Report of the Director of Finance & IT to the meeting of Governance and Audit Committee to be held on 24 November 2022

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Subject:

Treasury Management Mid-Year Review up to 30 September 2022

Summary statement:

This report shows the Council's Treasury Mid-Year Review up to 30 September 2022.

Chris Chapman
Director of Finance & IT

Report Contact: David Willis
Phone: (01274) 432361
E-mail: David.Willis@wypf.org.uk

Portfolio:
Leader of the Council and Corporate

Overview & Scrutiny Area:
Corporate

Treasury Management Review up to 30th September 2022

Background

1.1 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."

1.2 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 2021).

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 Governance and 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 six months 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 compliance with Treasury and Prudential Limits for 2022/23.

2. Economics and interest rates

2.1 Economics update

- The second quarter of 2022/23 saw signs of economic activity losing momentum as production fell, inflation increased with domestic price pressures showing little sign of abating in the near-term, and bank base rate was raised to 2.25%. The unemployment rate has fallen to a 48-year low of 3.6% due to a large shortfall in labour supply.

- 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 has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) did a step change in government policy and the fiscal loosening from its proposed tax cuts were likely to add to existing domestic inflationary pressures and could have potentially left a legacy of higher interest rates and public debt. Gilt yields had increased, and sterling had fallen following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September 2022. Adding further upward pressure to interest rates.

- However, following the reversal of Truss/Kwarteng's fiscal policies and Rishi Sunak's appointment as the UK's new Prime Minister has ushered in a period of calm in UK financial markets after the recent storm. Indeed, much of the extra political risk premia on gilts that emerged in the wake of the mini-budget on 23rd September appears to have unravelled.

- The new Chancellor, Jeremy Hunt, will unveil in his Autumn Statement on 17th November a fiscal tightening of up to £50bn by 2026/27 (1.7% of GDP) suggest that after a period in which fiscal policy has provided the economy with support, it is about to become a major drag.

- Market interest rate expectations have been pared back in recent weeks as announced fiscal policy has become less loose. And although tighter fiscal policy may go some way to reducing the upward pressure on interest rates, stickier inflation means that Bank Rate is still expected to peak at 5.00%.

- 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.

2.2 Interest rate forecasts

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

2.3 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2022/23 was approved by this Council on 24 March 2022 (Governance & Audit Committee). The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out below:

	2022/23 Original £m	2022/23 Revised Prudential Indicator £m
Authorised Limit	860	790
Operational Boundary	840	770
Capital Financing Requirement	831	768

2.4 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.

2.4.1 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 revised estimate is based on increased scrutiny of the schemes and budget profiles within the capital programme that took place at Quarter 1.

Capital Expenditure by Service	**2022/23 Original Estimate £m**	**Current Position 30 Sept 2022 £m**	**2022/23 Revised Q2 Estimate £m**
Total capital expenditure	203.0	70.7	170.4

2.4.2 Changes to the Financing of the Capital Programme

The table over 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.

Capital Expenditure	2022/23 Original Estimate £m	2022/23 Revised Q2 Estimate £m
Total capital expenditure	**203.0**	**170.4**
Financed by:		
Capital receipts	3.2	3.2
Capital grants	95.6	82.0
Capital reserves	0.2	0.2
Revenue	1.0	2.0
Total financing	**100.0**	**87.4**
Borrowing requirement	**103.0**	**83.0**

Projected changes to the Capital Programme have resulted in a reduced new borrowing requirement of £83m.

2.4.3 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 CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The reduced borrowing requirement for actual capital spend funding in 2021/22 and estimated in 2022/23 has reduced the CFR estimate.

The table below also shows the expected debt position over the period, which is termed the Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed.

	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
Total CFR	831	768
Net movement in CFR		**-63**
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	701.5	631.9
Other long term liabilities*	138.5	138.1
Total debt (year-end position)	**840**	**770**

**Includes on balance sheet PFI schemes and finance leases*

2.4.4 Limits to Borrowing Activity

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.

	2022/23 Original Estimate £m	**Current Position 30 Sept 2022 £m**	**2022/23 Revised Estimate £m**
Long term Borrowing	436.3	348.9	374.2
Other long term liabilities	138.5	138.1	138.1
Short term borrowing	0.0	38.0	20.0
Total debt	**574.8**	**525.0**	**532.3**
Total debt excluding short term borrowing	**574.8**	**487.0**	**512.3**
CFR (year-end position)	831.0		768.0

The CFR calculation is shown in the table above and the Director of Finance & IT reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

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	721.9	651.9
Other long term liabilities	138.1	138.1
Total	**860**	**790**

The table above shows a reduction in the Authorised Limit of £70m due to the reduction in the capital programme and the associated financing.

