 1

	31st March 2022	Additions/ Withdrawals	30th Sept 2022
Deposits managed by Treasury team	280.19	-4.19	276.00
Money Markets/Externally Managed Funds	169.83	3.22	173.05
Total Treasury Management Investments	**450.02**	**-0.98**	**449.04**
Cash	8.6	-2.65	5.95
Total Cash and Cash Equivalents and Short Term Investment	**458.62**	**-3.62**	**455.00**

4.4 Balances at the end of September are similar to the March 2022 year end position, with the following items contributing to movements:

- An underspend on the 2022/23 capital programme including some reprofiling to future years of £13.8m.
- The Warwickshire Recovery Investment Fund currently has over £16m in the pipeline for the year, however, any approvals and subsequent cash movements are not expected until the end of the year.
- During the first 6 months of the financial year income is higher than expenditure due to operational cash receipts (such as council tax payments made over 10 months of the year).

4.5 During 2020/21 a higher proportion of cash was held in short term investments, such as overnight funds, because of the economic volatility due to the Covid-19 pandemic and uncertainty about what emergencies cash might be needed for at short notice.

4.6 In 2021/22 the Council gradually invested small portions of funds back into longer term investments, up to 18 months duration, as the economic volatility reduced, without compromising on liquidity as and when required.

4.7 For the first half of 2022/23 cash continued to be placed into longer dated investments and the portfolio has shifted back to a more efficient position (i.e. more optimum investments are made with expected liquidity needs in mind).

4.8 Appendix A illustrates the deposits making up the £455.59m of assets held as of 30 September 2022. The Investment Strategy includes limits on how much the Council can invest with a single institution (or ”counterparty”) in order to mitigate risk. Investments were kept within approved counterparty limits during the period from April to September 2022.

4.9 The performance of the Council’s internally and external managed investments (weighted) versus the budget and comparable benchmark is set out in Table 2.

Table 2: Investment Performance to 30 September 2022

%	Average Interest rate year to date	Budgeted Return on Investment	Comparable SONIA 6 month Compounded	Variance to Budget
In house deposits	0.26%	0.31%	1.13%	-0.05%
Money Market/External Funds	0.71%	0.31%	1.13%	0.40%
Weighted Average	**0.44%**	**0.31%**	**1.13%**	**0.13%**

4.10 The weighted average performance on the Councils investments is 0.13% over the budget. The interest earned is higher than budget because interest rates have increased further and faster than expected.

4.11 The previous Treasury Management benchmark was based on “LIBID” (the London Interbank Bid Rate), however LIBID (and LIBOR) have been replaced by “SONIA” (the Sterling Overnight Index Average rate). Therefore during 2022/23 a suitable benchmark will be determined for future Treasury Management purposes. Currently the weighted average duration of treasury management investments is 6 months, so a 6 month SONIA rate has been used in Table 2. The returns achieved are below the 6 month SONIA rate.

4.12 This under performance can be explained by the sharp rise in rates during the first 6 months of the year. Whilst the benchmark follows market average, the Council holds variable and fixed investments. The fixed investments will not yield market rates until maturity when the rate can be refreshed, therefore there is a lag in returns yielded on these investments compared to the market.

4.13 Treasury investments are placed following the “security, liquidity, yield” principle[1]:

i.) The security of the cash held by the Council is first priority. The highest rated money market funds, banks and building societies were chosen and investments in lower rated funds or counterparties were limited. High rated funds carry lower levels or risk, and therefore return.

ii.) The liquidity of the cash held by the Council is prioritised second, this ensures that the Council always have access to cash when it is required. Shorter dated

[1] The CIPFA Treasury Management Code requires a local authority to prioritise Security, Liquidity and Yield, in that order of importance, with regard to treasury management activities.

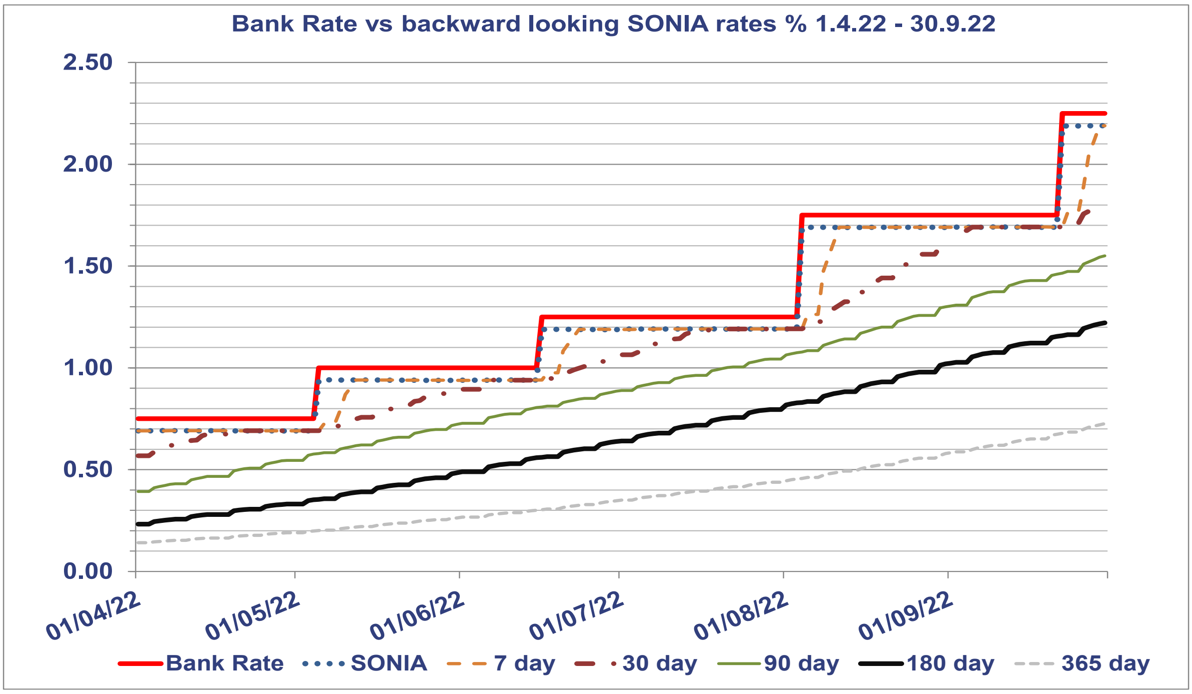
investments such as overnight funds yield less than longer dated investments such as lending to other local authorities, 90 day deposits or 180 day deposits. However longer dated investments carry fixed rate returns so dramatic changes in market conditions are delayed from impacting fixed term and yield investments until the term has expired.

iii.) Overall yield in the marketplace has started to trend upwards since the start of the year as the economic effects of the pandemic have reduced.

iv.) As a result of the upward trending in market performance, returns on shorter variable rate investments began to overtake the fixed returns on longer dated investments.

