



**AUDIT COMMITTEE
TO BE HELD ON MONDAY, 12TH
DECEMBER, 2022**

**Please find attached the Report in respect to Item 7 on
the agenda for the above meeting**

7.	Mid-Year Treasury Management Report 2022-23 (Pages 3 - 18) Consider report by Acting Chief Financial Officer.	10 mins
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TREASURY MANAGEMENT MID-YEAR REPORT 2022/23

Report by Acting Chief Financial Officer
AUDIT COMMITTEE

12 December 2022

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the mid-year report of treasury management activities for 2022/23, in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and seeks comments from Audit and Scrutiny Committee prior to consideration of the report by Council.**
- 1.2 The report is required as part of the Council's treasury management control regime. It provides a mid-year report on the Council's treasury activity during the six month period to 30 September 2022 and demonstrates that Treasury activity in the first six months of 2022/23 has been undertaken in full compliance with the approved Treasury Strategy and Policy for the year.
- 1.3 Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators, and proposes revised estimates of these indicators in light of the 2021/22 out-turn and experience in 2022/23 to date for Council approval.

2 RECOMMENDATIONS

2.1 It is recommended that the Audit and Scrutiny Committee:

- (a) **Notes that treasury management activity in the six months to 30 September 2022 was carried out in compliance with the approved Treasury Management Strategy and Policy;**
- (b) **Agrees to the presentation of the Treasury Management Mid-Year Report 2022/23, as contained in Appendix 1, to Council for approval of the revised indicators.**

3 BACKGROUND

- 3.1 The Council approved the Annual Treasury Management Strategy (the Strategy) for 2022/23 at the Council meeting on 22 February 2022. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 3.2 As set out in the annual Treasury Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Mid Year Report before submission to Council for final approval.

4 TREASURY MANAGEMENT MID-YEAR REPORT 2022/23

- 4.1 The Treasury Management Mid-Year Report for 2022/23 (the Mid-Year Report) is contained in Appendix 1. All of the 2022/23 target indicators reported upon are based on the indicators agreed as part of the Strategy approved by Council on 22 February 2022.
- 4.2 The Mid-Year Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
- (a) An economic update for the first six months of 2022/23;
 - (b) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - (c) The Council's capital expenditure (prudential indicators);
 - (d) A review of the Council's investment portfolio for 2022/23;
 - (e) A review of the Council's borrowing strategy for 2022/23;
 - (f) A review of compliance with Treasury and Prudential Limits for 2022/23.
- 4.3 The Mid-Year Report at Annex A contains revised Prudential and Treasury Management Indicators for consideration prior to Council approval.
- 4.4 The Mid-Year Report indicates that the Council's Treasury Management activities are being managed and monitored within the agreed boundaries and indicators approved by the Council.

5 IMPLICATIONS

- 5.1 **Financial**
There are no further financial implications relating to this report. The outcomes from the Council's treasury management activities are explained in detail within Appendix 1.
- 5.2 **Risk and Mitigations**
This report is an account of the outcomes delivered at the six month stage from the tightly controlled risk management work that the Council's Treasury staff have carried out; Appendix 1 gives further detail on these controls. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

5.3 **Integrated Impact Assessment**

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine financial monitoring report which forms part of the governance of the Treasury function within the Council. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

5.4 **Sustainable Development Goals**

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.5 **Climate Change**

There are no direct carbon emissions impacts as a result of this report.

5.6 **Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 **Data Protection Impact Statement**

There are no personal data implications arising from the proposals contained in this report

5.8 **Changes to Scheme of Administration or Scheme of Delegation**

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 **CONSULTATION**

- 6.1 The Chief Legal Officer (including as Monitoring Officer), the Chief Officer Audit and Risk, Director People Performance & Change, Communications and the Clerk to the Council have been consulted and their appropriate comments have been incorporated into this report

Approved by

Suzy Douglas
Acting Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
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Background Papers:

Previous Minute Reference: Scottish Borders Council, 22 February 2022

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pensions & Investment Team can also give information on other language translations as well as providing additional copies.

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APPENDIX 1

SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT MID-YEAR REPORT 2022/23

1. BACKGROUND

a) Treasury management is defined as:

“The management of the local authority’s 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”.

b) The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing security and adequate liquidity, before considering optimising investment return.

c) 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 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. On occasion, where favourable conditions exist, any debt previously drawn may be restructured to meet Council risk or cost objectives.

d) **Annex A** contains a summary of the updated Prudential and Treasury Management Indicators for 2022/23 as highlighted throughout this report.

2 ECONOMIC POSITION

2.1 ECONOMIC UPDATE *(from Link Group)*

- 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.

2.2 INTEREST RATE FORECAST

- a) 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.

- b) 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.
- c) 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.
- d) 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

3 TREASURY MANAGEMENT POLICY STATEMENT - UPDATE

- a) The Treasury Management Policy Statement (the Statement) was approved by Council in April 2010. There have been no policy changes to the Statement. The details in this report update the position in light of updated economic position and budgetary changes.
- b) Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by Council on 22 February 2022. There are no further policy changes to the Statement. The details in this report provides an update on Treasury Management activities, including Prudential and Treasury Management Indicators.

