Classification: Open	Decision Type: Non-Key

Report to:	Cabinet	Date: 16 November 2022
Subject:	Treasury Management Update	
Report of	Cabinet Member for Finance and Communities	

Summary

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

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

Recommendation(s)

3. Cabinet is asked to note the report.

Reasons for recommendation(s)

4. It is a requirement of the CIPFA Code that the Council receives an annual Treasury Management Outturn Report. It is good practice to also produce a mid-year report.

Alternative options considered and rejected

5. N/A

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Background

6. 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;
- The implications for future financial sustainability.

A report setting out our Capital Strategy will be taken to Council before 31st March 2023.

7. 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.

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.

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."

8. 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:

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

(b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

(c) 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.

(d) 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.

(e) 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 Overview & Scrutiny Committee.

9. 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 half of the 2022/23 financial year;
- 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;
- A review of any debt rescheduling undertaken during 2022/23 to date;
- A review of compliance with Treasury and Prudential Limits for 2022/23.

Economic Update (from Treasury Advisors)

10. The Bank of England's MPC increased the Base Rate for a seventh consecutive meeting in September, by 50bps to 2.25% – the highest since the Great Financial Crisis with an accompanying statement "should the outlook suggest more persistent inflationary pressures, including from stronger demand, the Committee will respond forcefully, as necessary".

11. The reference to stronger demand was picked up by analysts as a reference to the fiscal loosening expected at the subsequent mini-Budget, meaning that rates will need to be raised more than previously anticipated to offset the boost to inflation from a rise in public borrowing. Further, while the Committee said that the government's energy support package "will lower and bring forward the expected peak in CPI inflation" and may, therefore, reduce the risk of "more persistent domestic price and wage pressures", it also said that it means "household spending is likely to be less weak than projected" and that "this would add to inflationary pressures in the medium term"

Interest rate Forecast and Outlook

12. The Council's treasury advisor, Link Asset Services, has provided the following forecast on 27th September 2022. We will be working closely with Link between now and when the final budget is set in February 2023 to reflect the impact of the changes and fluctuations in the interest rates and impact of inflation on our capital programme and borrowing requirements.

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.

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

This forecast sets out a view that both short and long-dated interest rates will be elevated for some time, 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 pressures of ultra-high wholesale gas and electricity prices.

In terms of Bank Rate expectations, peak levels next year have dropped in light of the near-universal reversal of policies announced in the September mini-budget, Bank of England action to calm gilt markets and the news that Rishi Sunak is the next Prime Minister. For the remainder of this year, market pricing is now more biased towards a move to 3% for November's meeting, while the level for December has eased back further, now showing a wavering position between 3.5% and 3.75%. For February 2023 markets are pricing in a move to 4.25%, ie either a 50bps or 75bps move, while March pricing is currently in favour of just a further shift to 4.5%. May is showing Bank Rate hitting 4.75% but any moves higher thereafter have been reigned in. Note that this new "peak" is some way below the 6% level that markets were expecting mid-month.

Treasury Management strategy statement and annual investment strategy update

13. The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by Council on 23 February 2022.

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

The council's capital position (prudential Indicators)

15. This includes the following:

- 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

16. This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at Budget Council and the Quarter 1 Corporate report to Cabinet.

Capital Expenditure	**2022/23 Original Estimate £m**	**2022/23 Revised Estimate Quarter 1 £m**	**2022/23 Forecast Quarter 2 £m**
Non-HRA	127.985	133.015	45.892
HRA	14.500	17.491	15.032
Total	**142.485**	**150.506**	**60.924**

Since the Quarter 1 report Departments have conducted a review of all their capital schemes that has now resulted in a proposed reduction to this year's programme. The reason for the reduction is that several schemes, principally supported by the Council's discretionary resources, were multi year schemes and work has been undertaken to understand the correct phasing or where departments have identified schemes that have not yet started and are not likely to proceed by the end of this financial year.

Changes to the Financing of the Capital Programme

17. The table below shows the main strategy elements of the capital expenditure plans. The borrowing requirement shown will increase 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.