2.4.5 Borrowing

The Council's capital financing requirement (CFR) for 2022/23 is expected to be below the original forecast of £831m. 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 Council has current long term borrowings of £487m and has utilised 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 capital programme is being kept under regular review due to the effects of inflation and shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

£15.5m of PWLB (Public Works Loan Board) loans are due to mature in January and February 2023 with an average rate of interest of 6.125%. New PWLB borrowing undertaken to date includes £20m in April and £10m in October with an average interest rate of 3.19%.

Short term borrowing of £38m has also been undertaken at interest rates ranging between 1.85% and 3.20%. All these loans mature before March 2023 with the exception of £10m which matures in September 2023. Based on current capital spend forecasts it is anticipated that more borrowing will be undertaken during this financial year.

The Council has two Lender Option Borrower Option (LOBO) loans, totalling £14.3m that have a call date within the next few months. Due to the current volatility and increasing borrowing rates within the market, these loans could possibly have the interest rate increased at the call date. The Council would then have the option to accept the increased interest rate or repay the loans. The treasury team will monitor this situation and report back to the Governance & Audit Committee at a future date on any loans that have been repaid.

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 Link 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)

2.4.6 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.

2.4.7 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 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 & IT 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.

2.5 Annual investment strategy

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.

Creditworthiness

Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks.