4 COUNCIL’S CAPITAL EXPENDITURE AND FINANCING 2022/23

4.1 This part of the report is structured to update:

- The Council’s capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.2 CAPITAL EXPENDITURE (Prudential Indicator (PI-1))

- a) The original capital plan for 2022/23 was approved on 22 February 2022. **Table 2** shows the current budgets for capital expenditure compared to the original estimates used in the Treasury Management Strategy report for 2022/23.

Table 2	2022/23 Original Budget	2022/23 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Assets & Infrastructure	45.6	46.2	0.6
Other Corporate Services	12.7	10.3	(2.4)
Children & Young People	24.3	25.7	1.4
Culture & Sport	2.1	2.5	0.4
Economic Regeneration	14.8	9.1	(5.7)
Housing Strategy & Services	0.5	0.5	-
Social Care Infrastructure	3.1	1.8	(1.3)
Emergency & Unplanned Schemes	0.2	1.9	1.7
Total Capital Expenditure (PI-1)	103.3	98.0	(5.3)

¹ Executive Committee 15 November 2022

- b) The current approved budget for 2022/23 is less than the original budget mainly due to adverse timing movements in Economic Regeneration (Borderlands). Detailed explanations of the movements within the planned expenditure have been reported in the ongoing monitoring reports, the last of which was to the Executive Committee on 15 November 2022.

4.3 FINANCING OF THE CAPITAL PROGRAMME

- a) **Table 3** draws together the main funding elements of the capital expenditure plans (see 4.2 above), comparing the original components of the funding strategy to those of the latest approved budget for the 2022/23 capital programme.

Table 3	2022/23 Original Budget	2022/23 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Capital Expenditure (PI-1)	103.3	98.0	(5.3)
Other Relevant Expenditure	-	-	-
Total Expenditure	103.3	98.0	(5.3)
<i>Financed by:</i>			
Capital receipts	(0.4)	(0.7)	(0.3)
Capital from Revenue (CFCR)	(7.0)	(2.1)	4.9
Developer Contributions	(0.1)	(0.2)	(0.1)
Govt. General Capital Grant	(3.8)	(23.6)	(19.8)
Govt. Specific Capital Grant	(21.4)	(4.2)	17.2
Other Grants & Contributions	(24.5)	(23.2)	1.3
Replacement Funds	(2.4)	(2.0)	0.4
Total Financing	(59.6)	(56.0)	3.6
Net Financing Need for the Year	43.7	42.0	(1.7)

¹ Executive Committee 15 November 2022

- b) The decrease in overall financing need is a combination of the reduced projected capital expenditure as detailed in table 2 above, along with a net increase in government grants.

4.4 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT INDICATORS

CAPITAL FINANCING REQUIREMENT (CFR) (PI-2)

- i) **Table 4** below shows the CFR, which is the underlying need to incur external borrowing for a capital purpose.
- ii) The CFR has been re-calculated in light of the changes to the capital plan and the fixed asset and reserve valuations in the Council's accounts for the year ending 31 March 2022; this has resulted in a variance of £9.2m in the CFR.

Table 4	2022/23 Original estimate £m	2022/23 Revised estimate £m	Variance £m
CFR * (PI-2)	381.1	371.9	9.2

The CFR for this calculation includes current capital expenditure assumptions to 30 September 2022.

ACTUAL EXTERNAL DEBT (PI-5)

- iii) Projected external debt for 2022/23 is shown in **Table 5** below and is estimated to remain within the operational boundary.
- iv) **Table 5** also compares the current projected external borrowing estimate with the estimate in the Annual Strategy. In cash terms, the borrowing figure is lower than originally projected in line with the reduced net financing need as detailed above. A variance in cash levels held at the year-end compared to those projected also impact on the variance below.
- v) Due to the overall financial position and the timing of the capital programme, there has been no new external borrowing undertaken so far this year. It is anticipated that borrowing of £5.5m will be undertaken during the remainder of this financial year.

Table 5	2022/23 Original estimate £m	2022/23 Current Approved Budget £m	Variance £m
Borrowing	242.4	215.4	(27.0)
Other long-term liabilities	84.3	82.2	(2.1)
Total External Debt (PI-5)	326.7	297.6	(29.1)

(UNDER)/OVER BORROWING AGAINST CFR (PI-6)

- vi) A key control over treasury activity is a prudential indicator to ensure that, over the medium term, borrowing will only be for a capital purpose. Net 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 next two financial years. This allows some flexibility for limited early borrowing for future years.
- vii) **Table 6** compares the prudential indicator for (under)/over borrowing against CFR versus the updated estimate for the year end and shows that the Council's actual debt levels are

well within its capital financing requirement. This is primarily driven by the tactical measures which use the Council's surplus cash-flows to finance capital expenditure minimising the need to enter into additional debt financing arrangements.

