

## TREASURY MANAGEMENT MID-YEAR UPDATE 2022/23

Cabinet - 10 November 2022

**Report of:** Deputy Chief Executive and Chief Officer - Finance & Trading

**Status:** For Decision

**Also considered by:**

- Finance & Investment Advisory Committee - 3 November 2022

**Key Decision:** No

**Executive Summary:** This report gives details of treasury activity in the first half of the current financial year, recent developments in the financial markets and fulfils the reporting requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management.

**This report supports the Key Aim of:** efficient management of the Council's resources.

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officer:** Jessica Booth, Ext. 7436

**Recommendations to Finance & Investment Advisory Committee:**

That Cabinet be asked to note the Treasury Management Mid-Year Update for 2022/23

**Recommendations to Cabinet:**

It be RESOLVED that the Treasury Management Mid-Year Update for 2022/23 be noted.

**Reason for recommendations:** As required by both the Council's Financial Procedure Rules and the CIPFA Code, a mid-year report of treasury management activity is to be presented to Members for approval.

## Background

### Capital Strategy

- 1 In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following:
  - a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - an overview of how the associated risk is managed; and
  - the implications for future financial sustainability
- 2 This Council's capital strategy for 2022/23 was considered by Members at the meeting of the Finance & Investment Advisory Committee on 11 January 2022 (Capital Programme & Asset Maintenance 2022/25 report) and by Cabinet on 10 February 2022 (Budget and Council Tax Setting 2022/23 report).

### Treasury management

- 3 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 ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 4 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, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 5 Accordingly, treasury management is defined 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.”

### Introduction

- 6 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of

Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- 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;
- 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; and
- 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 the Finance & Investment Advisory Committee.

In addition, monthly reports from our treasury management advisors, Link Asset Services, are emailed to Members of the Finance & Investment Advisory Committee.

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

- An economic update for the first part of the 2022/23 financial year;
- Interest rate forecasts;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23; and
- Any recent treasury management developments.

## Economic update (as at 7 October 2022)

8 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 fell 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 23<sup>rd</sup> 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.

9 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.

10 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.

11 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%.

- 12 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.
- 13 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.
- 14 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.
- 15 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 6<sup>th</sup> 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.
- 16 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 3<sup>rd</sup> 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 23<sup>rd</sup> 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.

- 17 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.
- 18 Since the fiscal event on 23<sup>rd</sup> 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.
- 19 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 21<sup>st</sup> 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 31<sup>st</sup> October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14<sup>th</sup> October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- 20 Since the Bank's announcement on 28<sup>th</sup> 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%.

- 21 There is a possibility that the Bank continues with QE at the long-end beyond 14<sup>th</sup> October or it decides to delay quantitative tightening beyond 31<sup>st</sup> 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.
- 22 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 (as at 7 October 2022)

- 23 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 1<sup>st</sup> November 2012.
- 24 The latest forecast on 27<sup>th</sup> 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.
- 25 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.

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

## Treasury Management Strategy and Annual Investment Strategy update

26 The Treasury Management Strategy Statement (TMSS) and Prudential Indicators for 2022/23 were approved by the Council on 22 February 2022. There are no policy changes to the TMSS thus far and the details in this report merely update the position in the light of the updated economic position.

### The Council's Capital Position (Prudential Indicators)

- 8 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

### Prudential Indicator for Capital Expenditure

27 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital expenditure by Directorate	2022/23 Original Estimate £m	Current Position £m	2022/23 Revised Estimate £m
People and Places	8.510	5.950	16.554
Finance and Trading	1.710	0.899	2.060
Total	10.220	6.849	18.614

The increase in People and Places is due to newly approved strategic property developments. The increase in Finance and Trading is due to the approval of the Operational Development Programme.