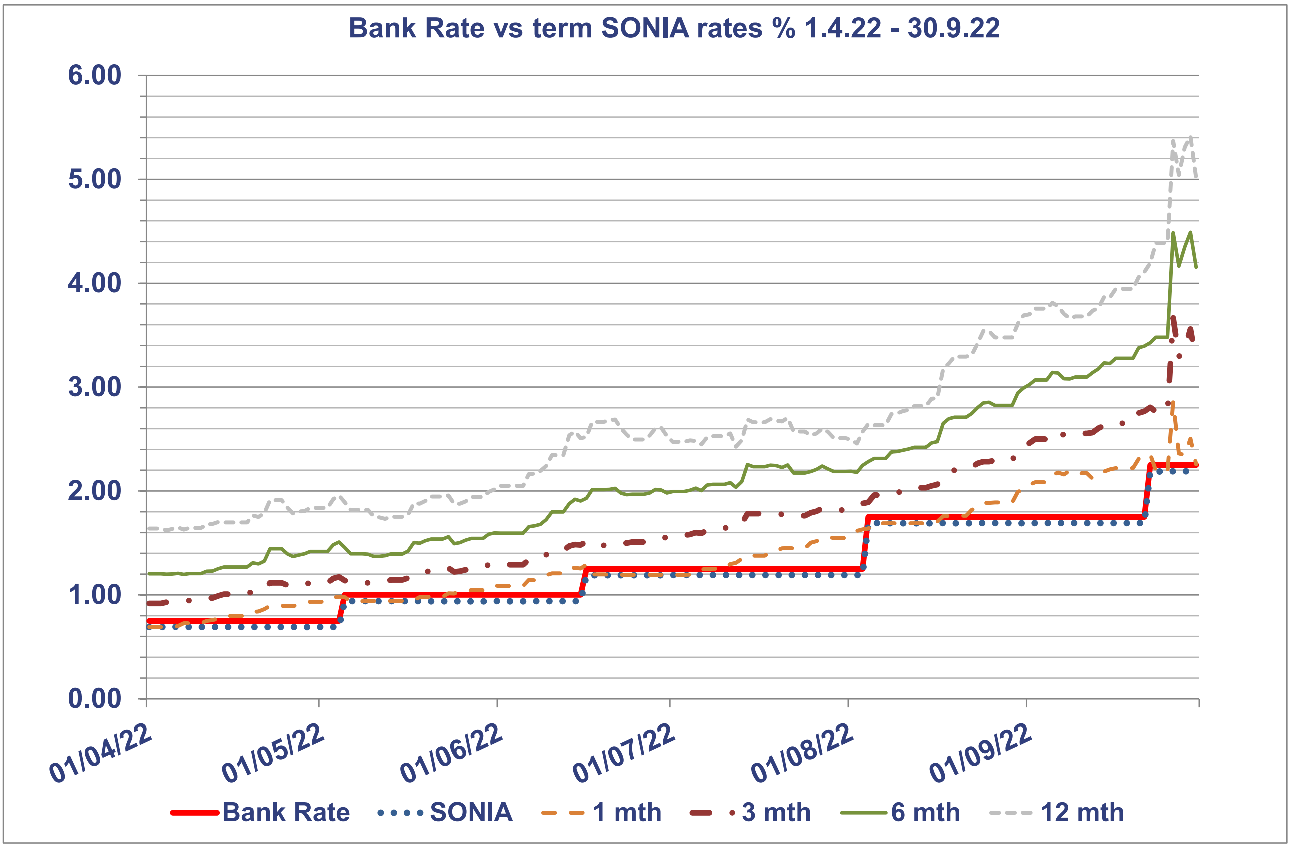
Investment Counterparty criteria

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

Investment balances

The Council held net £55.3m of investments as at 30th September 2022 (£149.1m at 31st March 2022) and the investment portfolio yield for the first 6 months of the year is 0.94% against a benchmark of 1.21%.

Investment rates during period ended 30th September 2022



QUARTER ENDED 30/9/2022						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	2.25	2.19	2.86	3.67	4.49	5.41
High Date	22/09/2022	30/09/2022	26/09/2022	26/09/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.28	1.22	1.39	1.70	2.12	2.62
Spread	1.50	1.50	2.17	2.75	3.29	3.79

As illustrated, the Council underperformed the benchmark by 0.27 bps. The Council's budgeted investment return for the year to date is expected to be below budget.

Approved limits

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

2.6 Other areas for consideration

2.6.1 None

3. Other Issues

3.1 No new issues

4. Financial and Resources Appraisal

4.1 The financial implications are set out in section 2 of this report.

5. Risk Management and Governance Issues

5.1 The principal risks associated with treasury management are:

Risk: Loss of investments as a result of failure of counterparties.
Mitigation: Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties.

Risk: That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or new borrowing (Liquidity risk).
Mitigation: Ensuring that a minimum proportion of investments are held in short term investments for cash flow purposes.

Risk: The level of investments and surplus cash is higher than needed to fund short term timing differences.
Mitigation: Cash flow forecasting and capital expenditure monitoring.

Risk: Increase in the net financing costs of the Council due to borrowing at high rates of interest.
Mitigation: Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking mostly long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

Risk: Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.
Mitigation: To pause, delay or defer capital schemes. Also review opportunities to borrow in the future at current interest rates.

Risk: Return on non-treasury investments lower than expected.
Mitigation: Review and analysis of risk prior to undertaking non-treasury investments.

Risk: The Council's Minimum Revenue Policy charges an insufficient amount to the Revenue Estimates to repay debt.
Mitigation: Align the Minimum Revenue Policy to the service benefit derived from the Council's assets.

Risk: Associated with cash management, legal requirements and fraud.
Mitigation: These risks are managed through:

- Treasury Management Practices covering all aspects of Treasury management procedures including cash flow forecasting, documentation, monitoring, reporting and division of duties.
- All Treasury management procedures and transactions are subject to inspection by internal and external auditors. The Council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

Risk: Anticipated borrowing is lower than expected because the 2022/23 capital programme is underspent. This is explained in more detail below, together with the actions being taken to reduce these risks:
Mitigation: The Council is required to set a balanced budget for its revenue estimates; so in broad terms, income received will match expenditure over the 2022/23 financial year. The 2022/23 revenue estimates cause only temporary cash flow differences, for example when income is received in a different month to when the expenditure is incurred.

However, the 2022/23 capital budget will cause a cash flow shortfall in the long term, which generates a borrowing requirement. While some of the capital budget is funded immediately, mainly with Government grants, other elements are not funded initially, leading to the cash flow deficit that requires borrowing.

Managing borrowing is part of the Treasury Management role. To help in its management, the Treasury Strategy identifies the element within the capital budget that is not funded straightaway, to anticipate the Council's borrowing requirement.

However, when the capital budget is underspent, the Council has a lower borrowing requirement than anticipated. This risk is managed in practice because the Council only borrows when there is an actual cash flow shortage. The uncertainty around spend against the capital budget makes cash flow management more difficult. For example, it is less likely that the Council would take advantage of a short-term fall in interest rates, without more certainty around the timing of any borrowing need. Actions that have taken place to manage the risks relating to this uncertainty in the timing of capital spend are: Councillor and Officer challenge sessions on the capital budget; increased scrutiny of the capital forecasts in the quarterly monitoring, and the collection of additional documentation around the critical paths of individual schemes.

