

<b>Report of</b>	<b>Meeting</b>	<b>Date</b>
Director of Finance and Section 151 Officer	Governance Committee	23 <sup>rd</sup> November 2022

## **Treasury Management Mid-Year Review 2022/23**

Is this report confidential?	No
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Is this decision key?	No
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### **Purpose of report**

1. To report on Treasury Management performance and compliance with Prudential Indicators for the period ended 30<sup>th</sup> September 2022.
2. To present monitoring figures for the quarter ended 30<sup>th</sup> September 2022, including updated interest rate forecasts from Link Asset Services.

### **Recommendation to Governance Committee**

3. That the report be noted.

### **Reasons for recommendations**

4. Production of a Mid-Year Report is a requirement under the Treasury Management Code of Practice.

### **Other options considered and rejected**

5. Not applicable

### **Corporate priorities**

6. The report relates to the following corporate priorities:

<b>Involving residents in improving their local area and equality of access for all</b>	<b>A strong local economy</b>
<b>Clean, safe and healthy communities</b>	<b>An ambitious council that does more to meet the needs of residents and the local area</b>

## Background to the report

7. At its meeting on 22nd February 2022, Council approved the Treasury Management Policy Statement; Prudential Indicators; Investment Strategy; and the Annual Minimum Revenue Provision (MRP) Policy for 2022/23.
8. The Treasury Management Annual Report for 2021/22 was presented to Governance Committee on 3<sup>rd</sup> August 2022.
9. The Code of Practice for Treasury Management requires all Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

## Capital Expenditure and Financing 2022/23

10. The Council undertakes capital expenditure on long-term activities. These activities may either be:
  - financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no impact on the Council's borrowing need; or
  - if sufficient financing is not available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
11. Capital expenditure is monitored monthly and reported to Executive Cabinet every quarter.
12. The report for the quarter ended 30<sup>th</sup> September 2022 was considered by Executive Cabinet on 10<sup>th</sup> November 2022 and highlighted a reduced forecast borrowing requirement for the year of £13.130m compared to an original forecast of £15.310m (£14.130m at July 2022).

<b>Table 1 – Forecast Capital Expenditure</b>	<b>Budget 2022/23 Approved at Council Feb 2022</b>	<b>Budget 2022/23 Approved by Cabinet for the 4 months to July 2022</b>	<b>Slippage and reprofiling of budget (to)/from future years</b>	<b>Quarter 2 2022/23 Variations</b>	<b>Revised Budget 2022/23 as at 30th Sept 2022</b>
<b>COSTS</b>					
A strong local economy	9,451	10,447	(2,100)	-	8,347
An ambitious council that does more to meet the needs of residents and the local area	1,570	2,167	-	-	2,167
Clean, safe and healthy homes and communities	12,724	13,756	-	23	13,779
Involving residents in improving their local area and equality of access for all	489	1,176	-	-	1,176
<b>Total Forecast Expenditure</b>	<b>24,234</b>	<b>27,545</b>	<b>(2,100)</b>	<b>23</b>	<b>25,468</b>
<b>RESOURCES</b>					
Disabled Facilities Grants	775	894			894
Brownfield Release Fund		1,100	(1,100)		-
Homes England	930	930			930
Rural Prosperity Fund					
LEP Grants		3,570			3,570
Other Grants	72	562			562
<b>Total Grants</b>	<b>1,776</b>	<b>7,056</b>	<b>(1,100)</b>	<b>-</b>	<b>5,956</b>
Capital Receipts	1,000				-
Community Infrastructure Levy (CIL)	1,534	1,654			1,654
Reserves and Revenue	1,795	2,052		13	2,065
Section 106	2,819	2,654		10	2,664
Unsupported Borrowing	15,310	14,130	(1,000)		13,130
<b>Total Forecast Resources</b>	<b>24,234</b>	<b>27,545</b>	<b>(2,100)</b>	<b>23</b>	<b>25,468</b>

Full details are outlined in the report to Executive Cabinet 10<sup>th</sup> November 2022; 2022/23 Corporate Capital Programme and Balance Sheet Monitoring Report Position at 30<sup>th</sup> September 2022.