### Changes to the Financing of the Capital Programme

28 The table below draws together the main strategy elements of the capital expenditure plans highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the



table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

<b>Capital Expenditure</b>	<b>2022/23 Original Estimate £m</b>	<b>2022/23 Revised Estimate £m</b>
<b>Total capital expenditure</b>	<b>10.220</b>	<b>18.614</b>
<b>Financed by:</b>		
<b>Capital receipts</b>	<b>5.940</b>	<b>14.334</b>
<b>Capital grants</b>	<b>2.618</b>	<b>2.618</b>
<b>Capital reserves</b>	<b>0.612</b>	<b>0.612</b>
<b>Revenue</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Financing</b>	<b>9.170</b>	<b>17.564</b>
<b>Borrowing requirement</b>	<b>1.050</b>	<b>1.050</b>

Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary.

29 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

#### **Prudential Indicator - Capital Financing Requirement**

30 We are on target to achieve the original forecast Capital Financing Requirement.

## Prudential Indicator - the Operational Boundary for external debt

	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
CFR	43.708	43.708
<b>Net movement in CFR</b>	<b>0.764</b>	<b>0.764</b>
Borrowing	30.000	30.000
Other long term liabilities*	2.275	2.275
<b>Total debt (year end position)</b>		

### Limits to Borrowing Activity

31 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose\*. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2022/23 Original Estimate £m	Current Position  £m	2022/23 Revised Estimate £m
Borrowing	13.583	12.533	13.583
Other long term liabilities*	2.275	2.275	2.275
<b>Total debt</b>	<b>15.858</b>	<b>14.808</b>	<b>15.858</b>
<b>CFR* (year end position)</b>	<b>43.708</b>		<b>43.708</b>

32 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2022/23 Original Indicator	Current Position	2022/23 Revised Indicator
Borrowing	35.000	12.533	35.000
Other long term liabilities*	2.275	2.275	2.275
Total	37.275	14.808	37.275

## Borrowing

33 The Council's capital financing requirement (CFR) for 2022/23 is £43.708m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £12.533m and has utilised £26.362m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

34 Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), new external borrowing of £8m was undertaken during 21/22. The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

35 It is anticipated that further borrowing will be undertaken during this financial year.

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

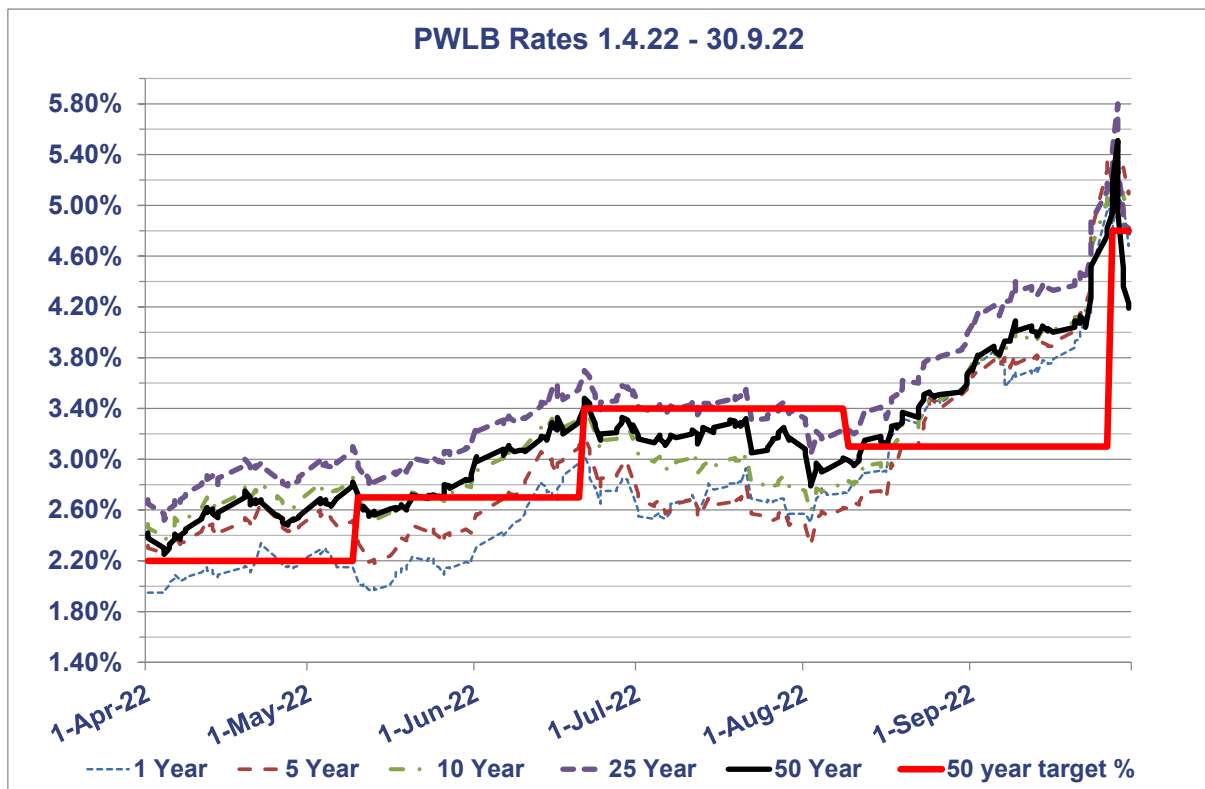
36 Gilt yields and PWLB rates were on a generally rising trend throughout H1 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September.

