REPORT TO:	**AUDIT COMMITTEE**		
DATE:	20 February 2023		
TITLE:	**MID YEAR REVIEW TREASURY REPORT 2022/23**		
TYPE OF REPORT:	Review		
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OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

Date of meeting: 20 February 2023

MID YEAR TREASURY OUTTURN REPORT 2022/2023

Summary

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) and remains fully compliant with its requirements. One of the primary requirements of the Code is receipt by Council of a Mid-Year Review Report.

The Mid-Year Review Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- A review of the Treasury Management Strategy;
- The Council's capital expenditure (prudential indicators);
- An economic update for the first six months of 2022/23.

Additional Supporting Information
Appendix 1 – Economic Outlook
Appendix 2 – Investments as of 30 October 2022
Appendix 3 – Borrowing as of 30 October 2022
Appendix 4 – Prudential Indicators

Recommendation

Audit Committee is asked to note the report and the treasury activity.

Reason for Recommendation

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) and remains fully compliant with its requirements. One of the primary requirements of the Code is, receipt by Audit Committee of a Mid-Year Review Report.

1. The Treasury Management Mid-Year Review 2022/23

1.1 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).

1.2 The primary requirements of the Code are as follows:

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

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

1.2.3 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.

1.2.4 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.

1.2.5 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 Audit Committee:

1.3 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;
- 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;
- A review of compliance with Treasury and Prudential Limits for 2022/23. Appendix 3.

2. Economic Update

2.1 An update reporting factors that could be influencing the economy at the mid-year point is included at Appendix 1. The UK Bank Rate has seen significant increase over the last year from 0.1% in December 2021 to 3.5% in December 2022. It is expected to continue increasing during 2023 and estimated to return to current levels (3.5%) in the final quarter of 2024. This has an impact on both interest paid on borrowing and our interest received on investments.

Bank Rate Forecast (Link Group 7 February 2023)

Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025
4.25%	4.50%	4.50%	4.25%	4.00%	3.75%	3.25%	3.00%	2.75%	2.75%	2.50%

3. Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement, (TMSS), for 2022/23 was approved by this Council on 9 February 2022.

3.2 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. The Council's Capital Position (Prudential Indicators)

4.1 This section of the report provides an update on:

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

4.2 Prudential Indicator for Capital Expenditure

4.2.1 The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at full Council on 23 February 2022.

Capital Expenditure	2022/23 Original Estimate	2022/23 Actual as at 31 Oct 22	2022/23 Revised Estimate
	£'000	**£'000**	**£'000**
Major Projects	53,082	7,516	30,836
Community and Partnerships	2,481	1,077	2,511
Resources	383	99	383
Programme and Projects	67	101	301
Property and Projects	340	26	340
Operational and Commercial Services	2,897	244	2,920
Leisure and Community Facilities	1,016	119	1,046
Central Services	250	-	-
Total Excluding Exempt	**60,517**	**9,181**	**38,338**
Exempt Schemes	11,218	3,156	8,230
Total Including Exempt	**71,735**	**12,337**	**46,568**

4.3 Changes to the Financing of the Capital Programme

4.3.1 The table below shows how the capital expenditure is expected to be financed in the year. The borrowing requirement shown at the bottom 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 needing to replace maturing debt and other treasury requirements.

Financing Capital Expenditure	2022/23 Original Estimate	2022/23 Actual as at 31 Oct 22	2022/23 Revised Estimate
	£'000	£'000	£'000
Total Capital Expenditure	71,735	12,337	46,568
Capital Receipts	27,647	1741	27,225
Capital Grants	6,131	2448	6,226
Capital Reserves	2445	145	2,026
Revenue	3,042	232	3,027
Total financing	**39,265**	**4,566**	**38,504**
Borrowing requirement	**32,470**	**7,771**	**8,064**

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

4.5 The first table at paragraph 4.7 shows the CFR, which is the underlying need to borrow for a capital purpose (i.e. capital expenditure which has not been financed immediately through the use of capital receipts, capital grants or revenue contributions and is still to be financed). It also shows the expected debt position over the period, which is termed the Operational Boundary.

4.6 Prudential Indicator – Capital Financing Requirement

The council is on target to remain within the original forecast CFR.