### Capital Financing Requirement 2022/23

13. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. It represents the unfinanced capital expenditure in 2022/23 plus unfinanced capital expenditure from prior years which has not yet been paid for by revenue or other resources.
14. The CFR is not matched in full by external borrowing, as the Council has "under borrowed" by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken, then the interest payable would have been at a higher rate. Use of the Council's own cash balances helps to achieve savings in net interest.
15. The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need.
16. The Council's CFR for the year is shown below and represents a key prudential indicator;

<b>Table 2 - Capital Financing Requirement</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>Outturn</b>	<b>Forecast as at 30/9/22</b>
	<b>£'000</b>	<b>£'000</b>
Opening CFR	89,271	98,349
Increase in Borrowing (Table 1)	14,700	13,130
Less MRP	(5,622)	(1,296)
<b>Closing CFR</b>	<b>98,349</b>	<b>110,183</b>

### The CFR and Gross Debt

17. In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not exceed the total of the CFR.
18. The borrowing position is summarised below, and no additional borrowing has been undertaken to date this financial year. Planned Capital Expenditure will be contained within the Council's overall Treasury position where possible, however further borrowing is likely to be required in the future to fund the planned Capital Programme. The Council will however retain its "under-borrowed" position.

<b>Table 3 - Actual Debt : CFR</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>Actual</b>	<b>As at 30/9/22</b>
	<b>£'000</b>	<b>£'000</b>
Debt < 12 mth	1,924	1,932
Debt > 12 mth	68,341	67,375
<b>Gross Debt</b>	<b>70,265</b>	<b>69,307</b>
Capital Financing Requirement (Table 2)	98,349	110,183
<b>Under / (Over) Borrowing</b>	<b>28,084</b>	<b>40,876</b>

19. A detailed analysis of external borrowing as at 30<sup>th</sup> September 2022 is presented in **Appendix A**.
20. **The authorised limit.** This is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The limit set for 2022/23 by Council on 22nd February 2022 was £107.815m and actual debt is currently £69.307m. The Council has therefore maintained borrowing within its authorised limit throughout the year.
21. **The operational boundary.** This is the expected borrowing position of the Council during the year. The operational boundary set for 2022/23 was £102.615m and actual debt is currently £69.307m. The Council remained within its operational boundary throughout the year.

### **Investments**

22. The Council’s investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by Council for 2022/23. 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. Link Asset Services, the Council’s treasury advisors, provide suggested investment durations for the approved counterparties.
23. The approved Counterparties for 2022/23 are outlined at **Appendix B**
24. To date, cash has not been invested in term deposits. To manage the Council’s cash flow, balances were held only in highly liquid accounts, specifically in call accounts and Money Market Funds (MMFs), with the need for money to be available at short notice.
25. Investment returns dropped to historically low levels from late March 2020 onwards and remained there throughout 2021/22. Yields are now increasing with a return to date of 0.82% (compared to just 0.09% in 2021/22).
26. Given the low returns available compared to borrowing rates, the Council has continued to achieve budget savings by maintaining a position of under borrowing, which means that it has used its own cash balances to finance capital expenditure rather than taking additional external loans.

27. Average Investment performance for the year to date is summarised below;

<b>Table 4 - Average Investment Yield</b>	<b>Average Daily Investment £'000</b>	<b>Earnings to 30/09/22 £</b>	<b>Average Rate %</b>
DMO	519	2,015	0.77
Fixed Term Deposits	0	0	0.00
Call Accounts	3,642	7,223	0.40
Money Market Funds	3,853	23,867	1.12
<b>Total</b>	<b>8,014</b>	<b>33,104</b>	<b>0.82%</b>

This compares to a Link “benchmark” yield of 1.22%. Many of the Council’s investments were made prior to recent interest rate rises – hence the shortfall compared to the benchmark, however any new investments will attract higher rates of return. It should also be noted that investment income is forecast to exceed the amount budgeted for.

28. Actual investments as at 30<sup>th</sup> September 2022 are summarised below;

<b>Table 5 - Actual Investments as at 30/9/22</b>	<b>Type</b>	<b>Amount £'000</b>	<b>Rate %</b>	<b>Term</b>
<b>Fixed Term Deposit sub total</b>		<b>0</b>		
Santander	Call	0	0.41%	On Call
Barclays BPA Deposit Account	Call	2,634	0.60%	On Call
<b>Call Accounts sub total</b>		<b>2,634</b>		
Federated	MMF	1,000	2.08%	On Call
Aberdeen Standard	MMF	0	2.13%	On Call
Blackrock	MMF	0	2.01%	On Call
<b>Money Market Funds sub total</b>		<b>1,000</b>		
<b>Total</b>		<b>3,634</b>		

These investments are within the approved Counterparty Limits outlined at **Appendix B**

#### **Advice of Link Asset Services**

29. Link Asset Services’ assessment of the Economy and Interest Rates is presented at **Appendices C & D**.

30. Latest forecasts show PWLB borrowing rates peaking December 2022 - March 2023 then gradually reducing, however the volatility of world and domestic markets must be stressed.