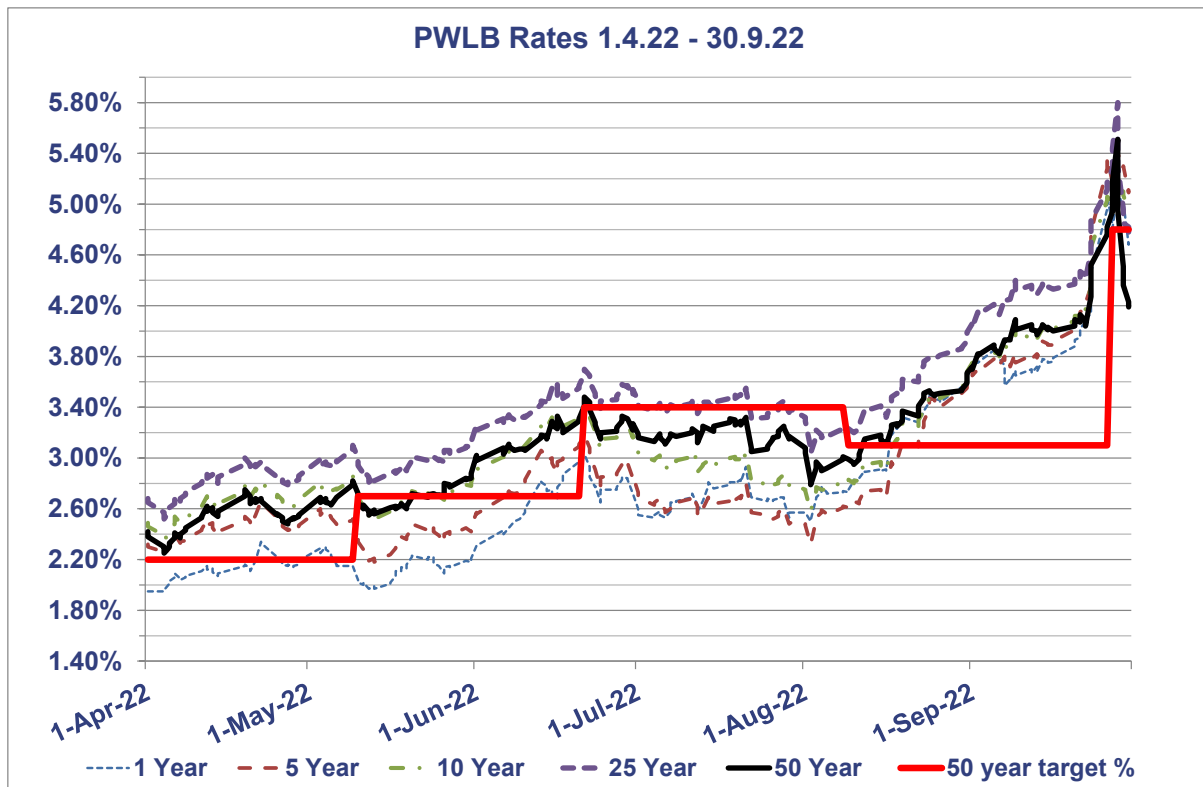
37 The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%, albeit we forecast rates to fall back to 3.10% by the end of September 2025.

