**Part I**
**Release to Press**

**AUDIT COMMITTEE/ EXECUTIVE / COUNCIL**

Portfolio Area: Resources

**Date:** **9 November 2022 / 16 November 2022 / 14 December 2022**

**2022/23 MID YEAR TREASURY MANAGEMENT REVIEW AND PRUDENTIAL INDICATORS**

**NON-KEY DECISION**

| | | |
|---|---|---|
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## 1 PURPOSE

1.1 To update Members on the Treasury Management activities in 2022/23 and review effectiveness of the 2022/23 Treasury Management and Investment Strategy including the 2022/23 prudential and treasury indicators.

## 2 RECOMMENDATIONS

### 2.1 Audit Committee

That subject to any comments by the Audit Committee to the Executive, the 2022/23 Mid-Year Treasury Management Review and Prudential indicators reports is recommended to Council for approval.

### 2.2 Executive

That subject to any comments made by the Executive, in addition to those made by the Audit Committee, the 2022/23 Mid-Year Treasury Management Review and Prudential indicators report is recommended to Council for approval.

## 2.3 Council

That subject to any comments from the Audit Committee and the Executive, 2022/23 Mid-Year Treasury Management Review and Prudential indicators report be approved by Council.

## 3 BACKGROUND

### 3.1 Regulatory Requirement

3.1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce a mid-year treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3.1.2 During 2022/23 the minimum reporting requirements were that the Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 24 February 2022)
- a mid-year treasury update report (this report - Council 14 December 2022)
- an annual review following the end of the year (2021/22) describing the activity compared to the strategy (Council 19 October 2022).

3.1.3 In December 2017, CIPFA revised the Code to require, all local authorities to report on:

- 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;
- the implications for future financial sustainability.

These elements are covered in the annual Capital Strategy reported to Council in February each year.

3.1.4 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

3.1.5 This report summarises:

- Capital expenditure and financing for 2022/23;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Reporting of the required prudential and treasury indicators, including the impact of the expenditure on the Council's underlying indebtedness (the Capital Financing Requirement);
- Update on the Treasury Management Strategy Position;
- An economic update for the first part of 2022/23.

3.1.6 Officers confirm that they have complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee and the Executive before they were reported to the Council

**3.2 Economics and interest rates**

3.2.1 **Economics update.**

Over the last year, global demand has increased significantly as economies emerge from two years of supressed economic activity during the Covid-19 emergency. The Bank of England MPC increased interest rates for a seventh consecutive meeting in September 2022 to 2.25% in an attempt to supress demand and contain inflationary pressures within the economy. These pressures include soaring global food and energy prices caused by disruption to supplies as a result of the war in Ukraine.

The September's mini-budget, now largely reversed, was seen as inflationary and markets reacted negatively, pushing up the cost of government borrowing steeply in September and October. The Bank of England has indicated that interest rates are likely to continue to rise as inflation is significantly higher that the BOE target rate of 2% - being 10.1% (CPI September 2022). Action by the government to reassure markets by reversing most of the previously announced mini-budget policies did have a positive effect on markets, although at the time of writing this report the cost of government borrowing has not reduced to pre-mini-budget level and this feeds into higher PWLB rates for local authority borrowing and investing.

3.2.2 **PWLB borrowing rates** are based on gilt (UK Government bonds) yields (rate) which are traded on the financial markets. Bond values have recently been falling, increasing the yield and consequently increasing the cost of government borrowing. The interest rate on bonds due to be repaid in 30 years' time dropped to 4.35% on 18 October 2022 (1.385% 19 October 2021), after falling back from a high of 5.17% on 28 September after the mini-budget. The chancellor will deliver the governments "economic plan" on 31October, which will set out how government debt will be reduced and tax cuts funded. At the time of writing this report, it cannot be predicted how the cost of government borrowing will move and what the impact on the PWLB rates available to the council for borrowing in the future will be.

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 [1]bps).