4.14 The Bank of England have raised the base rate from 0.75% at the end of 2021/22 to 2.25% in September 2022.

Chart 1: Bank of England Base Rate and SONIA rates



4.15 The impact on rates of return on treasury investments has remained low during the first half of this year.

i.) Fixed term fixed rate loans to other institutions (mostly other Local Authorities) continued to pay at the agreed interest rates until the loans matured. Then as replacement loans have been issued the rates attained on those have been considerably higher.

ii.) Money market fund returns have been increasing in the first half of the year, up from nearly zero a year ago.

iii.) The CCLA Property Fund and Threadneedle Social Bond Fund have continued to pay income at 3.5% and 1.5% respectively, these are similar levels to the start of the year.

4.16 Appendix B illustrates the mix of treasury management investment returns from the different deposits held at the end of September. Returns vary significantly however risk also varies with return. This analysis excludes cash balances which are not investments and investments that are not held for treasury management purposes.

4.17 The actual interest income recorded during the half year outperformed the budget, interest income was £2.131m compared to the budgeted £1.405m. This was largely a result of interest rates increasing more quickly than the budget assumed.

Table 3: Interest Earned to September 2022

£m	Budget	Returns	Variance	*Estimated Costs	Return net of fees
In house deposits	0.674	0.734	0.060	-	0.734
Money Market/External Funds	0.731	1.397	0.666	0.163	1.234
Total	**1.405**	**2.131**	**0.726**	**0.163**	**1.968**

**Costs are mid-year estimates – actual costs will be updated at the outturn.*

4.18 Externally managed funds incur management fees which are noted in Table 3. Internally managed funds do not present fees in the same way, either county council cash is lent to other institutions (e.g., other local authorities) who pay fees as the borrower or are invested in deposit funds that present net returns rather than gross returns with costs.

4.19 Most of the deposits simply provide a return and the deposit value is static. However, some funds are of a nature where the deposit itself has a value which can rise or fall. The changes in the underlying asset value of these investments are not reflected in investment returns above but would be realised upon selling. This issue relates to the CCLA Property Fund and the Threadneedle Social Bond Fund whose values are illustrated in Appendix D. The value of both funds was impacted by Covid but have now returned to pre-Covid levels. These funds are held for returns over significantly longer durations compared to most treasury investments and are not required for liquidity purposes at this time.

4.20 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 0.2%) which has been accessible to most authorities since 1 November 2012.

4.21 The latest forecast on 27 September sets out a view that both short and long-dated interest rates will be elevated for some time and not returning under to 3% until 2025, as the Bank of England seeks to manage inflation out of the economy, whilst the government is providing a package of budgetary measures to try and protect households and businesses from the effects of ultra-high wholesale gas and electricity prices.

4.22 The core of the government's new policies were announced in the mini budget and included tax cuts and regulatory simplification. This position has now been superseded following the change of Chancellor, who has announced a reversal of the majority of the planned tax cuts and changes to the level of Government spending. It is currently too early to say how these revised policies will impact growth, inflation and interest rates, but the expectation is that the plans will reduce the concerns about the level of unfunded Government expenditure that had previously alarmed the markets.

4.23 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 Monetary Policy Committee 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.

4.24 Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 0.2%, which is equivalent to gilts plus 0.8%) which has been accessible to most authorities since 1st November 2012.

Table 4 Interest Rate Forecast

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

Source: Link Asset Services - September 2022

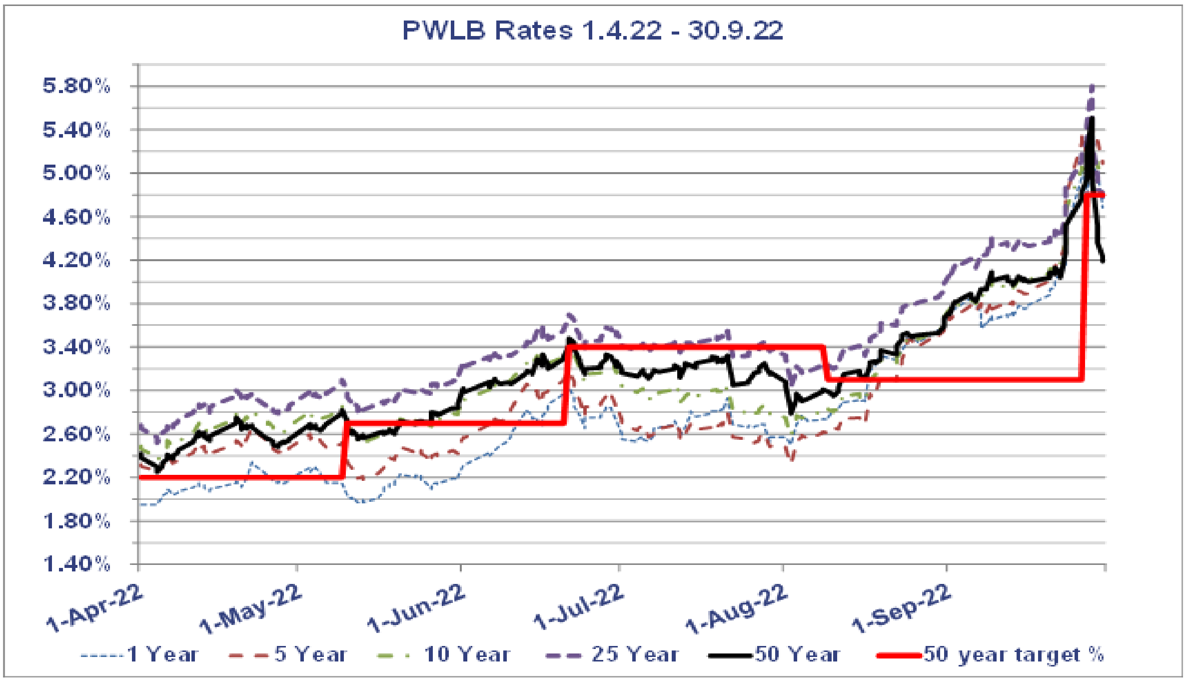
Creditworthiness

4.25 Following the Government's fiscal event on 23 September, both Standard & Poors and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting deterioration to the current ratings in light of expectations of weaker finances and economic outlook.

5.0 Borrowing Strategy and Debt Financing

5.1 The Council did not undertake any new long-term borrowing during the first half of the year. The Council does not anticipate taking out any new external borrowing in the remainder of 2022/23 based on the current capital financing requirement. Whilst borrowing remains within the prudential limits (as outlined below), the Council has an over borrowed position. "Over Borrowed" this refers to the level of Gross Debt compared to Capital Finance Requirement for the year. See Appendix H for calculation. The current trends on PWLB borrowing rates are reproduced for information in the chart below.

Chart 2 – Trends in Available Borrowing Rates



5.2 Borrowing has remained within the defined prudential limits. The profile of when £321m of remaining debt is due to mature is set out in Appendix G.

5.3 No debt rescheduling (paying off more existing debt and replacing it with new debt) has been undertaken. During the first 6 months of the year the penalties to repay PWLB debt early were not economical for the Council to undertake. However, during October 2022 consideration is being taken to early repayment of some of the debt portfolio. This is because the interest rate volatility during October means the penalties are significantly reduced and, in some cases, repayment is offered at a discount.

