Harborough District Council

Report 3 to the Cabinet

16 January 2023

Title:	Mid-Year Treasury Management Report 2022/23 and Prudential Indicators
Status:	Public
Key Decision:	No
Report Author:	Carolyn Bland, Finance Service Manager
Portfolio Holder:	Councillor James Hallam, Finance
Appendices:	**Appendix 1: Economic Background** **Appendix 2: Interest Rate Forecasts** **Appendix 3: Investments** **Appendix 4: Borrowing** **Appendix 5: Treasury and Prudential Indicators**

Executive Summary

i. Treasury Management is an integral part of the Council's finances relating to cash flow management and financing of capital schemes and therefore underpins all of the Council's aims. The mid-year treasury report is a requirement of the Council's reporting procedures and covers the treasury management activity for the first six months of 2022/23. The report also covers the actual Prudential Indicators for this period in accordance with the requirements of the Prudential Code.

Recommendations

a. **To note the Mid-Year Treasury Management Report for 2022/23 and treasury activity;**

b. **To note the Prudential Indicators**

Reasons for Recommendations

ii. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities.

Purpose of Report

1. In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, the Council is required to receive, as a minimum, three main treasury reports each year – the annual Treasury Management Strategy Statement, a Mid-year Review Report (this report) and an Annual Report. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

Background

2. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
    a. Economics update for the first half of the 2022/23 financial year;
    b. Interest rate forecasts;
    c. Annual Investment Strategy;
    d. Borrowing;
    e. Debt rescheduling;
    f. Compliance with Treasury and Prudential Limits.

Details

Economic update

3. The Council appointed Link Group as its treasury advisor following a competitive process and their detailed economic background is provided in **Appendix 1**.

Interest rate forecasts

4. Part of the Link Group service is to assist the Council to formulate a view on interest rates.
5. Developed economies have been open for some months now post-pandemic, but the degree to which inflation has taken root in those economies has demanded central banks tighten monetary policy dramatically compared to the ultra-low interest rates of the past decade. For the UK, fiscal policy tightening is also underway following the Autumn Statement announcements of 17 November 2022.
6. On the monetary policy front matters are complex, with the October 2022 UK CPI (Consumer Prices Index) reading now standing at 11.1%, and expected to fall only slowly through 2023 and 2024. Financial markets were unsettled by the Government's proposed unfunded tax cuts in September 2022 but are now calmer against the backdrop of public expenditure cuts and fiscal tightening.
7. The Bank of England's Monetary Policy Committee made clear at its November 2022 meeting that further rate increases are in the pipeline. Financial markets expect the Bank of England interest rate (Bank Rate) to peak at 4.5%-4.75% in 2023. Investing in 2023/24 is therefore likely to be conducted initially in a rising interest rate environment, with a potentially falling interest rate environment at the back-end of the financial year, depending on how quickly inflation falls back and how growth performs.

8. The detailed forecasts are attached at Appendix 2.

Annual Investment Strategy

9. The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by Council on 21 February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

    a. Security of capital;

    b. Liquidity;

    c. Yield.

10. The Council aims 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 cashflow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

11. As shown by the interest rate forecasts in Appendix 2, rates have improved dramatically during the first half of 2022/23 and are expected to improve further as the Bank Rate continues to increase over the next few months.

12. Despite the above, the fundamentals of investing remain unchanged. Internal circumstances should still drive decisions, while diligent monitoring of counterparty creditworthiness remains to the fore and, where funds are utilised, ongoing scrutiny should be maintained.

Creditworthiness.

13. Significant levels of downgrades to short and long term credit ratings for investment vehicles have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited. However, as economies have reopened, there have been some instances of previous lowering of ratings have been reversed.

14. More recently, Standard & Poors have placed the UK sovereign credit rating on a negative outlook. Any implications of this move will need to be monitored closely as time progresses.

Investment Counterparty criteria

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

Investment performance year to date as at 30 September 2022

16. The average level of funds available for investment purposes during the quarter was £30m. 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. The Council holds £22m core cash balances for investment purposes (i.e. funds available for more than one year).