[1] Basis points

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**Chart 1**

| 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 |

* Rates include a 0.2% Certainty Rate reduction

3.2.3 There are alternatives to the PWLB for borrowing, for both the General Fund and the HRA, including the UK Municipal Bonds Agency, UK Infrastructure Bank, other Local authorities and public bodies including the LEP. Options are considered by officers at the point borrowing is considered to ensure the best borrowing rates are obtained. No additional external borrowing has been taken in 2022/23 as at 30 September 2022.

## 4 TREASURY MANAGEMENT ACTIVITIES

### 4.1 OVERALL TREASURY POSITION AS AT 30 SEPTEMBER 2022

4.1.1 The Council's treasury position for the first half of the year was as follows:

| Table 1: Treasury Position | | | | | | |
|---|---|---|---|---|---|---|
| | 2021/22 | | | 2022/23 | | |
| | 31 March 2022 Principal £'000s | Rate / Return % | Average Life (Yrs) | 30 September 2022 Principal £'000s | Rate / Return % | Average Life (Yrs) |
| PWLB Borrowing | 227,750 | 3.28 | 12.89 | 227,619 | 3.28 | 12.89 |
| Other long term liabilities* | 19,230 | | | 19.230 | | |
| **Total Debt** | **246,980** | | | **246,849** | | |
| Capital Financing Requirement | 305,432 | | | 311,226 | | |
| Over/(under) borrowing | (58,452) | | | (64,377) | | |
| **Investments Portfolio** | **68,750** | **0.35** | **NA** | **63,425** | **1.04** | **NA** |

**Includes finance leases and other third party loans*

### 4.2 TREASURY MANAGEMENT STRATEGY 2022/23

4.2.1 The Treasury Management Strategy was approved by council on 24 February 2022.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

## 4.3 THE COUNCIL'S CAPITAL POSITION (Prudential Indicators).

4.3.1 Capital expenditure[2] can be financed either by capital resources the Council has on its balance sheet (e.g. capital receipts and capital grants) or by making a revenue contribution to capital. If sufficient capital resources are not available to fund the expenditure the Council would need to borrow to meet the funding gap. This borrowing may be taken externally in new loans or internally from cash balances held by the council. The need to borrow is measured and reported through the Prudential Indicators.

4.3.2 The Treasury Management Strategy and Prudential Indicators for 2022/23 were originally approved by Council on the 24 February 2022. Since then the Treasury Management Mid-Year Review Indicators have been updated based on the 1st and 2nd quarter capital programme reported to Executive (12 October 2022).

4.3.3 Table three shows the revised estimates for capital expenditure 2022/23 and financing and the changes since the capital programme was agreed at Council on 24 February 2022.

| **Table 2 : 2022/23 Capital Expenditure and Financing** | | | |
|---|---|---|---|
| | **Original Capital Strategy (Council February 2022) £'000** | **Revised Capital Strategy Q2 £'000** | ***Movement* £'000** |
| **Capital Expenditure:** | | | |
| General Fund Capital Expenditure | 34,631 | 32,729 | (1,902) |
| HRA Capital Expenditure | 81,594 | 54,655 | (26,939) |
| **Total Capital Expenditure** | **116,226** | **87,384** | **(28,842)** |
| **Financed by:** | | | |
| Capital Receipts | (38,826) | (25,215) | (13,611) |
| Capital Grants /Contributions | (16,163) | (15,858) | (305) |
| Capital Reserves | (572) | (3,650) | 3,078 |
| Revenue contributions | (6,669) | 0 | (6,669) |
| Major Repairs Reserve | (23,785) | (22,139) | (1,646) |
| **Total Financing** | **(86,015)** | **(66,862)** | **(19,153)** |

[2] Council expenditure can be classified as capital when it is used to purchase assets with a life of more than one year, exceeds £5,000 in value and meets the guidelines laid out in CIPFA accounting practices.