4.7 Prudential Indicator – The Operational Boundary for External Debt

Capital Financing Requirement (CFR)	2022/23 Original Estimate	2022/23 Actual as at 31 Oct 22	2022/23 Revised Estimate
	£'000	£'000	£'000
Prudential Indicator – Capital Financing Requirement			
CFR	61,115	54,438	54,438
Prudential Indicator – the Operational Boundary for External Debt			
Borrowing	10,000	10,000	10,000
Total Debt (Year End Position)	**51,115**	**44,438**	**44,438**

External Debt for Commercial activities	2022/23 Original Estimate	2022/23 Actual as at 31 Oct 22	2022/23 Revised Estimate
	£'000	£'000	£'000
Actual debt at 31 March £m	4,788	0	0
Percentage of total external debt %	9%	0%	0%

4.8 Limits to Borrowing Activity

4.9 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.

Operational Boundary	**2022/23 Original Estimate**	**2022/23 Actual as at 31 Oct 22**	**2022/23 Revised Estimate**
	£'000	**£'000**	**£'000**
Borrowing	61,000	55,000	55,000
Other Long-Term Liabilities	1,000	1,000	1,000
Commercial Activities	10,000	10,000	10,000
Total Debt (Year End Position)	**72,000**	**66,000**	**66,000**
CFR * (Year End Position)	**61,115**	**54,438**	**54,438**

4.10 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 Boundary	**2022/23 Original Estimate**	**2022/23 Actual as at 31 Oct 22**	**2022/23 Revised Estimate**
	£'000	**£'000**	**£'000**
Borrowing	66,000	60,000	60,000
Other Long-Term Liabilities	1,000	1,000	1,000
Commercial Activities	10,000	10,000	10,000
Total Debt	**77,000**	**71,000**	**71,000**

5. Investment Portfolio 2022/23

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and then to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 2.1, in terms of earning interest the level of interest rates has increased and the bank rate is expected to remain high in 2023. The Ukraine Invasion has been a significant determinant of inflation and the longevity of its impact may give rise to continued uncertainty to forecasts.

5.2 The Council held £31.770m of investments as at 31 Oct 22 (£34.615m at 31 March 2022)

5.3 A full list of investments held as at 31 October 2022 is in appendix 1:

5.4 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 7 months of 2022/23.

5.5 The Council's budgeted investment return for 2022/23 is £132,480, and performance for the year to date is £181,560 which is £49,080 above budget.

6. Borrowing

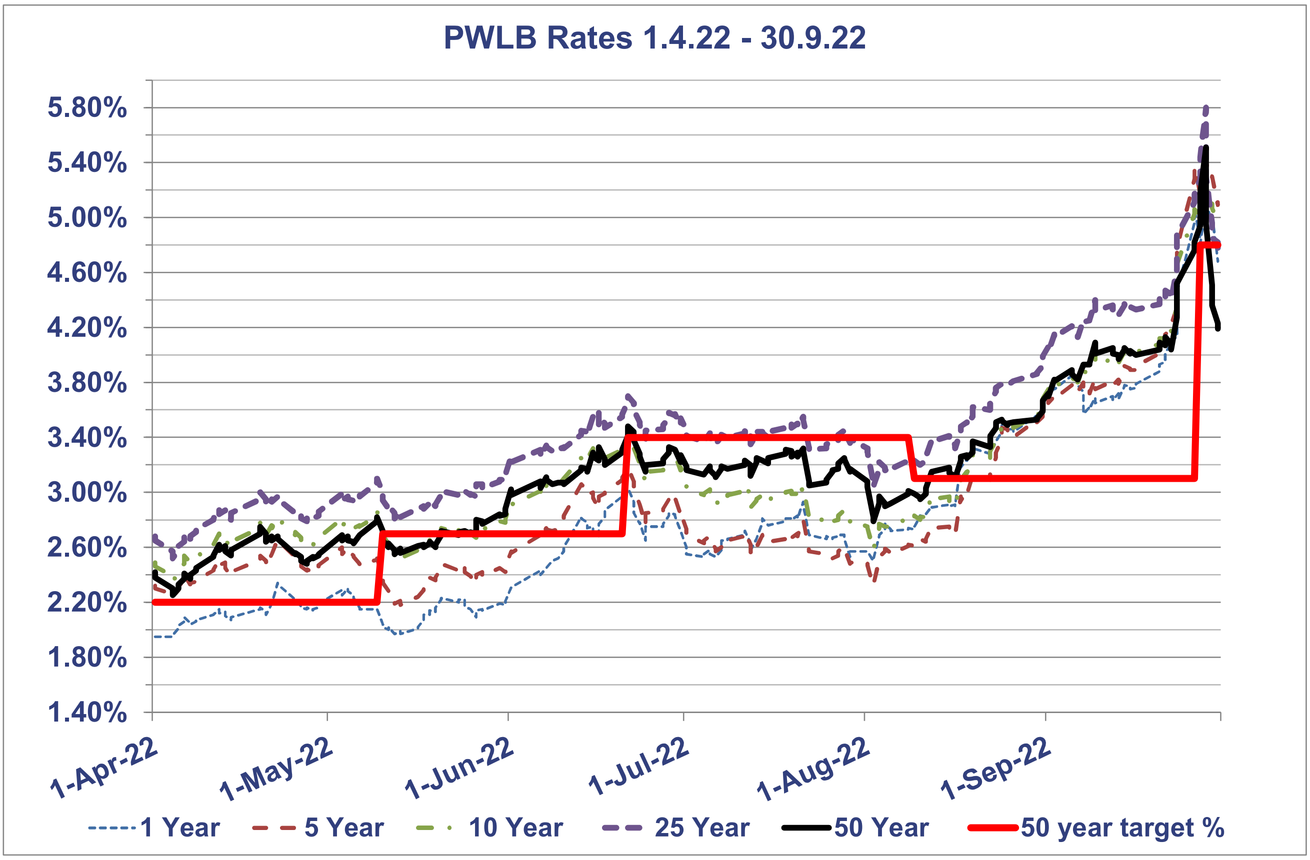
6.1 The Council's capital financing requirement (CFR) for 2022/23 is £55.569m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table in paragraph 4.7 above shows the Council has borrowings of £10m and has utilised £45.569m 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 prevails.