5.4 No changes to the borrowing strategy are recommended.

6.0 Sensitivity Analysis

6.1 For the purposes of disclosure on Market Risk a sensitivity analysis has been carried out to show the impact of a change in interest rates of + 1% on the debt portfolio.

6.2 The following table shows the results of the sensitivity analysis:

Table 5 Interest Rate Sensitivity Analysis

	Actual	**+1% increase in Base Rate**	
	F.V. at 30.09.2022	**F.V. at 30.09.2022**	**Difference**
	£m	**£m**	**£m**
Debt (new borrowing)	328.074	284.783	**43.291**
Debt (early repayment)	390.951	334.750	**56.201**

6.3 The above table demonstrates how as interest rates rise the fair value of a given level of debt reduces, i.e. less cash would be required now to meet a given future series of cashflows if interest rates rise.

6.4 New borrowing illustrates the fair value of debt if taken out at a certain point in time. Early repayment illustrates the additional premium payable on the portfolio of loans to compensate for loss of interest for the Treasury.

6.5 As at the 30 of September 2022, the premium to repay the entire loan portfolio early would have been £68.98m. The market volatility means this is considerably lower than in previous years. The position will be closely monitored during October, November and December 2022 to consider an early repayment of debt should it be financially viable.

7.0 Liability Benchmark

7.1 The liability benchmark is a measure of how well the existing loans portfolio matches the authority’s planned borrowing needs.

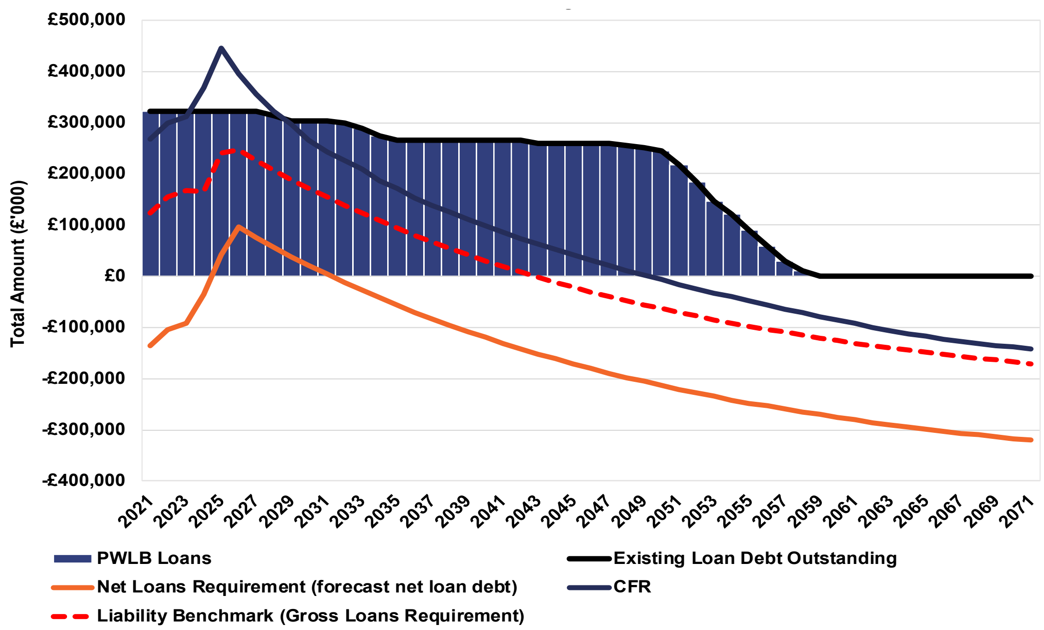
7.2 The purpose of this prudential indicator is to compare the authority’s existing loans outstanding against its future need for loan debt, or liability benchmark. If the existing loans outstanding is below the debt required, the authority will need to borrow to meet the shortfall. If the existing loans outstanding are more than it needs, and the excess will have to be invested. The chart therefore tells an authority how much it needs to borrow, when, and to what maturities to match its planned borrowing needs.

7.3 The liability benchmark makes no assumption about the level of future prudential borrowing in as yet unknown capital budgets. This avoids making assumptions which may prove to be wrong; but the main reason is that it enables the benchmark to be compared like-for-like with the existing loans portfolio to identify the future borrowing and investment needs arising from the authority’s existing plans.

7.4 The liability benchmark is the lowest risk level of borrowing compared to the Capital Financing Requirement (CFR) borrowing requirement – borrowing only when your reserves reach your set minimum level. This assumes that internal resources such as reserves and working capital are utilised and that cash and investment balances are kept to £260m at year end for 2022/23 and 2023/24, £200m at year end 2024/25 and 25/26 and at £150m thereafter in align with the Councils liquidity requirements.

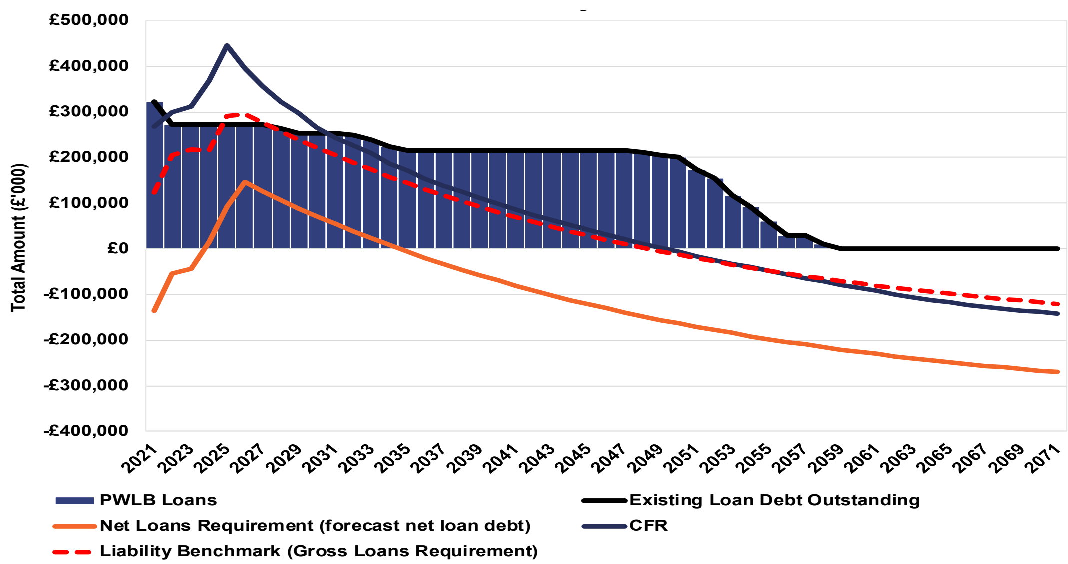
7.5 The liability benchmark chart 3 below shows the Council is over its liability benchmark by approximately £150m. Chart 4 below shows the impact of a reduction of £50m in external debt (i.e. to make an early repayment to the debt portfolio), bringing the Council to within £50m of its liability benchmark and a more cash efficient position. This early repayment is an option the Council may consider and take a view in in light of prevailing interest rates in early 2023.