Capital Expenditure	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
Total capital expenditure	**142.485**	**60.924**
Financed by:		
Capital receipts	0.203	0.074
Capital grants	52.205	24.672
Revenue	17.649	15.081
Total financing	**70.057**	**39.827**
Borrowing requirement	**72.429**	**21.097**

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

18. The table shows the Capital Financing Requirement (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	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
CFR – non HRA	248.349	190.168
CFR – HRA existing	41.791	40.620
Housing Reform Settlement	78.253	78.253
Total CFR	**368.394**	**309.041**

Prudential Indicator – The Operational Boundary for external debt	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
Borrowing	363.394	304.041
Other Liabilities	5.000	5.000
Total Debt	**368.394**	**309.041**

Limits to Borrowing Activity

19. 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 the 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.

20. 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 £m	2022/23 Revised Indicator £m
Borrowing	414.700	360.900
Other long term liabilities	5.000	5.000
Total	**419.700**	**365.900**

Investment Portfolio 2022/23

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

22. The Council held £16.0m of investments as of 30 September 2022 (£43.5m at 31 March 2022) and the investment portfolio yield for the first six months of the year is 0.78% against a 3 month benchmark of 0.91%.

23. The investments held as at 30 September 2022 were:-

Type of Investment	**£m**
Call Investments (Cash equivalents) Fixed Investments (Short term investments)	16.0 0.0
Total	**16.0**

24. The Executive Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2023/23.

25. The Council's budgeted investment return for 2022/23 is £0.1m, and performance for the year to date is in line with the budget.

26. The Cabinet have approved a "Property Investment Strategy" which aims to increase investment income by investing in property rather than investing with financial institutions where returns have been low for a number of year. This may change with the current economic climate and rising interest rates so will form part of the annual review.

BORROWING

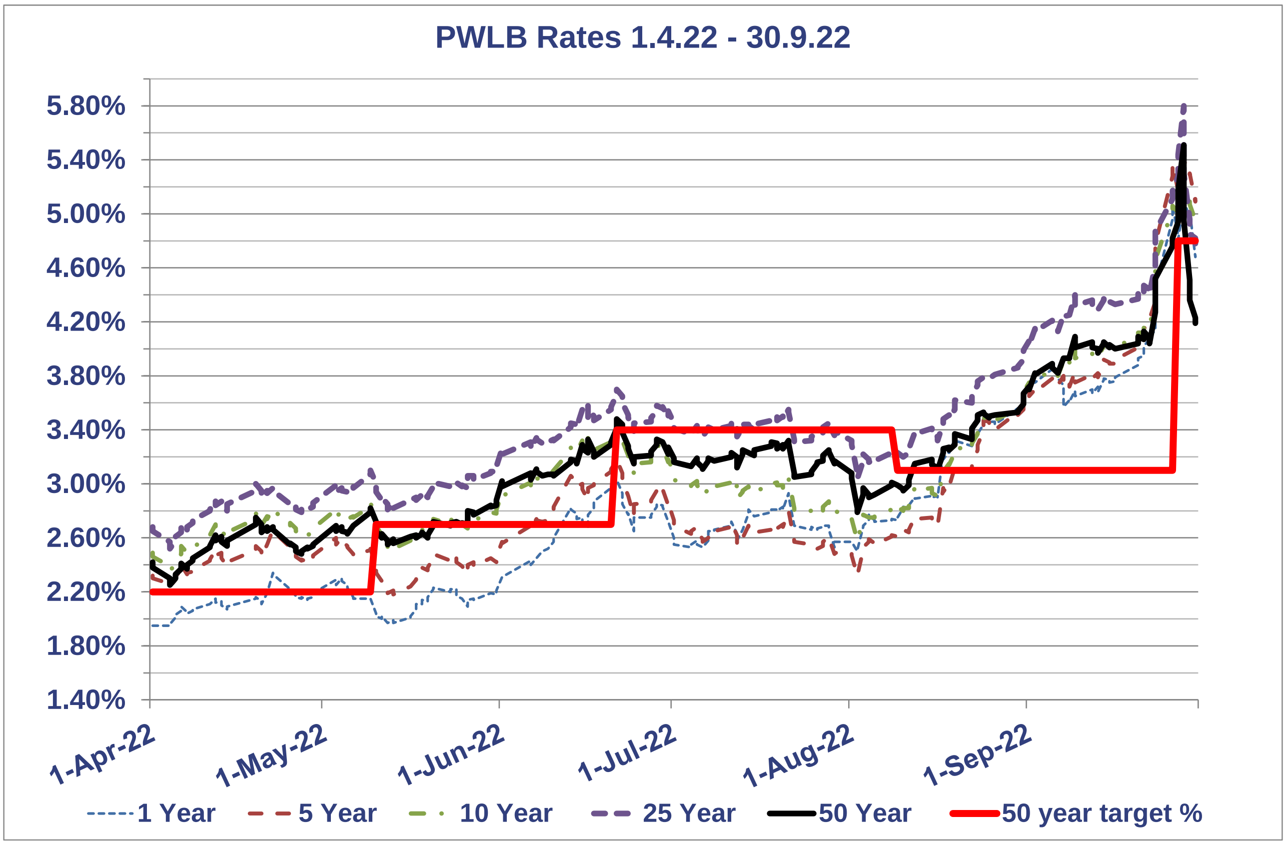
27. The Council's capital financing requirement (CFR) for 2022/23 is £309.041m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table below shows as at 30 September 2022 the Council has borrowings of £225.7m and has utilised £83.3m 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 upside risk to gilt yields prevail.