6.2 It is anticipated that further borrowing will not be undertaken during this financial year.

6.3 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. A full list of borrowing can be found in Appendix 2

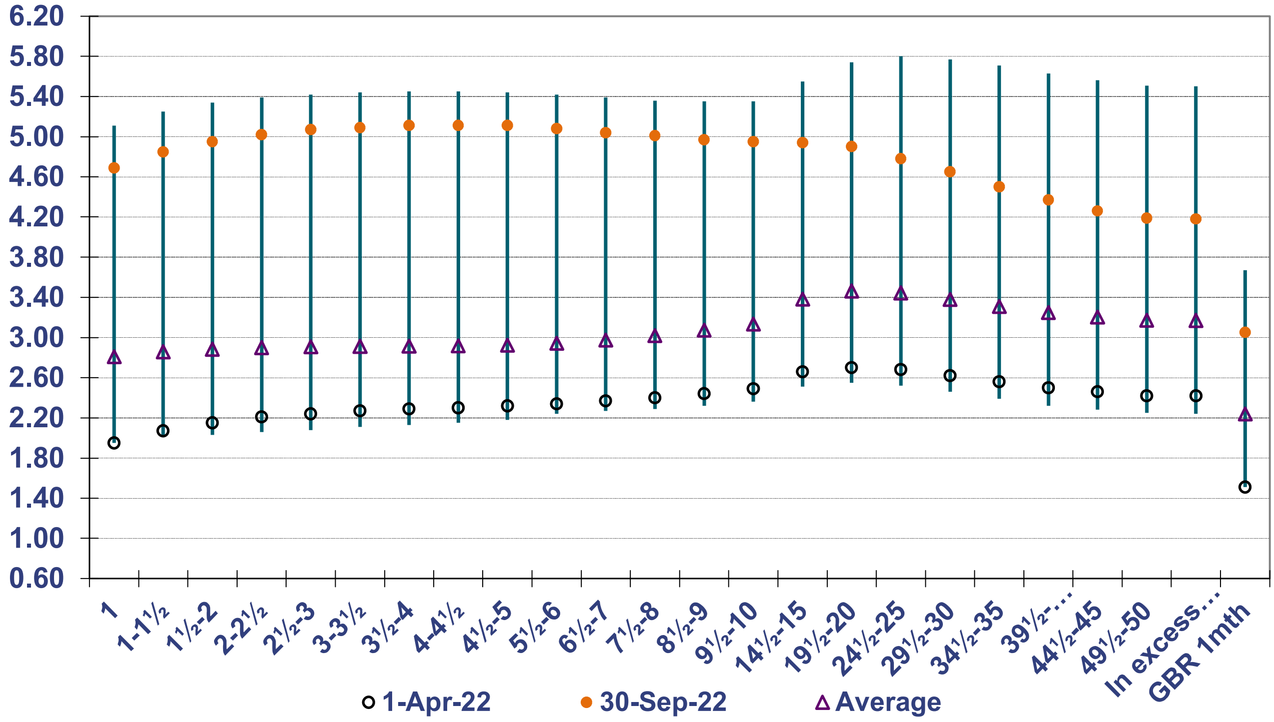
6.4 Gilt yields and PWLB rates were on a rising trend between 1st April and 30th September.