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| Table 2 : 2022/23 Capital Expenditure and Financing | | | |
|---|---|---|---|
| | Original Capital Strategy (Council February 2022) £'000 | Revised Capital Strategy Q2 £'000 | *Movement* £'000 |
| **Borrowing requirement** | **(30,211)** | **(20,522)** | **(9,689)** |

### 4.4 CHANGES TO THE PRUDENTIAL INDICATORS FOR THE CAPITAL FINANCING REQUIREMENT (CFR), EXTERNAL DEBT AND OPERATIONAL BOUNDARY

4.4.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). It represents the amount of debt it needs to/has taken out to fund the capital programme (and includes both internal and external borrowing). The CFR is then reduced as debt repayments are made and Minimum Revenue Provisions (MRP – see also section 5.2) are made. A separate CFR is calculated for the General Fund and Housing Revenue Account and any transfers of assets (such as land or buildings) between the two accounts will impact on each fund's CFR. The CFR will go up on the fund "receiving" the assets and go down (by the same amount) on the fund "giving" the asset.

4.4.2 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**

| Table 3 Capital Financing Requirement | 2022/23 Original Estimate Council February 2022 £'000 | 2022/23 Revised Estimate Mid-Year £'000 | Movement Between Estimates £'000 | Current Position £'000 |
|---|---|---|---|---|
| | | | | |
| CFR – non housing | 56,185 | 56,530 | 345 | 49,821 |
| CFR – housing | 278,772 | 268,738 | (10,034) | 261,405 |
| **Total CFR** | **334,957** | **325,268** | **(9,689)** | **311,226** |

4.4.3 The CFR for the HRA has decreased by £10.034Million, due to the New Build (Housing Development) programme slipping into future years.

4.2.3.8 The General Fund's CFR has increased by £345k, due to;

- Borrowing requirement of £1.031Million
- less Minimum Revenue Provision (MRP) (see section 5.2.2) of -£215K
- less loan repayments made in year totalling -£471K.

## 4.5 Limits to Borrowing Activity

4.5.1 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.

4.5.2 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and 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.

| **Table 4 Authorised limits** | **Operational Boundary [3] £'000** | **Authorised Limit £'000** | **Actual External Debt 30/09/2022 £'000** |
|---|---|---|---|
| PWLB | | | 227,619 |
| Other external debt | | | 19,230 |
| Total Borrowing | 354,503 | 362,503 | 246,849 |
| Less Investments | | | (63,425) |
| **Total Net Borrowing Position** | **354,503** | **362,503** | **183,424** |

4.5.3 The net borrowing position for the Council as at 30 September 2022 was £183Million.

4.5.4 A temporary breach of the operational boundary is permissible for short term cash flow purposes however a breach of the authorised limit would require a report to Council. There have been no breaches of either limit in the period to 2022/23

## 4.6 Borrowing

4.6.1 The Council's capital financing requirement (CFR) for 2022/23 is £325Million. 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. Table 1 shows the Council has borrowings of £247Million and has utilised £64.4Million 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.