Chart 3: Liability Benchmark



(PWLB = Public Works Loan Board)

Chart 4: Liability Benchmark – impact of £50m early repayment of PWLB debt



8.0 Compliance with Treasury Limits and Prudential Indicators

8.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the first half year ended 30 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.

8.2 Details of capital spending and Prudential Indicators are shown in Appendix H. Explanations of the terminology employed are set out in Appendix **I.**

8.3 A detailed report on capital spending is set out elsewhere in the Quarter 2 budget monitoring report on this Cabinet agenda.

9.0 Non-Treasury Management Investments

9.1 The Council's Investment Strategy was approved in February 2022. This detailed the Councils plans for the Warwickshire Property and Development Group (WPDG) and the Warwickshire Recovery Investment Fund (WRIF), both of which were launched in 2021:

i.) WPDG – At the end of September 2022, the Council has a loan facility in place with WPDG for working capital purposes, the balance on this facility was £1m, out of a maximum £1.85m. The rate charged for this facility is a variable rate that follows UK Gilt rates.

ii.) WPDG – At the end of September 2022, the Council also had a development loan in place with WPDG for the development of the Southam site. The loan is for £5.32m over 3 years at a fixed rate. The drawdowns as at September 2022 total £0.698m.

iii.) WRIF – The current WRIF portfolio consists of £1m agreed lending to a local residential children's home. £400k of this has been drawn down at a fixed rate over 5 years. The latter part of this lending agreement is expected to take place later this year.

iv.) WRIF- at the end of September 2022 WRIF also has £14m worth of bids in the due diligence pipeline, with a further £2m expected to materialise during the rest of the year. However, approval of pipeline deals is subject to successful due diligence, so not all of them may make it through the process.

9.2 The Council also holds longer term investments for service reasons rather than treasury management purposes, including property, shareholder interest in several companies and 2 additional wholly owned local authority trading companies. These long-term investments are valued at £2m.

9.3 The Council also has a working capital loan facility of up to £1.8m with Educaterers Ltd, a wholly owned company. As at the end of September 2022 the drawn down balance on this facility was £1.4m.

10.0 Financial Implications

10.1 The financial implications of the Treasury Management outturn are set out in the body of the report.

11.0 Environmental Implications

11.1 None of the external funds mentioned in Section 4 of this report invest directly in fossil fuels.

12.0 Supporting Information

12.1 Supporting information is set out in the body of the report and appendices.

13.0 Timescales Associated with Next Steps

13.1 A Treasury Management Outturn report and Investment Outturn report will be presented to Cabinet after the year end.

Appendices
Appendix A – Investment Balances as at 30/9/2022
Appendix B – Investment % Returns as at 30/9/2022
Appendix C – Investment Portfolio Liquidity as at 30/9/2022
Appendix D – Asset Value Movements
Appendix E – Cash Funds Summary
Appendix F – Economics and Interest Rates Update (Link)
Appendix G – PWLB Debt Maturity Profile
Appendix H – Prudential Indicators
Appendix I – Prudential Indicators Glossary
Appendix J – Approved Countries for Investment

Background Papers
None

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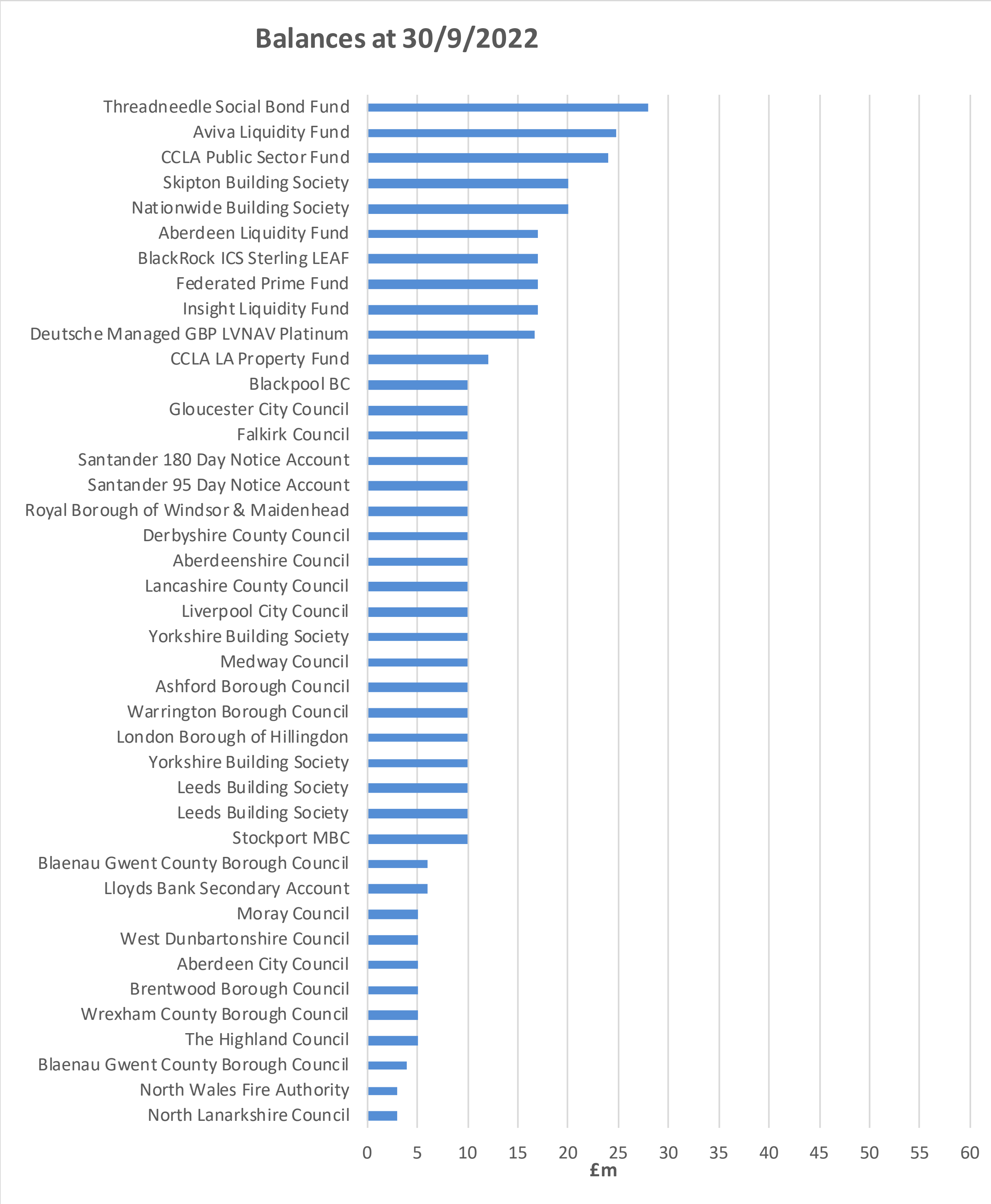
The report was circulated to the following members prior to publication:

Local Members: not required as county wide report

Councillors Sarah Boad, Parminder Singh Birdi, Peter Butlin, Jonathan Chilvers, John Holland, Caroline Phillips, Jerry Roodhouse, and Adrian Warwick