### **Summary**

31. Members are asked to note that the Council has;
- remained within its Prudential Indicators;
  - adhered to its approved Counterparty Limits;
  - not entered into any further borrowing; however further borrowing is likely to fund the approved Capital Programme;
  - retained its “under borrowed” position;
  - has achieved an increased investment yield of 0.82%

### **Climate change and air quality**

32. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

### **Equality and diversity**

33. Not applicable

### **Risk**

34. Regular monitoring and reporting of the Council’s Treasury Management position ensure compliance with Prudential Indicators and the Treasury Management Code of Practice.

### **Comments of the Statutory Finance Officer**

35. There are no direct financial implications arising from this report. All financial implications in respect of treasury management activity arise as a result of the annual Treasury Strategy for 2022/23, previously approved by Council. This report presents details of actual performance achieved as a result of implementing the approved strategies.
36. The Council is compliant with its Prudential Indicators, Counterparty limits and the latest PWLB reforms.

### **Comments of the Monitoring Officer**

37. Presentation of this report is required to comply with the CIPFA Code of Practice on Treasury Management in the Public Services (2017 edition).

### **Background documents**

- CIPFA Treasury Management in the Public Services: Code of Practice & Guidance Notes
- Treasury Management Policy Statement 2022/23 to 2024/25 (Council 22<sup>nd</sup> February 2022)
- Treasury Management Outturn Report 2021/22 (Governance Committee 3<sup>rd</sup> August 2022)
- 2022/23 Corporate Capital Programme and Balance Sheet Monitoring Report Position at 30<sup>th</sup> September 2022 (Executive Cabinet 10<sup>th</sup> November 2022)

## Appendices

Appendix A: External Borrowing as at 30<sup>th</sup> September 2022

Appendix B: Approved Counterparty limits 2022/23

Appendix C: Link Commentary - Economic Outlook

Appendix D: Link Interest Rate Forecasts

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## APPENDIX A

**External Borrowing as at 30<sup>th</sup> September 2022**

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Total £000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	1,573
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	1,613
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	1,486
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	1,263
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	914
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	226
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	2,500
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	1,696
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	2,700
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	2,738
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	2,200
PWLB loan - Annuity	509641	09/08/2019	09/08/2059	1.87	30,327
PWLB loan - Annuity	509689	16/08/2019	16/08/2059	1.86	1,896
PWLB loan - EIP	509691	16/08/2019	16/08/2039	1.32	2,550
PWLB loan - EIP	165470	28/02/2020	28/02/2060	2.71	5,625
PWLB loan - Maturity	New	01/03/2022	01/03/2072	2.02	10,000
Public Works Loan Board total					69,307
Local Authorities total					0
<b>External Borrowing total</b>					<b>69,307</b>



## Investment Counterparties 2022/23

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
<b>Banks &amp; Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)</b>				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£5m per group (or institution if independent)
<b>Money Market Funds</b>				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

<b>Yellow</b>	5 years
<b>Purple</b>	2 years
<b>Blue</b>	1 year (only applies to nationalised or semi nationalised UK Banks)
<b>Orange</b>	1 year
<b>Red</b>	6 months
<b>Green</b>	100 days
<b>No colour</b>	Not to be used

## Summarised View from Link Treasury Advisors - The Economy and Interest Rates 2022/23

### INFLATION / BANK RATES

The CPI measure of inflation is expected to peak at close to 11% in Q4 2022.

We now expect the Monetary Policy Committee (MPC) to swiftly increase the Bank Rate during the remainder of 2022 and into Q2 2023 to combat the sharp increase in inflationary pressures.

We do not think that the MPC will embark on a series of increases in Bank Rate that would take it to more than 4.5%, but it is possible.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

### THE BALANCE OF RISKS TO THE UK ECONOMY

The overall balance of risks to economic growth in the UK is to the downside and includes;

**Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

**The Bank of England acts too quickly**, or too far, over the next two years to raise Bank Rate and causes UK economic growth to be weaker than we currently anticipate, or

The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy.

**UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out remaining issues.

**Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

**The pound weakens** because of a lack of confidence in fiscal policies.

APPENDIX D

Updated Interest Rate Forecasts (as at 8/11/22)

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