[3] Operational Boundary = expected debt position

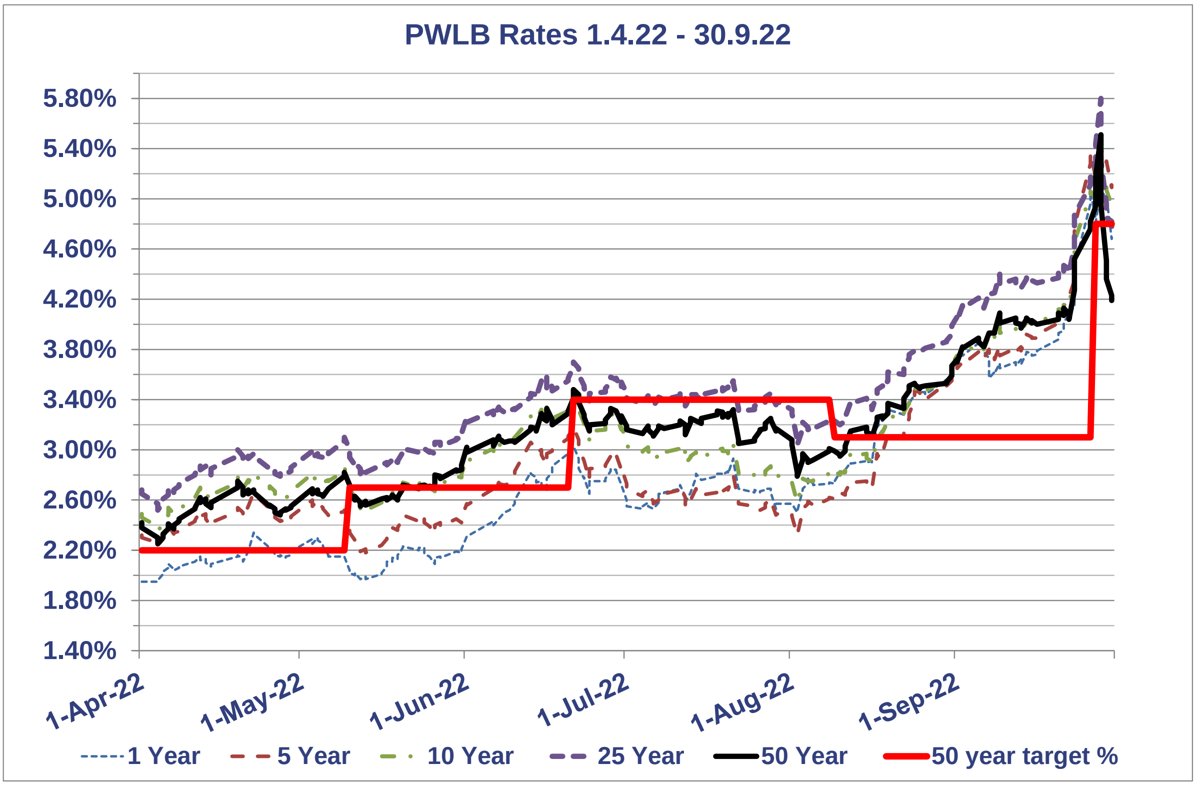
4.6.2 No new external borrowing has been taken to date during 2022/23 The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

4.6.3 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 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 it is forecast to fall back to 3.10% by the end of September 2025.

4.6.4 The Chart below shows the volatility of the PWLB borrowing rates from 1 April 2022 to 30 September 2022.

Chart 2




4.6.5 The General Fund has PWLB external borrowing of £1.9Million and other external borrowing of £7Milion (Local Enterprise Partnership - LEP) and a finance lease of £12Million (Aviva). Discussions took place with the LEP regarding making these re-investible loans for further regeneration of the town, rather than needing to be repaid on the dates originally agreed. As indicated in the table, the current position is that only £209K of the £7.279Million received to date has been repaid. The remaining balance is repayable - £6.57Million in 2030 and £0.5Million in 2025. The loans are at zero interest.

| Table 5: LEP Loans | | | | | | |
|---|---|---|---|---|---|---|
| **Loan Received** | **Site Assembly** | **Land Assembly** | **SG1** | **Repaid** | **Total** | **Repayment Date** |
| 2015/16 | 762,488 | | | (208,795) | 553,693 | 31/03/22 |
| 2018/19 | 416,306 | | | | 416,306 | |
| 2019/20 | | 4,108,709 | | | 4,108,709 | |
| 2020/21 | | 1,491,291 | 500,000 | | 1,991,291 | |
| **Total** | **1,178,794** | **5,600,000** | **500,000** | **(208,795)** | **7,069,999** | |

4.6.6 The Aviva finance lease, entered into in 2018/19 for 37 years was immediately sublet to Queensway Properties (Stevenage) LLP for 37 years.

