REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2022

REPORT OF:	Stephen Fitzgerald, Interim Head of Corporate Resources
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Wards Affected:	All
Key Decision	No
Report to	Audit Committee – 15 November 2022

Purpose of Report

1. The report attached as Appendix 1 sets out the Council's treasury management activity for the half year to 30 September 2022

Summary

2. Interest rates on investments have improved, due to the change in economic conditions and effective investment decision making, resulting in income well in excess of budget for the half year, whilst debt continues to diminish. Low risk counterparties continue to be sought and investment in Local Authorities where there is Government intervention will be avoided.

Recommendations

3. **The Committee is asked to recommend the following to the full Council:**

   (i) that no new borrowing has been necessary in the 6 months to 30th September 2022 and the outstanding borrowing has reduced from £2.123m at 31 March 2022 to £1.901m.

   (ii) the increase in investments from £77.636m at 31 March 2022 to £88.175m at 30 September 2022 (both figures exclude the £6m investment in the CCLA Local Authorities' Property Fund).

Background

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA is now due for renewal.

5. The 2022-23 Treasury Management Mid-Year Report produced by the Group Accountant (Strategic Finance) is attached as Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

6. For those Members seeking a summary, the key points are that the shared service has adhered to all borrowing limits and counterparty lending limits approved in the Treasury Management Strategy Statement. Interest earned on investments is well in excess than

forecast, due to the change in economic conditions, whilst interest on borrowing is in line with the budget.

7. The Group Accountant would welcome questions and queries from Members using the contact details above.

Policy Context

8. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce a mid-year report. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

Other Options Considered

9. None – this report is statutorily required.

Financial Implications

10. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

Risk Management Implications

11. The Council's investment risk is managed by monitoring counterparty credit ratings.

Equality and Customer Service Implications

12. None

Sustainability Implications

13. None

BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2022/23 to 2024/25 (Council 11 May 2022), and Review of Treasury Management Activity 2021/22 (Audit Committee 26 July 2022)
- Code of Practice on Treasury Management (CIPFA) and Treasury Management in the Public Services Guidance Notes (CIPFA)
- The Prudential Code for Capital Finance in Local Authorities (CIPFA).
- Department for Communities & Local Government Investment Guidance
- Statutory MRP guidance
- Link Asset Services report template (October 2022)

1. SUMMARY

This report summarises the Council’s treasury management for the half year to 30 September 2022. The presentation of this report fulfils the requirements under the Council’s treasury management policy.

2. BACKGROUND

2.1 Capital Strategy

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 intended 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

2.2 Treasury Management

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.”

3. INTRODUCTION

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:

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

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.

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.

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.

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.

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 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.

4. ECONOMICS AND INTEREST RATES

*The following commentary has been supplied by **Link Group**, the professional consultants for the Council's shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken for the first half year.*

4.1 Economics update

4.1.1 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 2022 there have been significant and several changes in Ministerial responsibility including at the level of Prime Minister and Chancellor of the Exchequer. This has resulted in changes and subsequent reversals on economic policy including taxation. Related to this there have been significant falls in the in the value of the pound and consequential rises in interest rates.

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.

4.2 Interest rate forecasts

4.2.1 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.

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. Our PWLB rate forecasts below 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.

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

5. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

5.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by this Council on 11 May 2022. The details in this report update the actual and forecast expenditure in light of the updated economic position and budgetary changes already approved.

There are no policy changes to the TMSS other than avoiding investing in Local Authorities where there has been a Government Intervention; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

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

6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The increase is made up of a number of capital variations which are detailed in the Budget Management Reports to Cabinet on 18 July 2022 and 26 September 2022. The Capital Programme and Revenue Projects for 2022/23, as approved at Council on the 2 March 2022, amounted to £4.128m of which £2.038m relates to Capital. This was increased to £9.147m following additions to the programme as detailed in the Capital Programme Update reports to Cabinet 21 March 2022 and Cabinet 6 June 2022. Following the 2021/22 Outturn, the programme increased to include the rescheduling of some 2021/22 projects and further increases as reported in Budget Management reports to Cabinet on 18 July and 26 September 2022.