## PWLB maturity certainty rates year to date to 30<sup>th</sup> September 2022

- 38 Gilt yields and PWLB rates were on a rising trend between 1<sup>st</sup> April and 30<sup>th</sup> September.
- 39 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
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.35%	5.80%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
<b>Average</b>	2.81%	2.92%	3.13%	3.44%	3.17%
<b>Spread</b>	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)

**Debt Rescheduling**

40 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. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

## **Compliance with Treasury and Prudential Limits**

- 41 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30<sup>th</sup> 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. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

## **Annual Investment Strategy**

- 42 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 22<sup>nd</sup> February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:
- Security of capital
  - Liquidity
  - Yield
- 43 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and 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.

### **Creditworthiness.**

- 44 Following the Government's fiscal event on 23<sup>rd</sup> 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.

### **Investment Counterparty criteria**

- 45 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function

### **CDS prices**

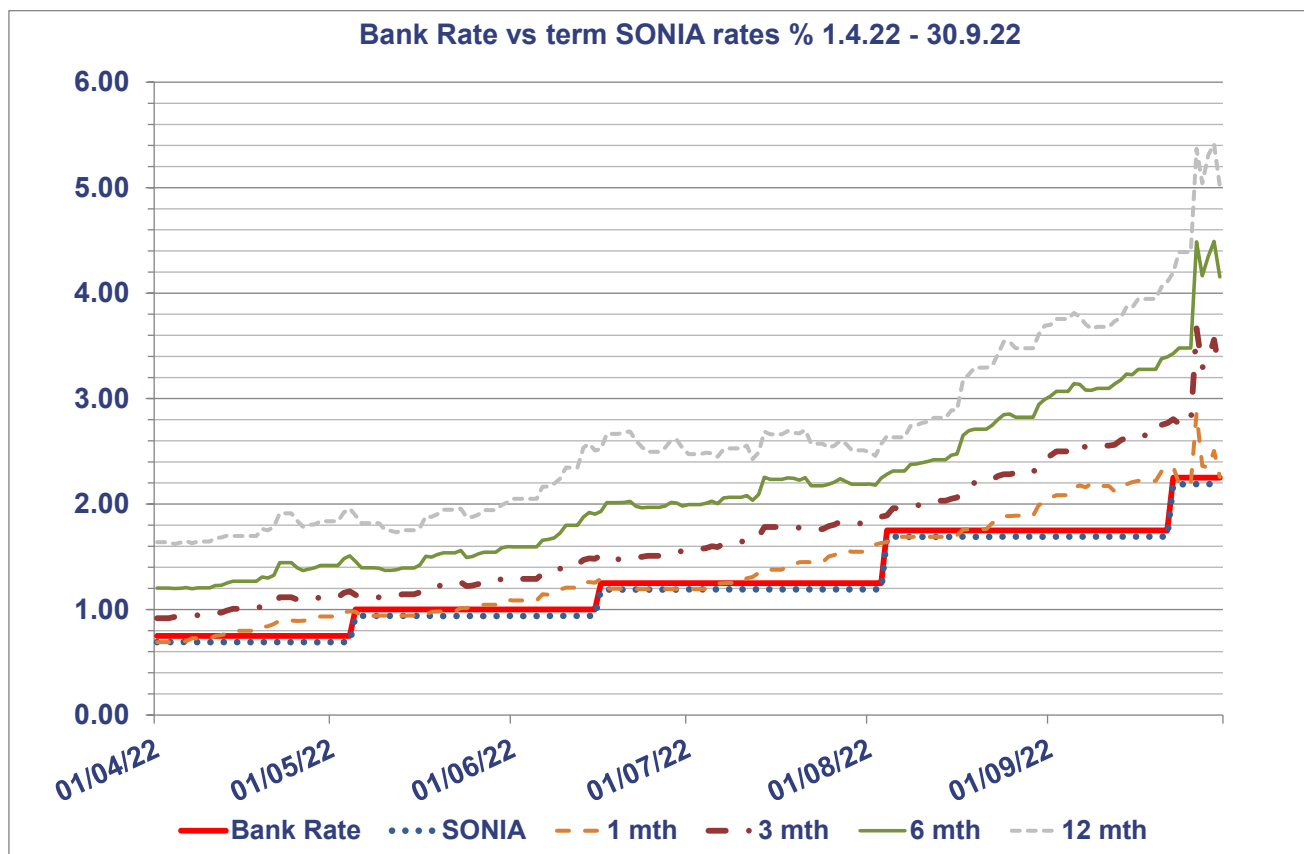
- 46 It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