4.6.7 The HRA has external borrowing of £225.731Million all held with the PWLB, of which £30.820Million relates to the Decent Homes programme, £7.763Million from pre 2012, £4.010Million taken out in 2019/20, £10.0 Million taken out in 2020/21 and £9.047Million taken out in 2021/22. The remainder of £194.911 Million relates to HRA self-financing payment made to central government in 2012.

4.6.8 The target average borrowing rate in the latest HRA Business Plan last updated 2021 (HRA BP) was 1.6% for 2020, rising to 1.72% in 2021 and 1.74% in 2022. HRA borrowing of £10Million was taken externally in March2021 (2.06%), February 2022 - £5Million for 25.5 years at 2.22% and £4.047Million for 21 years at 2.24%. The HRA BP assumed a 3.5% average rate for future loans. Recent interest rate rises have led to current forecast rates exceeding the original BP forecasts. The HRA BP will be revised and reported to the December 2022 Executive.

4.6.9 The table 6 below shows current PWLB borrowing rates compared to rates secured for the HR A borrowing in prior years.

**Table 6:**

| **Rates[4]* as at:** | **Mar-21** | **Feb-22** | **18 Oct-22** |
|---|---|---|---|
| **Years** | **Actual Rate %** | **Actual Rate %** | **PWLB Rate %** |
| 5 | | | 4.81 |
| 10 | | | 4.99 |

[4] Rates include a 0.2% Certainty Rate reduction

| | | | |
|---|---|---|---|
| 15 | | | 5.19 |
| 20 | 2.06 | | 5.31 |
| 21 | | 2.24 | 5.31 |
| 25.5 | | 2.22 | 5.28 |

## 5 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

5.1.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the 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. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

5.1.2 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

### 5.2 Minimum Revenue Provision (MRP)

5.2.1 The Prudential Code, by which the Council has to make its borrowing decisions, requires the Council to demonstrate that borrowing is required and affordable. The MRP is a statutory requirement to ensure borrowing is affordable for the General Fund and does not apply to the HRA (the HRA affordability is determined in the HRA BP). The Council is required to make annual MRP based on its policy approved by Council as part of the Treasury Management Strategy. The calculation of MRP is based upon prior years’ borrowing requirement (regardless of whether that borrowing was internal or external) and the life of the asset for which the borrowing was required.

5.2.2 The MRP charged to the General Fund in 2022/23 is forecast to be £214,609 of which:

- £35,119 is funded from investment property
- £48,787 is funded by the Garage Improvements Programme
- £130,703 is a net cost to the General Fund

## 6 ANNUAL INVESTMENT STRATEGY

6.1.1 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 24 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

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

6.1.2 There were no breaches to this policy in the year to 30 September 2022 with the investment activity conforming to the approved strategy. The Council had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO), demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is possible that surplus funds that may be borrowed during 2022/23 will be placed in the DMO temporarily, if PWLB borrowing rates are advantageous and cash balances due to timing of taking out new loans would breach other counterparty limits.

6.1.3 The Specified and Non-Specified Investment Criteria (Appendix C) have been reviewed and updated in the Treasury Management Strategy 2022/23 agreed at Full Council in February 2022. Appendix C reflects the strategy in place for 2022/23. No further amendments are proposed at this stage.

6.1.4 In accordance with the Treasury Management Strategy, the Council invests its surplus cash balances that are committed for future approved spending. The 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 and counterparty limits dependant on level of cash balances held.