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Total capital expenditure	2.038	1.668	9.147

6.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

	2022/23 Original Estimate	2022/23 Revised Estimate
	£m	£m
Total Capital Expenditure	2.038	9.147
Financed by:		
Capital receipts	0.243	3.677
Capital grants, S106 etc.	1.550	4.931
Reserves and revenue contributions	0.245	0.539
Total financing	2.038	9.147
Borrowing requirement	0.000	0.000

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

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

Prudential Indicator – Capital Financing Requirement

There is no movement in the Capital Financing Requirement from the original.

Prudential Indicator – the Operational Boundary for external debt

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Prudential Indicator:			
Capital Financing Requirement			
CFR – non housing	6.114	6.387	6.114
Net movement in CFR	(0.547)	(0.274)	(0.547)
Prudential Indicator:			
The Operational Boundary for external debt			
	Op Boundary	**Actual**	**Op Boundary**
Borrowing	28.000	0.077	28.000
Other long term liabilities*	4.000	1.824	4.000
Total debt	32.000	1.901	32.000

*finance leases

6.4 Limits to Borrowing Activity: debt compared with the Capital Financing Requirement

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 PWLB borrowing currently at £77k will be fully repaid by the end of the year. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Borrowing	0.00	0.077	0.00
Other long term liabilities*	1.676	1.824	1.676
Total debt	1.676	1.901	1.676
CFR	6.114	6.114	6.114

*finance leases

6.5 Limits to Borrowing Activity: debt compared with the Authorised Limit

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	Actual at 30 Sept 22	2022/23 Revised Indicator
	£m	£m	£m
Borrowing	30.000	0.077	30.000
Other long term liabilities	4.000	1.824	4.000
Total	34.000	1.901	34.000

7 BORROWING

7.1 The Council's capital financing requirement (CFR) for 2022/23 is £6.114m. 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 6.4 shows the Council currently has borrowings of £1.901m, but by the end of 2022/23 this will have fallen to £1.676m. This will be below the CFR, with the balance of the CFR funded from 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.

The Council has not taken out any new borrowing in 2022/23.

7.2 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 H1 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 we forecast rates to fall back to 3.10% by the end of September 2025.

- The current PWLB rates are set as margins over gilt yields as follows: -.
    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

8 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.

9 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

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 Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.
All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

10 ANNUAL INVESTMENT STRATEGY

10.1 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity and with the Councils' 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. The shared Treasury Service uses information supplied by the Treasury advisers, Link Asset Services, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in section 4.2, investment rates have continued to rise. There have been 4 meetings of the MPC in the 6 months to 30th September 2022, at each meeting the decision has been made to increase the base rate. Following the September meeting the rate was set at 2.25%, it's highest since 2008's Global Financial Crisis. It is widely anticipated that the bank rate will continue to increase throughout the remainder of 2022 and into early 2023, before stabilising and subsequently returning to around 2% gradually over the course of 2024 and 2025. Inflationary pressures continue to be driven by global fossil fuel markets, largely in response to sanctions placed on Russia as a result of its invasion and subsequent occupation of Ukrainian territory.

The UK government's "fiscal event" presented on September 23rd received a shock response from Gilt markets and prompted a fall and instability in Sterling against most world currencies, including a very strong US dollar.

In general the factors above present both opportunities and risks in our investment activities, chiefly it prompts a need for agility. Therefore our investments continue to follow a low risk and largely short term strategy. This increases our ability to respond to changes in market conditions and to changes in risk; which we continue to monitor closely. It is expected that as a result of increased market rates our investment income for the year will continue to improve.

10.2 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.