17. The Council's budgeted investment return for 2022/23 is £290k, and performance for the year is forecast to be £300k above budget because of the increase in interest rates detailed above. The Council achieved an average rate of return of 1.29% for the six months outperforming the benchmark of the 7-day compounded SONIA (Sterling Overnight Index Average) average for the period of 1.19% **Appendix 3**.

Property Fund investments

18. The Council continued to hold shares in the Churches Charities and Local Authorities Investment Management Ltd (CCLA) Local Authority Property Fund which earned a return of 3.71% during the period. The Council takes advantage of the temporary override of the International Financial Reporting Standard 9 (IFRS 9, this standard determines how organisations account for financial instruments) provided by the Ministry of Housing, Communities and Local Government (now Department for Levelling Up, Housing and Communities - DLUHC) in 2018. This means that any adverse movements in this pooled fund do not impact on the Council's General Fund. The override is effective for 5 years to 31 March 2023. The DLUHC is considering the available options after it ends. It held a consultation ending in October which stated these are to:

    - allow the existing statutory override to expire;
    - extend it for an additional period;
    - make it permanent.

    A final decision has not been announced. Because of this the Council has not made the additional investment in property funds budgeted for, but the position has been kept under review by the Interim Deputy Chief Executive.

Approved limits

19. The approved limits set out within the Annual Investment Strategy were not breached during the six months ending 30 September 2022.
20. A full list of investments held by the Council at 30 September 2022 is shown in **Appendix 3.**

Borrowing

21. No borrowing was undertaken during the half year ended 30 September 2022. It is anticipated that there will be no borrowing undertaken during this financial year.

PWLB maturity certainty rates

22. Gilt yields and PWLB (Public Works Loans Board) rates rose between 1 April 2022 and 30 September 2022.
23. 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, as set out at **Appendix 4.**

Debt Rescheduling

24. There is no value to be had by rescheduling or repaying a part of the debt portfolio due to the early repayment premiums that would be due, thus none has been undertaken. However, this situation will be reviewed annually to see if there is any advantage to early repayment.

Compliance with Treasury and Prudential Limits

25. The prudential and treasury Indicators are shown in **Appendix 5**.
26. It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. During the half year ended 30 September 2022, the Council operated

within the treasury and prudential indicators set out in the Council's TMSS for 2022/23. No difficulties are envisaged for the current or future years in complying with these indicators.

27. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices that was approved in February 2022.

Implications of Decisions

Corporate Priorities

28. The Council relies upon sound financial management to ensure it has the financial stability to deliver its corporate priorities. This report evidences how the Council monitors issues that may affect the delivery of its Corporate Priorities.

Financial

29. These are covered in detail within the report. The report satisfied the statutory requirements on the Council to account for its financial management arrangements.

Legal

30. This report ensures that the statutory obligations upon the Council to report on matters relating to capital financing and treasury management, as set out in the Local Government Act 2003 and subsequent Regulations.

Policy

31. This report does not conflict with or undermine the Council's budget and policy framework.

Environmental Implications including contributions to achieving a net zero carbon Council by 2030

32. No environmental issues arise directly from this report.

Risk Management

33. Management of the Council's financial resources is key to achieving targets set out in the budget. Security of the Council's money in the current banking market is paramount. Accordingly, regular monitoring and reporting of performance forms part of the mitigation of risk posed by financial turbulence.

Equalities Impact

34. No equalities issues arise directly from this report.

Data Protection

35. This report does not contain personal data.

Summary of Consultation and Outcome

36. The Portfolio Holder for Finance is regularly appraised of issues relating to the financial performance of the Council and has been briefed on the content of this report. Consultation has been undertaken with the Portfolio Holder.

Alternative Options Considered

37. The Council is required to report the matters contained within this report and retains independent financial experts to provide that advice therefore no alternative options

Background papers

Various Treasury and Capital related reports approved by Council in February 2022 as part of the 2022/23 Budget and MTFS.