**6.2 Investment performance year to date as of 30 September 2022**

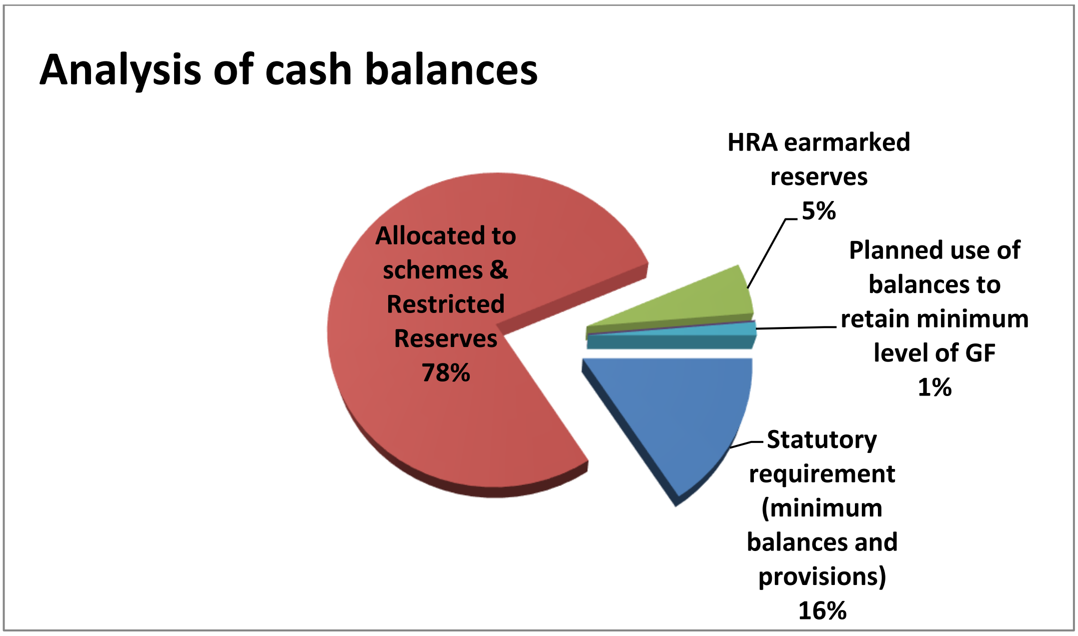
6.2.1 The Council's current investment portfolio consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Currently no investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria (see Appendix D).

6.2.2 The average level of funds available for investment purposes during the first half of the financial year was £74Million, earning an average interest rate of 1.04%. Interest earned to 30 September 2022 was £384k. Projected investment balances at 31 March 2023 are currently £63Million and forecast external interest receivable from investments is currently £935k against an original budget of £330k, contributing to General Fund (£326k) and Housing Revenue Account revenue income (£607k).

6.2.3 The Council's balances are made up of cash reserves e.g. HRA and General Fund balances, restricted use receipts e.g. right to buy one for one receipts (£9Million) and balances held for provisions such as business rate appeals

6.2.4 In considering the Council's level of cash balances, Members should note that the General Fund MTFS and Capital Strategy have a planned use of resources over a minimum of 5 years and the HRA Business Plan (HRA BP) a planned use of resources over a 30 year period, which means, while not committed in the current year; they are required in future years.

6.2.5 The following chart shows the planned use of cash balances as at 30 September 2022.




6.2.6 The restrictive use of a proportion of the cash balances set out above, plus the planned use of resources in line with the Council's capital and revenue strategies mean that the investment balance of £64Million as at 30 September 2022 is not available for new expenditure.

6.2.7 **Other Prudential Indicators**

6.2.8 The ratio of financing costs to net revenue stream is equal to General Fund interest costs divided by the General Fund net revenue income from Council tax, Revenue Support Grant and retained business rates. The 2022/23 indicator 3.42%. This means the cost of borrowing represents a very small proportion of the General Fund's core resources.

6.2.9 The full list of treasury prudential indicators is shown in Appendix A and has been updated for the 2022/23 mid-year position.

## 7 OTHER ISSUES

### 7.1 Operational and Authorised Borrowing Limits

7.1.1 The treasury management indicators for 2022/23 will be updated based on the updated Capital Strategy to be approved by Council in February 2023 and subsequently updated in the 3rd quarter capital update reported to

Executive in March 2023 and the 4th quarter (Outturn) capital update reported to Executive in July 2023.