6.5 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.)



	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%

PWLB Certainty Rate Variations 1.4.22 to 30.9.22



7. Debt Rescheduling

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

8. Compliance with Treasury and Prudential Limits

8.1 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 Assistant Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators

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

9. Annual Investment Strategy

9.1 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 25 February 2021. 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.

As shown by the interest rate forecasts in section 2, it is currently impossible to earn the level of interest rates commonly seen in previous decades. However, rates have improved during quarter 3 of 22/23 and are expected to improve further as Bank Rate continues to increase over the next two years.

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

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

CDS prices
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.

10. Financial Implications

10.1 The financial implications of the borrowing and investment strategy are reflected in the financing adjustment figure included in the Financial Plan 2021/2026 approved at Council on 23 February 2022 and updated as reported in the Budget Monitoring reports.

11. Risk Management Implications

11.1 There are elements of risk in dealing with the treasury management function although the production and monitoring of such controls as prudential indicators and the treasury management strategy help to reduce the exposure of the Council to the market. The costs and returns on borrowing and investment are in themselves a reflection of risk as seen by the market forces.

12. Policy Implications

12.1 There are no changes in the Treasury Management policy at present.

13. Statutory Considerations

13.1 The Council must set prudential indicators and adopt a Treasury Management Strategy and Annual Investment Strategy.

14. Access to Information

The Budget 2021/2026 – The Financial Plan
Capital Programme 2021/2026
Treasury Management Strategy and Annual Investment Strategy 2022/2023
Budget Monitoring reports 2022/2023
Investment Portfolio Benchmarking Analysis
Capital Strategy 2022/2023

Economic Outlook (Link Group) **Appendix 1**

The second quarter of 2022/23 saw:

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September.

The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Interest Rate Forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 27th September 2022 (PWLB rates are certainty rates, gilt yields plus 80bps):

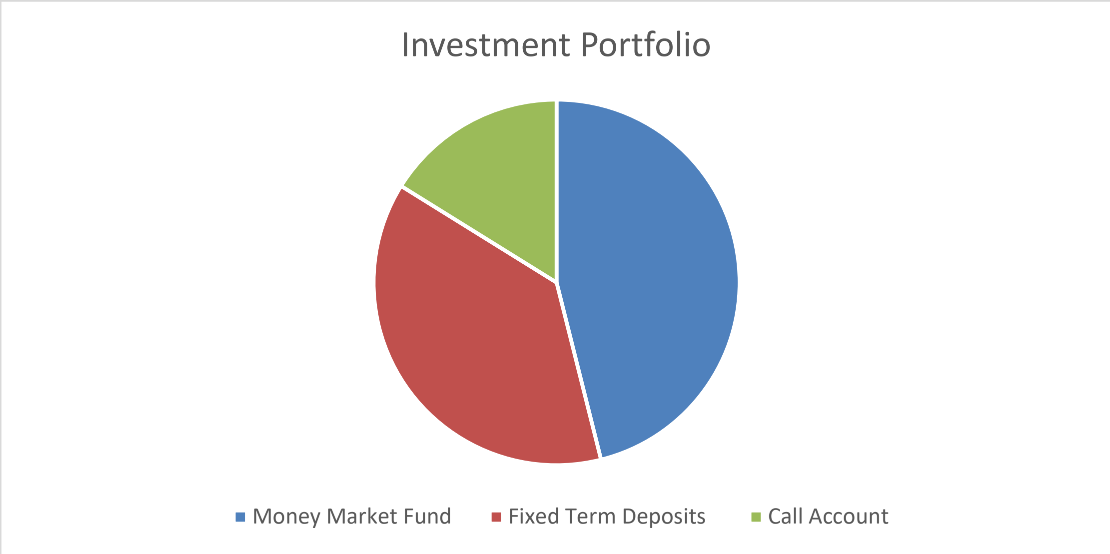
Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	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

As shown in the forecast table above, are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

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.