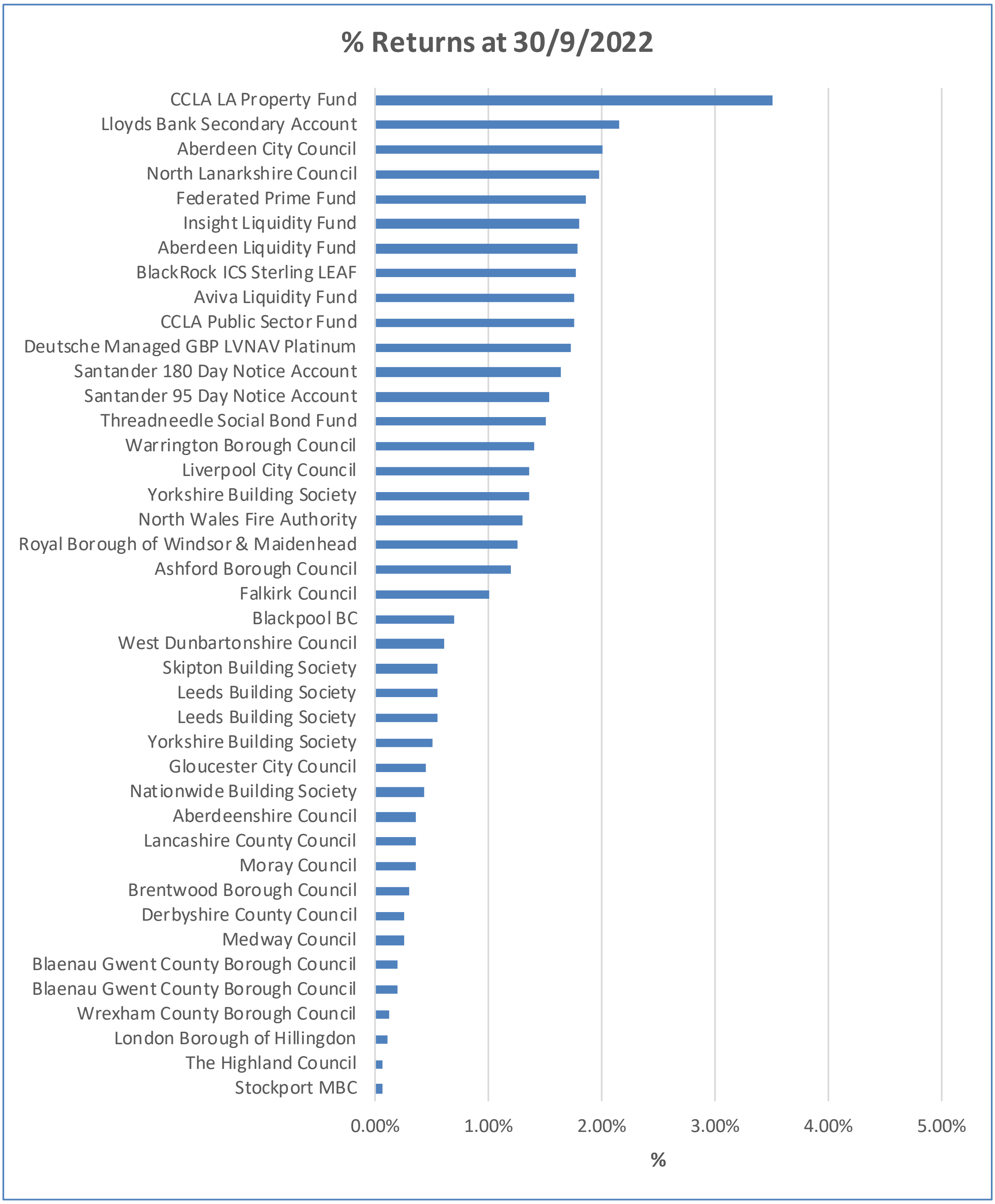
Appendix A

Investment Balances as at 30/9/2022



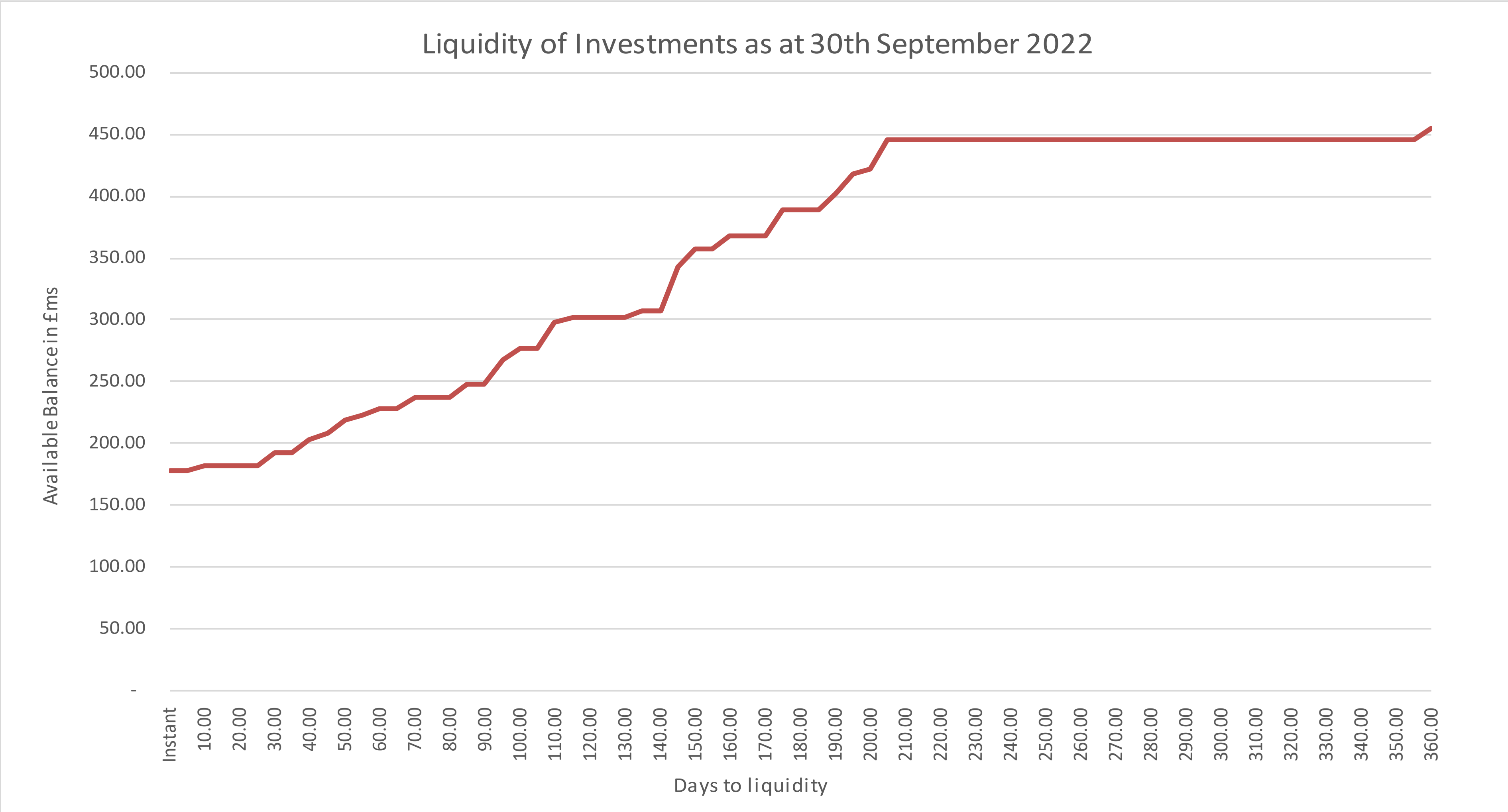
Appendix B

Investment % Returns as at 30/9/2022



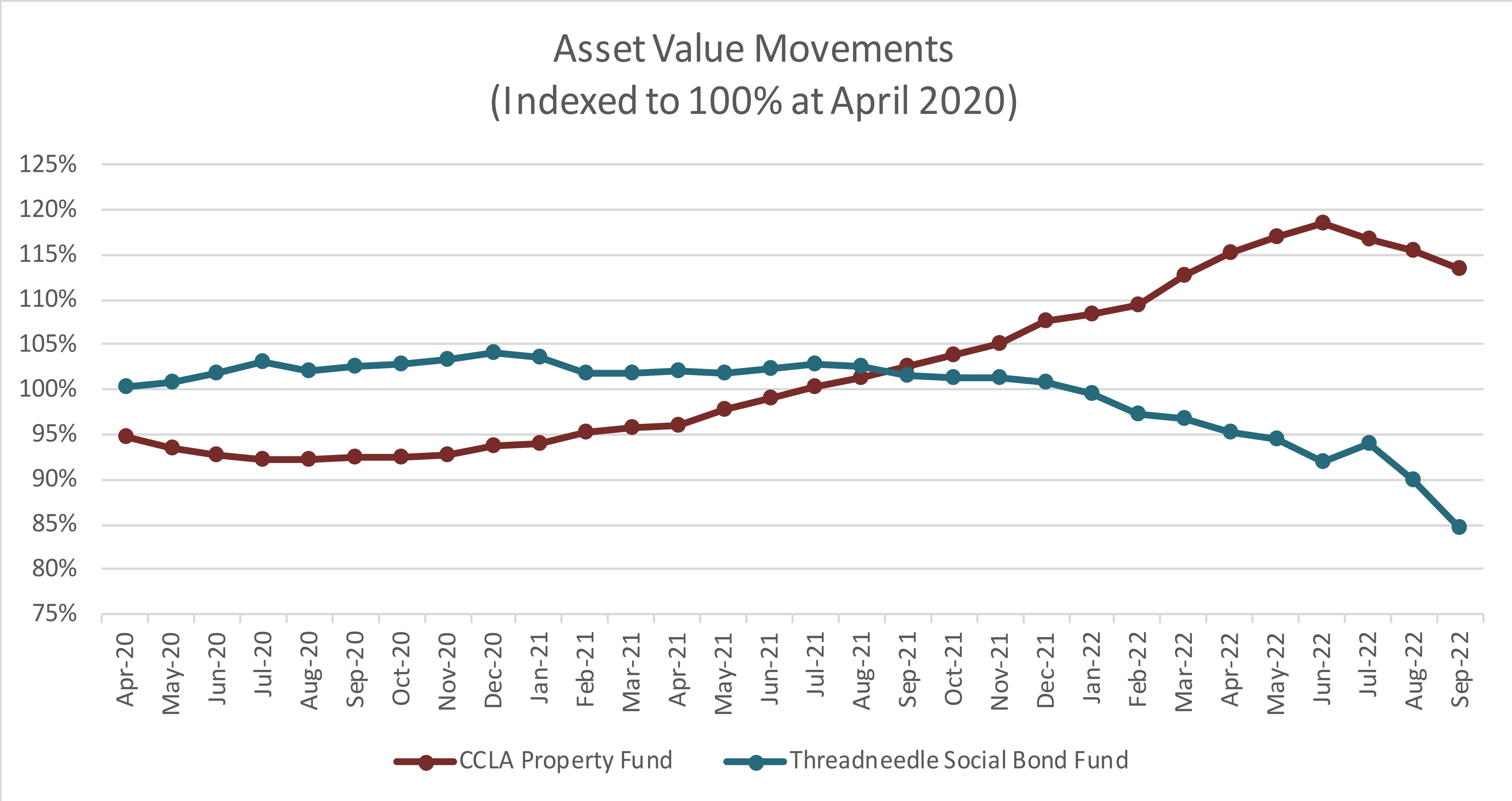
Appendix C

Investment Portfolio Liquidity as at 30/9/2022



Appendix D

Asset Value Movements



Appendix E

Cash Funds Summary

SEPTEMBER 2022

Inhouse Investments

Internally Managed Funds	**£m**	**Net % Rate at 30/9/2021**	**Duration (days from inception)**	**Duration (days from end of September 2022)**	**Fitch Long Term Credit Rating**
Stockport MBC	10.0	0.06%	364	5	AA-
The Highland Council	5.0	0.06%	363	11	AA-
Leeds Building Society	10.0	0.55%	364	33	A-
Leeds Building Society	10.0	0.55%	364	39	A-
Blaenau Gwent County Borough Council	6.0	0.20%	306	43	AA-
Yorkshire Building Society	10.0	0.50%	364	47	A-
Blaenau Gwent County Borough Council	4.0	0.20%	304	53	AA-
Wrexham County Borough Council	5.0	0.12%	364	54	AA-
London Borough of Hillingdon	10.0	0.10%	364	66	AA-
Warrington Borough Council	10.0	1.40%	191	87	AA-
Ashford Borough Council	10.0	1.20%	184	87	AA-
Falkirk Council	5.0	1.00%	275	92	AA-