Table 6	2022/23 Original estimate	2022/23 Current Approved Budget	Variance
	£m	£m	£m
Gross External Debt	326.7	297.6	(29.1)
CFR *	481.0	482.2	(1.2)
(Under)/Over Borrowing against CFR (PI-6)	(154.3)	(184.6)	(30.3)

* The CFR for this calculation includes the current and two future years projected capital expenditure.

- viii) No difficulties are envisaged for the current or future years in complying with this prudential indicator.

AUTHORISED LIMIT AND OPERATIONAL BOUNDARY (PI-7 and PI-8)

- ix) Two further prudential indicators control the overall level of borrowing. These are:

- (i) The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and the expected maximum borrowing need for the Council. It needs to be set and revised by Members. The Authorised Limit is the statutory limit determined under the Local Government in Scotland Act 2003.
- (ii) The **Operational Boundary** which shows the expected operational debt position for the period.

- x) **Table 7** below shows revised estimates for the debt indicators for the 2022/23 financial year and compares them with the original estimates shown in the 2022/23 Treasury Management Strategy Report.

Table 7	2022/23 Original estimate	2022/23 Revised estimate	Variance
	£m	£m	£m
Gross External Debt (PI-5)	326.7	297.6	(29.1)
Authorised Limit inc. Long Term Liabilities(PI-8a)	548.0	522.5	(25.5)
<i>Variance to External Debt Estimate</i>	221.3	224.9	3.6
Operational Boundary inc. Long Term Liabilities (PI-7a)	456.7	435.4	(21.3)
<i>Variance to External Debt Estimate</i>	130.0	137.8	7.8

4.5 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

5 INVESTMENT ACTIVITY

5.1 INVESTMENTS

- a) In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.
- b) The Council held £66.9m of balances in interest bearing accounts as at 30 September 2022 (£45.5m at 31 March 2022). As a result of current market uncertainties, the Council has been prioritising the security of deposits by investing surplus balances with money market funds and the UK Government's Debt Management Office (DMO).
- c) The increase in the level of balances invested from March to September, highlighted above, are due to timing differences between the receipt of grant funding and corresponding capital expenditure, detailed in section 4.4 above.
- d) The Council, due to the cashflow position and the requirement to manage the Pension Fund cash as well as the Council's, continues to explore opportunities to invest surplus balances in the short term.

Creditworthiness

- e) Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

5.2 INVESTMENT COUNTERPARTY CRITERIA

- a) The current investment counterparty criterion, approved in the Treasury Management Strategy, represents a prudent approach to risk and the Council's concerns about security of investments. These prudent limits mean there are limited investment options when operating the cash-flow on a short term management basis.
- b) Considering security, liquidity and yield of investment, priority is given to security. Daily updates and reports are received from Link Asset Services that allow officers to assess the continued credit worthiness of investment counter parties.
- c) All investments undertaken are on a short term, highly liquid basis, allowing access to invested funds at 1 days notice.
- d) Interest rates are also monitored on a daily basis to ensure the best return is obtained. Target for internal return on cash investment is to be above the 365 day backward looking SONIA (Sterling Overnight Index Average) uncompounded rate. The return for six months to 30 September 2022 has averaged 1.18%, compared against an average 365 day backward looking SONIA (Sterling Overnight Index Average) uncompounded rate of 0.37%.

LOAN CHARGES

- a) The **Loan Charges** Revenue Budget estimate contained in the Council's Financial Plans approved on 22 February 2022 was £20.81m. It is expected that charges for 2022/23 will be lower than the budgeted figure, in line with the actual and projected borrowing requirements for the year.

ANNEX A

Indicator Reference	Indicator	Page Ref.	2022/23 Original estimate	2022/23 Revised estimate
PRUDENTIAL INDICATORS				
Capital Expenditure Indicator				
PI-1	Capital Expenditure Limits (£m)	9	103.3	98.0
PI-2	Capital Financing Requirement (£m) (CFR)	10	381.1	371.9
Affordability Indicator				
PI-3	Ratio of Financing Costs to Net Revenue (inc PPP repayment costs)	N/A	8.6%	7.3%
PI-4	Incremental (Saving)/ Cost Impact of Capital Investment Decisions on Council Tax	N/A	£(0.01)	£(0.02)
External Debt Indicators				
PI-5	External Debt (£m)	11	326.7	297.6
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	12	456.7	435.4
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	N/A	372.4	353.2
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	12	548.0	522.5
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	N/A	463.7	440.3
Indicators of Prudence				
PI-6	(Under)/Over Net Borrowing against the CFR (£m)	11	(154.3)	(184.6)
TREASURY INDICATORS				
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)		456.7	435.4
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)		159.8	152.4
TI-3	Maturity Structure of Fixed Interest Rate Borrowing		Lower	
	Under 12 months		0%	
	12 months to 2 years		0%	
	2 years to 5 years		0%	
	5 years to 10 years		0%	
	10 years and above		20%	
TI-4	Maximum Principal Sum invested greater than 364 days	13	20%	20%

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