### **Investment balances**

- 47 The average level of funds available for investment purposes during the first half of the financial year was £15.917m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital

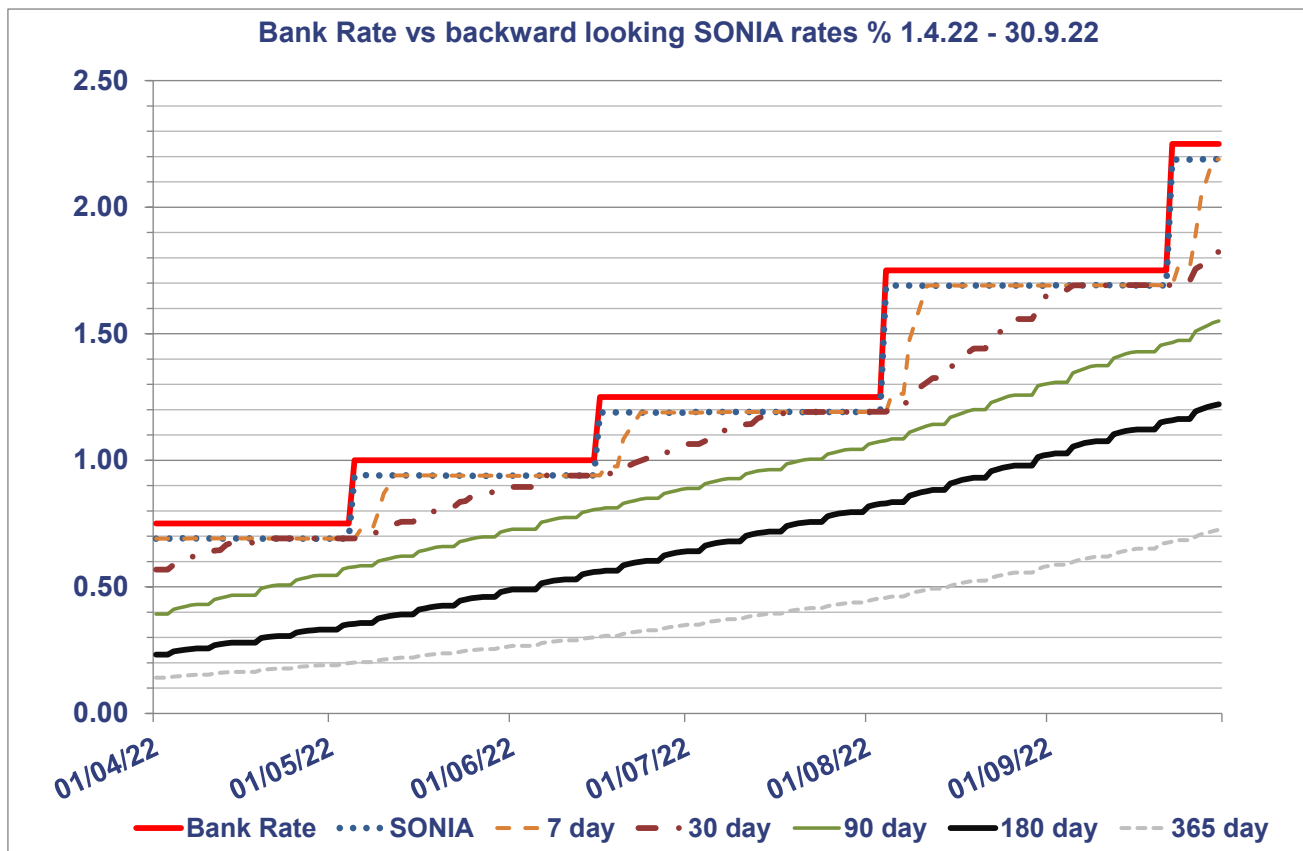
programme. In addition the Council has invested £5.000m core cash balances in Multi Asset Income Funds (MAIF) for a 5 year period.