Falkirk Council	5.0	1.00%	275	91	AA-
Nationwide Building Society	20.0	0.43%	364	102	A
Brentwood Borough Council	5.0	0.30%	364	103	AA-
Aberdeen City Council	5.0	2.00%	140	121	AA-
Medway Council	10.0	0.25%	364	130	AA-
Skipton Building Society	20.0	0.55%	364	129	A-
West Dunbartonshire Council	5.0	0.60%	364	132	AA-
Moray Council	5.0	0.35%	364	132	AA-
Yorkshire Building Society	10.0	1.35%	364	132	A-
Liverpool City Council	10.0	1.35%	181	143	AA-
North Lanarkshire Council	3.0	1.97%	218	172	AA-
Lancashire County Council	10.0	0.35%	364	172	AA-
Aberdeenshire Council	10.0	0.35%	364	176	AA-
Gloucester City Council	5.0	0.45%	364	175	AA-
Blackpool BC	5.0	0.70%	364	175	AA-
Gloucester City Council	5.0	0.45%	364	182	AA-
North Wales Fire Authority	3.0	1.30%	364	181	AA-
Derbyshire County Council	10.0	0.25%	364	181	AA-
Blackpool BC	5.0	0.70%	364	180	AA-
Royal Borough of Windsor & Maidenhead	10.0	1.25%	364	333	AA-
Lloyds Bank Secondary Account	5.9	2.15%	same day	same day	A+
Santander 95 Day Notice Account	10.0	1.54%	90 days	90 days	A+
Santander 180 Day Notice Account	10.0	1.64%	180 days	90 days	A+
Total	**193.0**				