		1st April 2022			30 September 2022		
		Principal		Avg.	Principal		Avg.
		£M	£M	Rate	£M	£M	Rate
Fixed rate funding							
	PWLB Bury	153.695			153.599		
	PWLB Airport	11.828			11.828		
	Market Bury	55.300	220.823		60.300	225.727	
Variable rate funding							
	PWLB Bury	0			0		
	Market Bury	0	0		0	0	
Temporary Loans / Bonds		0.003	0.003		0.003	0.003	
Total Debt			**220.826**	**3.53%**		**225.729**	**3.57%**
Capital Financing Requirement			**299.719**			**309.041**	
Over/ (under) borrowing			**(78.893)**			**(83.312)**	
Total Investments			**43.555**	**0.04%**		**23.430**	**0.78%**
Net Debt			**177.271**			**202.299**	

28. The reduction in investment funds is due to the £20m investment funds which were drawn down from the PWLB in March and used to purchase the Millgate Estate in April.

29. External borrowing of £5m has been undertaken from the market during the first 6 months of 2022/23. Additional external borrowing will be required during the remainder of this financial year. This will be required for a combination of funding for the capital programme and debt reprofiling. Further work on the Councils cash flow will be undertaken during quarter 3.

30. The graph shows the movement in PWLB certainty rates for the first six months of the year to 30.09.22.



31. The table below shows the high/low/average PWLB rates for the first six months of the year to 30/09/22.

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

Debt Rescheduling

32. Debt rescheduling opportunities have been very limited in the current economic climate given the fluctuation of interest rates and market stability. However, we are currently seeking further advice from Link on the opportunity of repaying two LOBO (Lender Option, Borrower Option) loans and replacing the funding with shorter term borrowing until the markets stabilise and interest rates reduce. We will continually review our debt maturity profile and subsequent options.

The current loans due for repayment within the current financial year and further two financial years is shown below:

Type of Loan	Interest Type	Interest Rate %	Financial year repayable	Value
PWLB	Fixed	10.625	2022/23	£3,000,000
Market	Fixed	0.59	2022/23	£10,000,000
Market	Fixed	2.00	2023/24	£5,000,000
Market	Fixed	1.92	2024/25	£5,000,000

Links with the Corporate Priorities:

33. A strong financially sustainable Council is essential to the delivery of the Let's Do It Strategy

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Equality Impact and Considerations:

34. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services.

Environmental Impact and Considerations:

35. There are no environmental impacts associated with this report.

Assessment and Mitigation of Risk:

Risk / opportunity	Mitigation
There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed.	Regular monitoring and reporting ensures that any changes in the financial position are quickly identified and action can be taken to manage the overall position

Legal Implications:

36. There are no specific legal implications in this report. The S 151 officer has confirmed that the report meets the requirements of the CIPFA code of practice on Treasury management and the CIPFA prudential code for Capital finance in Local Authorities.

Financial Implications:

37. The financial implications are set out in the report. The continuation of the Covid pandemic during 2021/22 impacted on both the revenue and capital budgets across the whole of the Council. The in-year position will be reflected in an updated medium term financial strategy and will inform the budget setting process for the 2023/24 financial year.

Background papers: N/A

Please include a glossary of terms, abbreviations and acronyms used in this report.

Term	Meaning