7.1.2 HRA limits will be revisited as part of the HRA BP review to be reported to Executive in December 2022.

7.1.3 UK Sovereign rating and investment criteria. The UK sovereign rating could come under continued pressure from the impact of COVID and / or following the post-Brexit trade agreements agreed and their impact on the UK economy. The Council's investment criteria only use countries with a rating of AA- or above. Moody's UK Sovereign rating is Aa3 (AA-equivalent), the same as Fitch, while Standard & Poor's has it rated at AA. The UK rating remains exempt from the sovereign rating investment criteria so in this event if it were to result in the UK being downgraded below AA- it would not impact on the Council's ability to invest with UK institutions. Other investment criteria will be considered in this event to ensure security of funds for the Council.

7.1.4 Revised Treasury Management and Prudential Codes were issued by CIPFA on 20 December 2021. CIPFA has stated that there will be a soft introduction of the codes with local authorities not being expected to have to change their current draft TMSS/AIS reports for 2022/23 unless they wish to do that. Full implementation will be required for 2023/24. The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment
- address ESG issues within the Capital Strategy
- require implementation of a policy to review commercial property, with a view to divest where appropriate
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices)
- ensure that any long term treasury investment is supported by a business model
- a requirement to effectively manage liquidity and longer term cash flow requirements
- amendment to TMP1 to address ESG policy within the treasury management risk framework
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage)

7.1.5 In addition, all investments and investment income must be attributed to one of the following three purposes:

**Treasury management**
Arising from the organisation’s cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

**Service delivery**
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.

**Commercial return**
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council’s financial capacity – i.e., that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The categories of service delivery and commercial investments are dealt with as part of the Capital Strategy report. Members will be updated on how all the Code changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

## 8 IMPLICATIONS

### 8.1 Financial Implications

8.1.1 This report is of a financial nature and reviews the treasury management function for 2022/23 to date. Any consequential financial impacts identified in the Capital strategy and Revenue budget monitoring reports have been incorporated into this report.

8.1.2 During the financial year Officers operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council’s Treasury management practices.

### 8.2 Legal Implications

8.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy are intended to ensure that the Council complies with relevant legislation and best practice.

8.2.2 There have been no changes to PWLB borrowing arrangements since the last Treasury report, however there are changes to the Prudential and

Treasury Management codes from 2023/24. Officers will ensure that any changes are reflected in treasury operations and reporting requirements**.**

## 8.3 Risk Implications

8.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. As these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.

8.3.2 There remains uncertainty on the long-term implications of exiting the EU on the UK economy and borrowing rates. Officers monitor interest rate forecasts to inform the timing of borrowing decisions.

8.3.3 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.

8.3.4 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designed to take into account the relative risk of investments and also to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

8.3.5 There is a risk to the HRA BP's ability to fund the approved 30 year spending plans if interest rates continue to rise, this will included in the revision to the BP in December 2022.

## 8.4 Equalities and Diversity Implications

8.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition to remaining within agreed counterparty rules, the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues. Counterparty rules will also be overlaid by any other ethical considerations from time to time as appropriate.

8.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

## 8.5 Climate Change Implications

8.5.1 The council's investment portfolio is sterling investments and not directly in companies. However the TM team continue to review the use of Money Market funds to ensure, where possible, money market funds that invest in environmentally sustainable companies are used. In this way the TM team aligns with the Councils ambition to attempt to be carbon neutral by 2030.

**Part I**
**Release to Press**

## BACKGROUND PAPERS

- BD1 Treasury Management Strategy including Prudential Code Indicators 2022/23 (Council 24 February 2022)

## APPENDICES

- Appendix A - Prudential Indicators
- Appendix B - Investment and Borrowing Portfolio
- Appendix C - Specified and Non-Specified Investment Criteria
- Appendix D - Link detailed Economics and Interest rate forecasts 30 September 2022
- Appendix E - Counterparty List 30 September 2022