Externally Managed Funds	£m	**Net % Rate at 30/9/2022**	**Duration (from inception)**	**Duration (from end of September 2022)**	**Fitch Long Term Credit Rating**
Aberdeen Liquidity Fund	17.0	1.79%	same day	same day	AAA
Aviva Liquidity Fund	24.9	1.76%	same day	same day	AAA
BlackRock ICS Sterling LEAF	17.0	1.77%	same day	same day	AAA
CCLA Public Sector Fund	24.1	1.75%	same day	same day	AAA
Deutsche Managed GBP LVNAV Platinum	16.7	1.73%	same day	same day	AAA
Federated Prime Fund	17.0	1.85%	same day	same day	AAA
Insight Liquidity Fund	17.0	1.80%	same day	same day	AAA
CCLA LA Property Fund	12.1	3.50%	90 days	90 days	
Threadneedle Social Bond Fund	27.9	1.50%	4 days	4 days	
Total	**173.6**				

Appendix F

Economics and Interest Rates (Link update as at 30/09/22)

Preface

The update below is informed up to the end of September 2022. Since then, the position has been superseded following the most recent change of Chancellor, who has now announced a reversal of the majority of the planned tax cuts and changes to the level of Government spending, and the resignation of the Prime Minister. It is currently too early to say how these revised policies will impact growth and inflation, but the expectation is that the plans will reduce the concerns about the level of unfunded expenditure that had previously alarmed the markets.

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 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.
- 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.
- During H1 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.
- 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.

- 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 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.
- 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.
- 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%.
- 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.

- 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.

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 1st November 2012.
- The latest forecast on 27th 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 1st 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
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

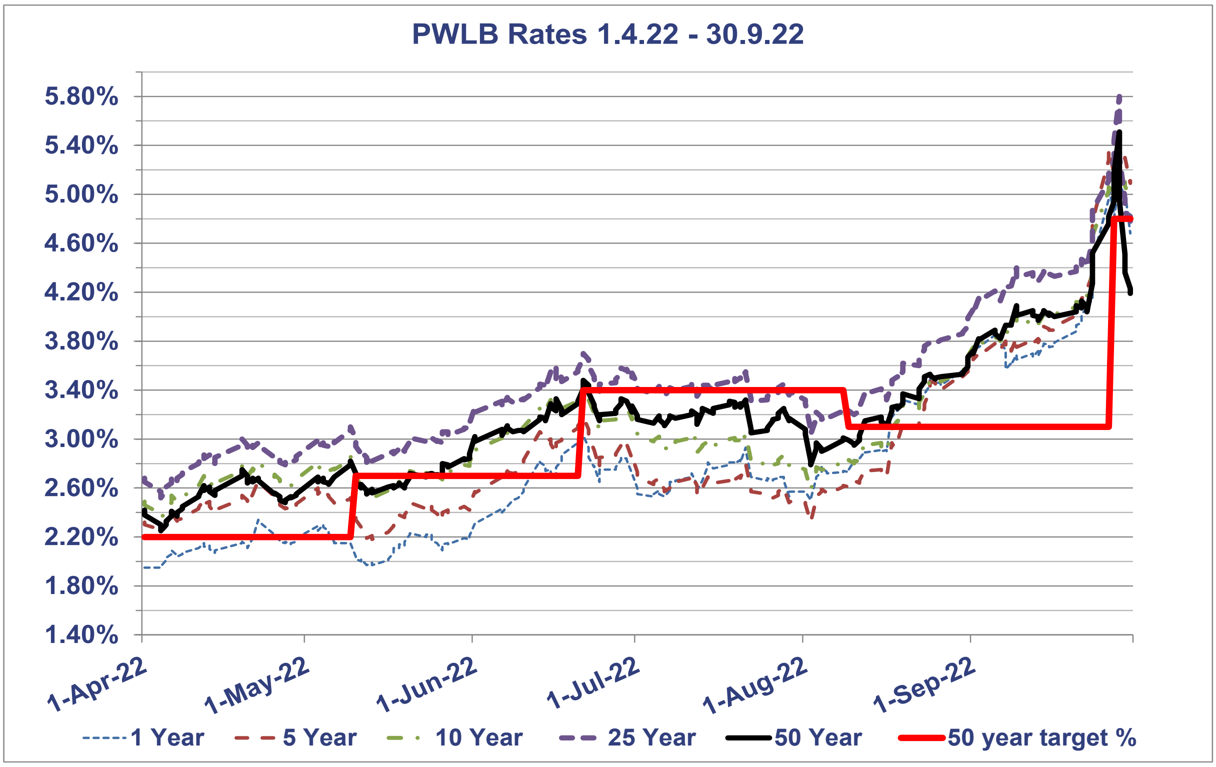
PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2022

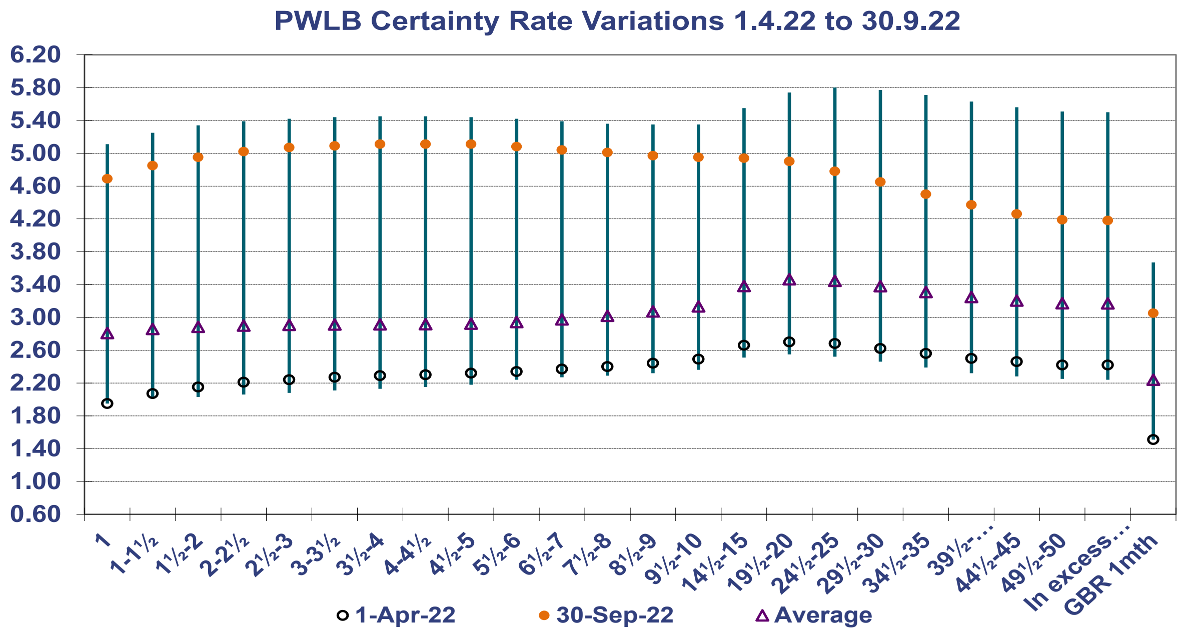
- Gilt yields and PWLB rates were on a generally rising trend throughout H1 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September.
- The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%, albeit we forecast rates to fall back to 3.10% by the end of September 2025.