Investment Portfolio as at 31 October 2022 **APPENDIX 2**



Institution	**Principal £**	**Rate %**
Aberdeen Liquidity – MMF	3,990,000	2.220%
BNP – MMF	3,900,000	2.150%
Barclays FIBCA	1,130,000	1.850%
Federated Hermes – MMF	3,990,000	2.168%
HSBC Sterling – MMF	2,760,000	2.249%
Total Money Market Fund Investment	**15,770,000**	
Lancashire County Council	4,000,000	2.100%
Landesbank Hessen-Thueringen Girozentrale (Helaba) Frankfurt	4,000,000	2.270%
North Lanarkshire Council	4,000,000	1.970%
Santander (95-day notice account)	4,000,000	1.000%
Total Other Investments	**16,000,000**	
Overall Investments	**31,770,000**	

*MMF – denotes Money Market Fund used for daily cash flow purposes.

Borrowing Portfolio as at 31 October 2022 **APPENDIX 3**

Institution	Principal £	Start Date	End Date	Rate
Barclays	5,000,000	22/03/2007	21/03/2077	3.81%
Barclays	5,000,000	12/04/2007	14/04/2077	3.81%
Total Long Term	**10,000,000**			

Prudential Indicators:

APPENDIX 4

Net borrowing and the CFR	**31/03/2022 Actual £m**	**31/10/2022 Actual £m**
Borrowing	10.00	10.00
Investments	(34.62)	(31.77)
Net Position	**(24.62)**	**(21.77)**
Capital Financing Requirement	**55.81**	**54.44**
		(estimate for 2022/2023 year end)

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2022/2023. This essentially means that the Council is not borrowing to support revenue expenditure. The Council has complied with this prudential indicator.

The Council's Capital Position and Associated Prudential Indicators

The capital programme 2022/2023 was updated for rephasing and amendments as part of the closedown of the accounts 2021/2022. The revised estimates to 31st October 2022 are shown in the table below.

Capital Expenditure	**2022/23 Original Estimate**	**2022/23 Actual as at 31 Oct 22**	**2022/23 Revised Estimate**
	£'000	**£'000**	**£'000**
Major Projects	53,082	7,516	30,836
Community and Partnerships	2,481	1,077	2,511
Resources	383	99	383
Programme and Projects	67	101	301
Property and Projects	340	26	340
Operational and Commercial Services	2,897	244	2,920
Leisure and Community Facilities	1,016	119	1,046
Central Services	250	-	-
Total Excluding Exempt	**60,517**	**9,181**	**38,338**
Exempt Schemes	11,218	3,156	8,230
Total Including Exempt	**71,735**	**12,337**	**46,568**

Budget Related Prudential Indicators – Revised

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Capital Expenditure	35,016	59,870	61,697	35,951
Ratio of financing costs to net revenue stream	5.01	- 0.05	0.69	1.53
(Equals net treasury cost ie cost of borrowing less the income from investments divided by the total of Government grant and total council tax)				
Capital Financing Requirement (CFR) as at 31 March	54,438	69,259	84,941	84,627

Authorised / Operational Limit for external debt

	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Authorised /Operational Limit for external debt	71,000	86,000	101,000	101,000
Operational Boundary for external debt	66,000	81,000	96,000	96,000

- The Authorised Limit represents the maximum limit beyond which borrowing is prohibited and needs to be set and revised by Members.
- The Operational Boundary for External Debt is a working practice limit that is set lower than the Authorised Limit. In effect the authorised limit includes a degree of contingency in case of circumstances arising that take the limit above the operational limit.

Interest Rate Exposures (Limit on fixed and variable rate borrowing)

	2022/23 Upper %	2023/24 Upper %	2024/25 Upper %	2025/26 Upper %
Limits on fixed interest rates based on net debt	100%	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%	40%

Maturity Structure of fixed interest rate borrowing

	Lower	Upper	Portfolio Position as at 31 Oct 22
Under 12 months	0%	100%	0%
12 months to 2 years	0%	100%	0%
2 years to 5 years	0%	100%	0%
5 years to 10 years	0%	100%	0%
10 years and above	0%	100%	100.00%