6. Legal Appraisal

6.1 Any relevant legal considerations are set out in the report

7. Other Implications

7.1 Equality & Diversity – no direct implications
7.2 Sustainability implications – no direct implications
7.3 Green house Gas Emissions Impact – no direct implications
7.4 Community safety implications – no direct implications
7.5 Human Rights Act – no direct implications
7.6 Trade Unions – no direct implications
7.7 Ward Implications – no direct implications
7.8 Implication for Children & Families – no direct implications
7.9 Issues arising from Privacy Impact Assessment– no direct implications

8. Not for publications documents

8.1 None

9. Recommendations

That the details in Section 2 be noted by the Governance and Audit Committee and passed to Full Council on the 13th December for adoption.

10. Appendices

Appendix 1 Prudential and Treasury Indicators as at 30 September 2022
Appendix 2 Borrowing Rates
Appendix 3 Approved Countries for Investment as at 30 September 2022

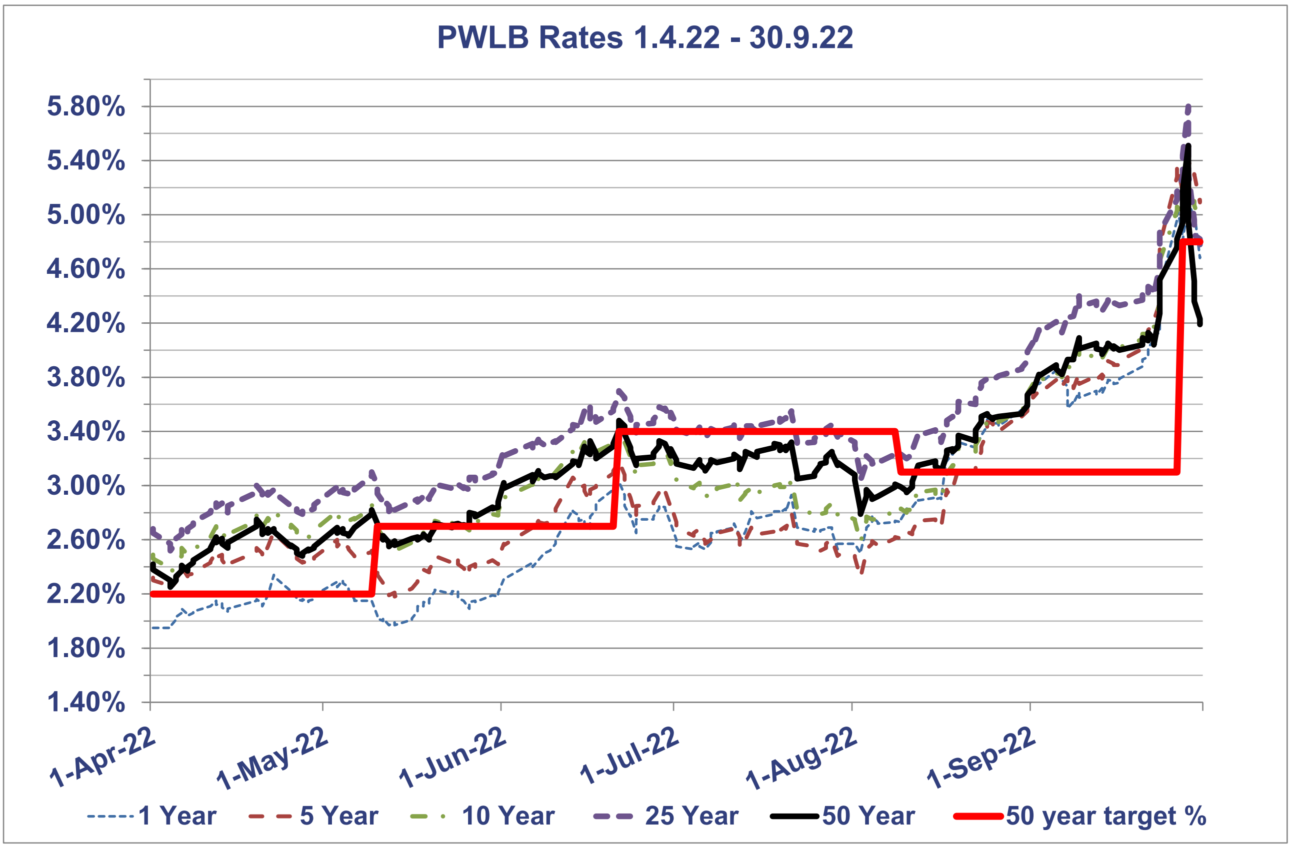
APPENDIX 1: Prudential and Treasury Indicators as at 30th September 2022