PWLB maturity certainty rates year to date to 30th September 2022

- Gilt yields and PWLB rates were on a rising trend between 1st April and 30th September.
- The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to 4.80% in September. (Please note, however, that we see PWLB rates trending downwards through 2023 and 2024.)

PWLB RATES 01.04.22 - 30.09.22





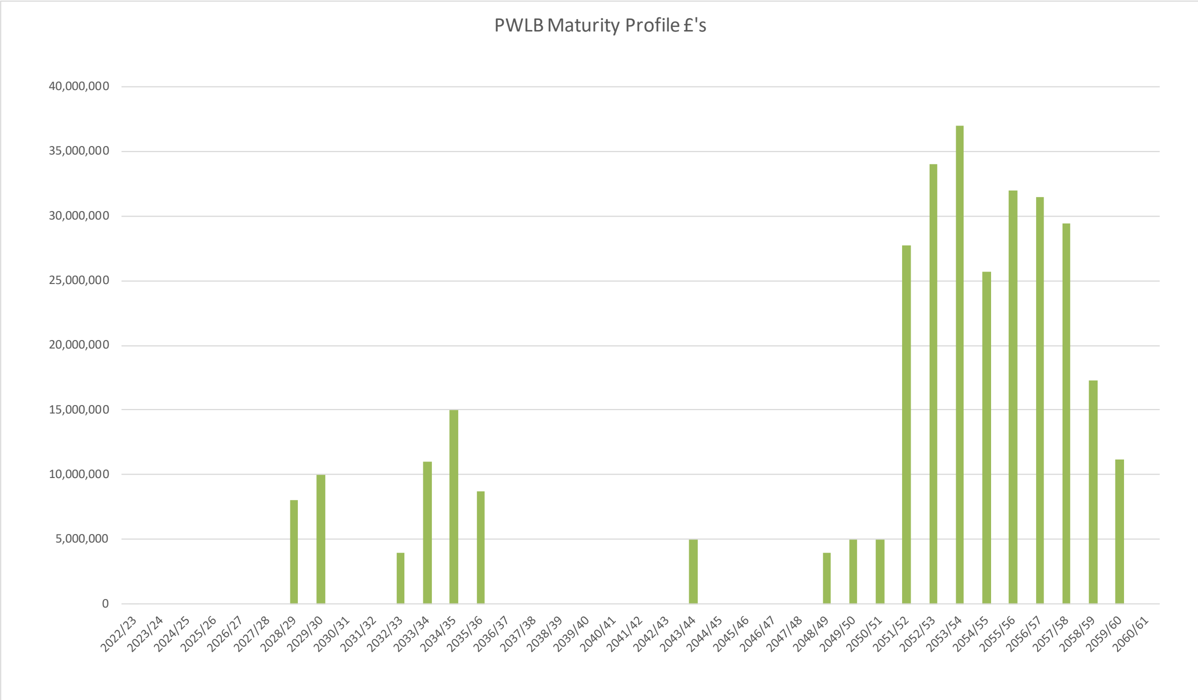
HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.09.22

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

- The current PWLB rates are set as margins over gilt yields as follows:
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

Appendix G

PWLB Debt Maturity Profile



Appendix H

Prudential Indicators

(1). AFFORDABILITY PRUDENTIAL INDICATORS	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£'000	£'000	£'000
Capital Expenditure	167,475	231,611	141,208
	%	%	%
Ratio of financing costs to net revenue stream	5.28%	5.77%	6.30%
Gross borrowing requirement	£'000	£'000	£'000
Gross Debt	321,413	321,413	321,413
Capital Financing Requirement as at 31 March	298,922	311,241	368,569
Under/(Over) Borrowing	(22,491)	(10,172)	47,156
	£'000	£'000	£'000
In year Capital Financing Requirement	10,503	11,766	12,258

PRUDENTIAL INDICATOR	2022/23	2023/24	2024/25
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
Authorised limit for external debt -	£'000	£'000	£'000
Borrowing	386,000	390,000	472,000
other long term liabilities	12,000	12,000	12,000
TOTAL	**398,000**	**402,000**	**484,000**
Operational boundary for external debt -	£'000	£'000	£'000
Borrowing	321,413	393,313	466,622
other long term liabilities	10,000	10,000	10,000
TOTAL	**331,413**	**326,320**	**311,976**
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%
Upper limit for variable rate exposure			
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%
Upper limit for total principal sums invested for over 365 days	£'000	£'000	£'000
(per maturity date)	£60,000	£60,000	£60,000

Maturity structure of borrowing during year	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Maturity structure of new variable rate borrowing during year	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Appendix I

Prudential Indicators Glossary

Ratio of financing costs to net revenue stream

The ratio of financing costs to net revenue stream shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, plus repayments of capital, as a proportion of annual income from council taxpayers and central government. The estimates of financing costs include current and future commitments based on the capital programme.

Gross Borrowing

Gross borrowing refers to the Authority's total external borrowing and other long term liabilities versus the Capital Financing Requirement.

Actual and Estimated Capital Expenditure

Actual and estimates of capital expenditure for the current and future years.

Capital Financing Requirement

The Capital Financing Requirement (CFR) represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third-party contributions at the time of spending. The CFR measures the Authority's underlying need to borrow externally for a capital purpose. The Authority has a treasury management strategy which accords with the CIPFA Code of Practice for Treasury Management in the Public Services.

Authorised Limit

In respect of its external debt, the Authority approves authorised limits for its total external debt gross of investments. These limits separately identify borrowing from other long-term liabilities such as finance leases. Authorised Limits are consistent with the Authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accord with the approved Treasury Management Policy statement and practices. The Authorised Limit is based on the estimate of most likely prudent, but not necessarily the worst-case scenario and provides sufficient additional headroom over and above the Operational Boundary.

Operational Boundary

The Operational Boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worst-case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Limits on Interest Rate Exposure

This means that the Authority will manage fixed and variable interest rate exposure within the ranges. This provides flexibility to take advantage of any favourable movements in interest rates.

Appendix J

Approved countries for investments as at 30 September 2022*.*

Based on lowest available rating

AAA

1. Australia
2. Denmark
3. Germany
4. Luxembourg
5. Netherlands
6. Norway
7. Singapore
8. Sweden
9. Switzerland

AA+

10. Canada
11. Finland
12. U.S.A.

AA

13. Abu Dhabi (UAE)
14. France

AA-

15. Belgium
16. Hong Kong
17. Qatar
18. **U.K.**