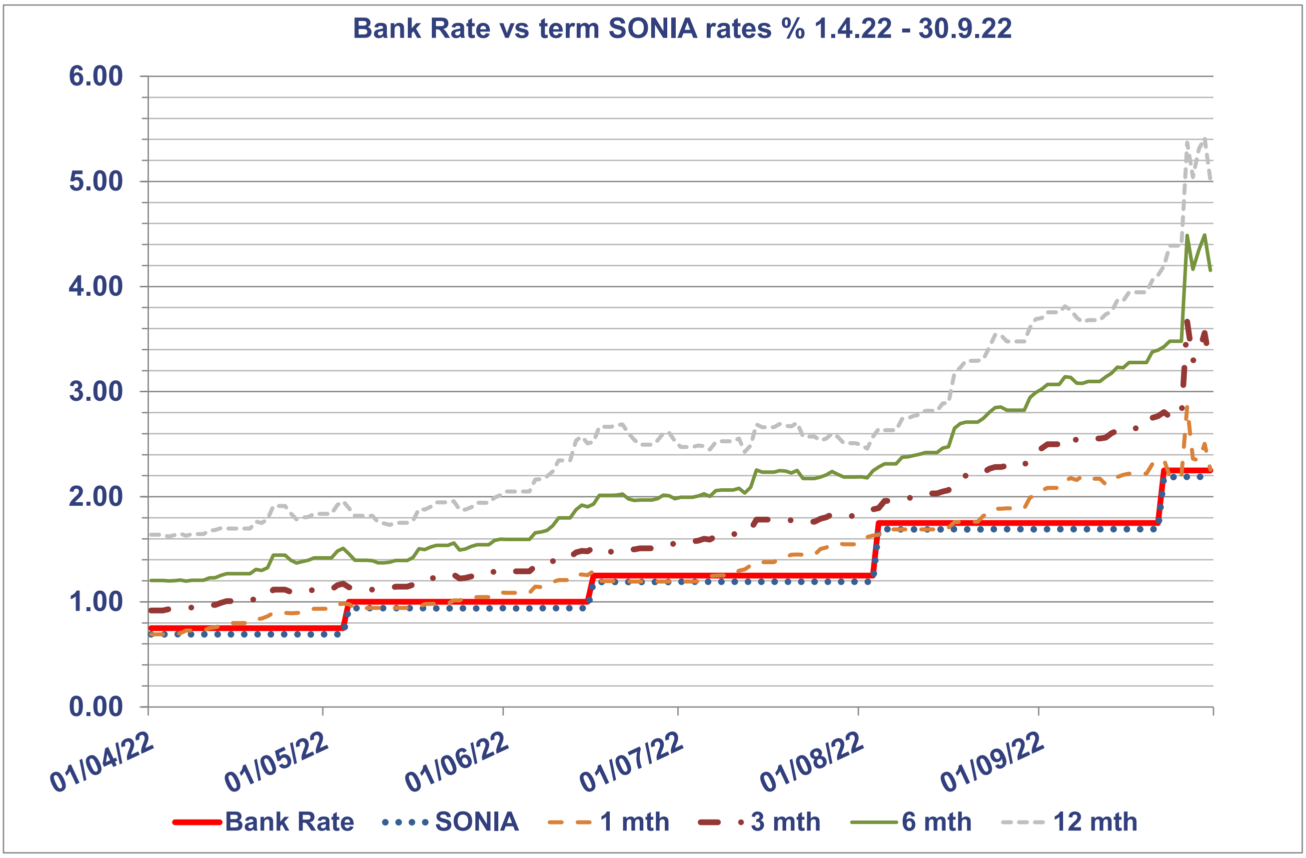
10.3 Investment Counterparty Criteria

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

Credit Default Swap prices
Credit Default Swaps (CDS) are credit derivative contracts that enable investors to swap credit risk on a company with another counterparty. They are market indicators of credit risk. Although CDS prices for UK banks spiked at the outset of the pandemic in 2020, they then subsequently returned to near pre-pandemic levels. **However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.**

Investment balances
The average level of funds available for investment purposes during the 6 months, excluding the Council's £6m investment in the Local Authorities' Property Fund, was **£88.2m**. 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.