### Investment performance year to date as of 30<sup>th</sup> September 2022



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

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



QUARTER ENDED 30/9/2022							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
<b>High</b>	2.25	2.19	2.19	1.82	1.55	1.22	0.73
<b>High Date</b>	22/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022
<b>Low</b>	0.75	0.69	0.69	0.57	0.39	0.23	0.14
<b>Low Date</b>	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
<b>Average</b>	1.28	1.22	1.19	1.11	0.91	0.67	0.37
<b>Spread</b>	1.50	1.50	1.50	1.26	1.16	0.99	0.58

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

### Investment performance year to date as of 30<sup>th</sup> September 2022

48 The Council's budgeted investment return for 2022/23 is £188,000 and performance for the year to date is £102,667 above budget.

49 The Council held £16.586m of investments as at 30 September 2022 (£16.673m at 31 March 2022) and the investment portfolio yield for the first six months of the year is 1.0225% against 7 Day and 3 Month SONIA benchmarks of 1.1933% and 0.9183% respectively. A full list of investments held as at 30 September 2022 appears in Appendix A.



## Fund investments

50 During the period the Council invested £5.000m into Multi-Asset Income Funds (MAIFs). These are 5 year investments and the amount invested can be subject to changes in valuation of the principal, which may result in a capital loss or capital gain. The current performance is shown in the table below.

Fund Name	Principal Invested £m	Current Valuation £m	Interest Received to 30 September 2022 £m
Aegon Asset Management	2.500	2.195	0.033
Artemis	2.500	2.307	0.063
Total	5.000	4.502	0.096

## Approved limits

51 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2022.

## Key Implications

### Financial

The management of the Council's investment portfolio and cash-flow generated balances plays an important part in the financial planning of the authority. The security of its capital and liquidity of its investments is of paramount importance.

### Legal Implications and Risk Assessment Statement

Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.

This annual review report fulfils the requirements of The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2017.

Treasury management has two main risks:

- Fluctuations in interest rates can result in a reduction in income from investments; and
- A counterparty to which the Council has lent money fails to repay the loan at the required time.

Consideration of risk is integral in our approach to treasury management. However, this particular report has no specific risk implications as it is not proposing any new actions, but merely reporting performance over the last six months.

## Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

## Net Zero Implications

The decisions recommended through this paper have a remote or low relevance to the council's ambition to be Net Zero by 2030. There is no perceived impact regarding either an increase or decrease in carbon emissions in the district, or supporting the resilience of the natural environment.

## **Conclusions**

The overall return on the Council's investments up to the end of September 2022 is above budget and the over-recovery is forecast to increase further by the end of the financial year.

The percentage yield on the portfolio is 1.022%, however, as previously noted, inflation has historically outpaced investment returns and attempts are being made to address this.

The economic situation both globally and within the Eurozone remains volatile, and this will have consequences for the UK economy. Treasury management in the current and recent financial years has been conducted against this background and with a cautious investment approach.

### **Appendices**

Appendix A - Investment Portfolio at 30<sup>th</sup> September 2022

Appendix B - Investment returns vs RPI/CPI

Appendix C - Summary of MAIF Selection Process

### **Background Papers**

[Treasury Management Strategy for 2022/23 - Council 22 February 2022](#)

**Adrian Rowbotham**

**Deputy Chief Executive and Chief Officer - Finance & Trading**