Treasury Indicators	2022/23 Budget £m	(Apr - Sept) Actual £m
Authorised limit for external debt	£860	£790
Operational boundary for external debt	£840	£770
Gross external long term debt	574.8	487
Upper limit for principal sums invested over 365 days	£20	£0

Maturity structure of fixed rate borrowing -	Upper Limit	(Apr-Sept) Actual
Under 12 months	20%	4%
12 months to 2 years	20%	2%
2 years to 5 years	50%	9%
5 years to 10 years	75%	16%
10 years and above	90%	69%

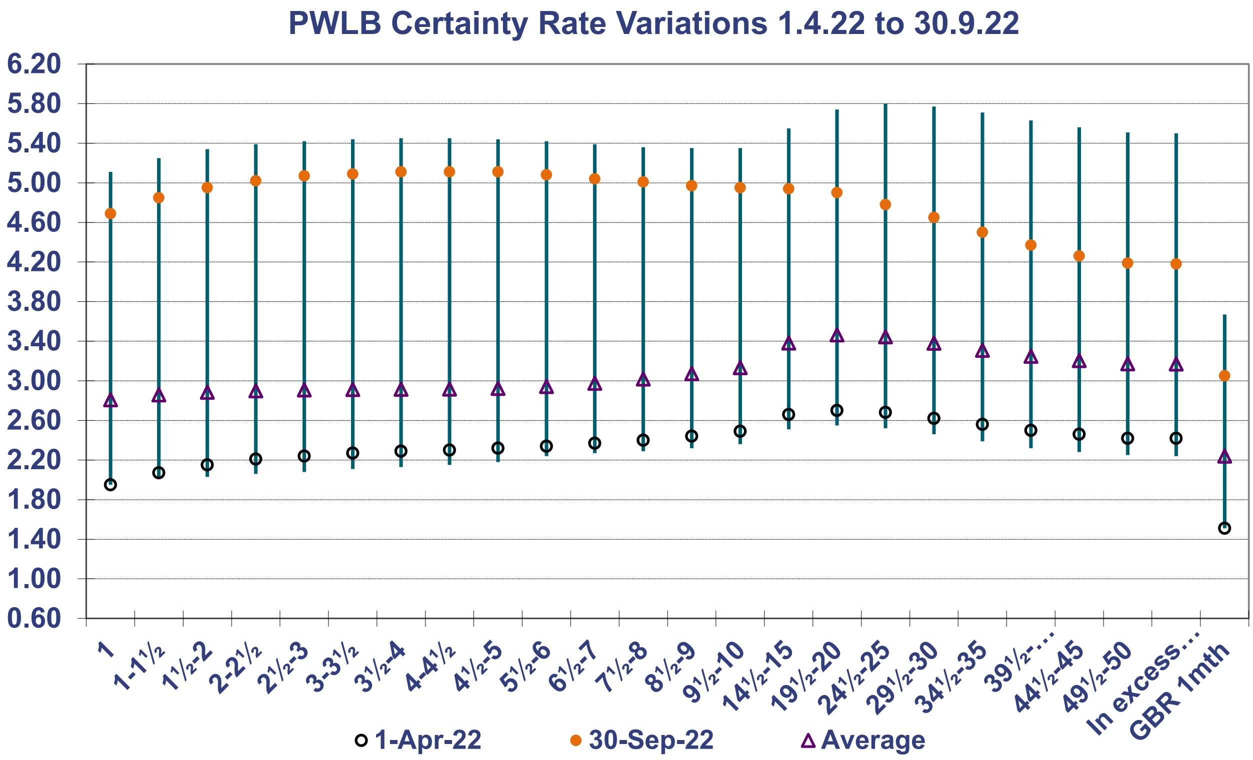
Prudential Indicators	2022/23 Q2 Budget £m	2022/23 Revised Estimate £m
Capital expenditure (Revised Q2 Budget)	170.4	166.5
Capital Financing Requirement (CFR)	831.0	768.0
Ratio of financing costs to net revenue stream	15.3%	14.7%

APPENDIX 2: Borrowing rates



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 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%


PWLB Certainty Rate Variations 1.4.22 to 30.9.22
6.20
5.80
5.40
5.00
4.60
4.20
3.80
3.40
3.00
2.60
2.20
1.80
1.40
1.00
0.60
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-…
44½-45
49½-50
In excess…
GBR 1mth
1-Apr-22
30-Sep-22
Average

APPENDIX 3: Approved countries for investments as at 30th September 2022

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- France

AA-

- Belgium
- Hong Kong
- **U.K.**