Investment rates during period ended 30th September 2022



10.4 Investment performance year to date as at 30 September 2022

The Council earned £492,253 in investment income of which £45,282 was from market funds, call accounts and notice accounts. This total excludes interest from the Council's £6m investment in the Local Authorities' Property Fund. The Council's budgeted investment return for 2022/23 is £223,918 but the current forecast is £1,417,696, which is £1,193,778 higher than the estimate due to the continuing rise in interest rates.

10.5 Approved limits and Counterparties

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

10.6 The current difficult economic situation has had a severe impact on the majority of Councils, but some are less well placed to manage the additional pressures caused by rising interest rates and general inflationary increases in wages, utilities and other costs. Consequently there have been some recent interventions by Government in the finances of the most badly affected Councils. A report to the Audit Committee on 20 September 2022 set out the criteria for investing in other local authorities, stating that in future the criteria would exclude Local Authorities subject to Government intervention.

10.7 Investments at 30 September 2022

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Close Brothers Limited	30/03/2022	30/03/2023	£2,000,000	1.50%	A-
Close Brothers Limited	05/09/2022	05/09/2023	£2,000,000	2.80%	A-
Close Brothers Limited	08/09/2022	11/09/2023	£1,000,000	3.90%	A-
Clydesdale Bank Glasgow	10/08/2022	11/08/2023	£4,000,000	2.82%	A-
Goldman Sachs International Bank	24/02/2022	24/02/2023	£3,000,000	1.43%	A+
Goldman Sachs International Bank	06/04/2022	06/04/2023	£1,000,000	1.96%	A+
Goldman Sachs International Bank	30/09/2022	06/03/2023	£1,000,000	4.12%	A+
Handlesbanken Fixed Term Deposit	08/08/2022	08/08/2023	£3,000,000	2.48%	AA
Handlesbanken Fixed Term Deposit	08/08/2022	08/02/2023	£2,000,000	2.22%	AA
National Westminster Bank	27/01/2022	27/02/2023	£1,000,000	0.93%	A+
National Westminster Bank	29/06/2022	29/06/2023	£3,000,000	2.55%	A+
National Westminster Bank	30/06/2022	30/06/2023	£1,000,000	2.55%	A+
Standard Chartered Bank	31/03/2022	31/03/2023	£3,000,000	1.94%	A+
Standard Chartered Bank	29/07/2022	28/07/2023	£1,000,000	2.79%	A+
Cambridge Building Society	09/07/2021	05/07/2023	£1,000,000	0.40%	Unrated
Cambridge Building Society	05/07/2021	05/07/2023	£2,000,000	0.40%	Unrated
Coventry Building Society	31/03/2022	31/03/2023	£1,000,000	1.40%	A-
Coventry Building Society	10/08/2022	09/08/2023	£1,000,000	2.32%	A-
Coventry Building Society	18/08/2022	18/08/2023	£1,000,000	2.70%	A-
Coventry Building Society	30/09/2022	28/02/2023	£1,000,000	3.28%	A-
Leeds Building Society	05/04/2022	05/04/2023	£3,000,000	1.54%	A-
Monmouthshire Building Society	02/08/2021	07/08/2023	£3,000,000	0.35%	Unrated
National Counties B Soc	22/03/2022	22/03/2023	£2,000,000	1.27%	Unrated
National Counties B Soc	05/05/2022	05/05/2023	£1,000,000	1.78%	Unrated
Newcastle Building Soc.	07/04/2022	06/04/2023	£3,000,000	1.25%	Unrated
Nationwide Bldg Society	30/06/2022	30/06/2023	£1,000,000	2.34%	A
Nationwide Bldg Society	08/08/2022	08/08/2023	£3,000,000	2.43%	A
Principality Building Soc	09/06/2022	09/06/2023	£3,000,000	1.78%	BBB+
Progressive Building Society	05/07/2022	05/07/2023	£1,000,000	2.40%	Unrated
Saffron Building Society	07/03/2022	06/03/2023	£3,000,000	1.05%	Unrated
West Bromwich Building So	05/07/2022	05/07/2023	£2,000,000	2.10%	Unrated
West Bromwich Building So	05/07/2022	05/07/2023	£1,000,000	2.10%	Unrated
Yorkshire Building Society	26/07/2022	26/07/2023	£3,000,000	2.52%	A-
Yorkshire Building Society	02/03/2022	06/03/2023	£1,000,000	1.09%	A-
U K Debt Management	21/04/2022	21/10/2022	£5,000,000	0.94%	N/A
Surrey Heath Borough Council	26/09/2022	26/09/2023	£3,000,000	2.70%	N/A
Thurrock Borough Council	25/05/2022	24/05/2023	£2,000,000	1.70%	N/A
Blackrock	n/a	n/a	£2,180,000	Variable	AAA
CCLA	n/a	n/a	£10,000	Variable	AAA
Federated Investors (Uk) Llp	n/a	n/a	£3,000,000	Variable	AAA
Goldman Sachs Funds Plc	n/a	n/a	£10,000	Variable	AAA
Hsbc Esg Mmf	n/a	n/a	£2,990,000	Variable	AAA
Invesco Liquidity Funds Plc	n/a	n/a	£2,985,000	Variable	AAA
TOTAL			**£88,175,000**		

11 OTHER

11.1 Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to Members' attention in treasury management update reports.

11.2 Sustainability and Ethical Policies of Counterparties

Following the concerns expressed by Members, the Shared Treasury Service in consultation with the Head of Corporate Resources gives due consideration to environmental, social and corporate governance issues. Some of the policies of the banks and building societies that the Council is currently using are linked below.

https://www.cambridgebs.co.uk/more/about-us/community-detail

https://www.ccla.co.uk/our-policies/climate-change-and-investment-policy

https://www.closebrothers.com/sustainability-and-environment

https://www.coventrybuildingsociety.co.uk/member/sustainability/environment-policy.html

https://www.cumberland.co.uk/about/corporate-governance

https://www.federatedinvestors.com/resources/resource-centers/responsible-investing-center.do?hint=class

https://www.goldmansachs.com/investor-relations/corporate-governance/sustainability-reporting/

https://www.handelsbanken.com/en/sustainability/climate-impact

https://www.invesco.com/corporate/about-us/esg/environmental-sustainability

https://www.leedsbuildingsociety.co.uk/knowledge-base/members/continuing-to-reduce-our-carbon-footprint/

https://www.lloydsbankinggroup.com/our-group/responsible-business/financing-a-green-future-together/reducing-our-own-environmental-footprint/

https://www.monbs.com/blog/valuer-project/

https://www.ncbs.co.uk/about-us/corporate-information

https://investors.natwestgroup.com/esg-disclosures

https://www.newcastle.co.uk/about-us/governance/corporate-governance/

https://www.nationwide.co.uk/about-us/responsible-business/

https://www.principality.co.uk/about-us/our-community/csr

https://theprogressive.com/your-society/our-responsibilities/progressive-and-the-environment

https://www.saffronbs.co.uk/about/community/green-hub/going-green-saffron

https://www.santandercb.co.uk/why-santander/sustainability

https://www.sc.com/en/sustainability/?gclid=Cj0KCQjw18WKBhCUARIsAFiW7Jw9h9XtzcULNMBFfdOMiAEC0Lkjnwv5QBGzPyHH7ftV08AuVuZm3hYaAmJmEALw_wcB&gclsrc=aw.ds

https://www.westbrom.co.uk/suppliers/supplier-code-of-conduct

https://www.ybs.co.uk/your-society/environment/index.html