Appendix 1

Mid-Year Review 2022/23

Treasury Management

North Lincolnshire Council

www.northlincs.gov.uk

1. Background

1.1 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 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.

1.2 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."

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 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 half of the 2022/23 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the Council's investment portfolio for 2022/23.
- A review of the Council's borrowing strategy for 2022/23.
- A review of any debt rescheduling undertaken during 2022/23.
- A review of compliance with Treasury and Prudential Limits for 2022/23.

3. Economics and interest rates

3.1 Economics update

- The second quarter of 2022/23 saw:
  - GDP revised upwards in Q1 2022/23 to +0.2% quarter/quarter 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 rose to 10.1% in September having been 9.0% in April and domestic price pressures show little sign of abating in the near-term.
  - The unemployment rate fell 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 expected.
  - Gilt yields increase and sterling fall to its lowest level against US dollar.
- The UK economy grew by 0.2% quarter over quarter in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- 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.

3.2 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 0.2%).

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 measures to try and protect households and businesses from the current high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but this effect has been more marked in the UK. 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.

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

4. 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 February 2022.

- 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.

5. 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; and
- Compliance with the limits in place for borrowing activity.

5.1 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.

Capital Expenditure	2022/23 Original Estimate £m	Current Position £m	2022/23 Revised Estimate £m
Total capital expenditure	47.20	12.98	59.30

5.2 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.

Capital Expenditure	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
Total capital expenditure	47.20	59.30
Financed by:		
Capital receipts	10.00	10.00
Capital grants	26.40	33.80
Revenue	0.00	0.10
Total financing	36.40	43.90
Borrowing requirement	10.80	15.40

5.3 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. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for external debt

	2022/23 Original Estimate £m	2022/23 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
CFR –	255.406	255.406
Total CFR	255.406	255.406
Net movement in CFR	0.000	0.000
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	255.406	255.406
Other long-term liabilities	10.000	10.000
Total debt (year-end position)	**265.406**	**265.406**

5.4 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 £m	2022/23 Revised Estimate £m
Borrowing	157.300	147.849	144.571
Other long term liabilities	0.000	0.000	0.000
Total debt	**157.300**	**147.849**	**144.571**
CFR (year end position)	255.406	255.406	255.406

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	Current Position £m	2022/23 Revised Indicator £m
Borrowing	275.406	147.849	275.406
Other long term liabilities	10.000	0.000	10.000
Total	285.406	147.849	285.406

6. Borrowing

The Council's capital financing requirement (CFR) for 2022/23 is £255.406m. 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.

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

7. Debt Rescheduling

No debt rescheduling has been undertaken to date in the current financial year.

8. 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 Governance and Communities 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.

9. Annual investment strategy

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 24 February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach.

Creditworthiness.

Both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook.

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 (CDS) prices

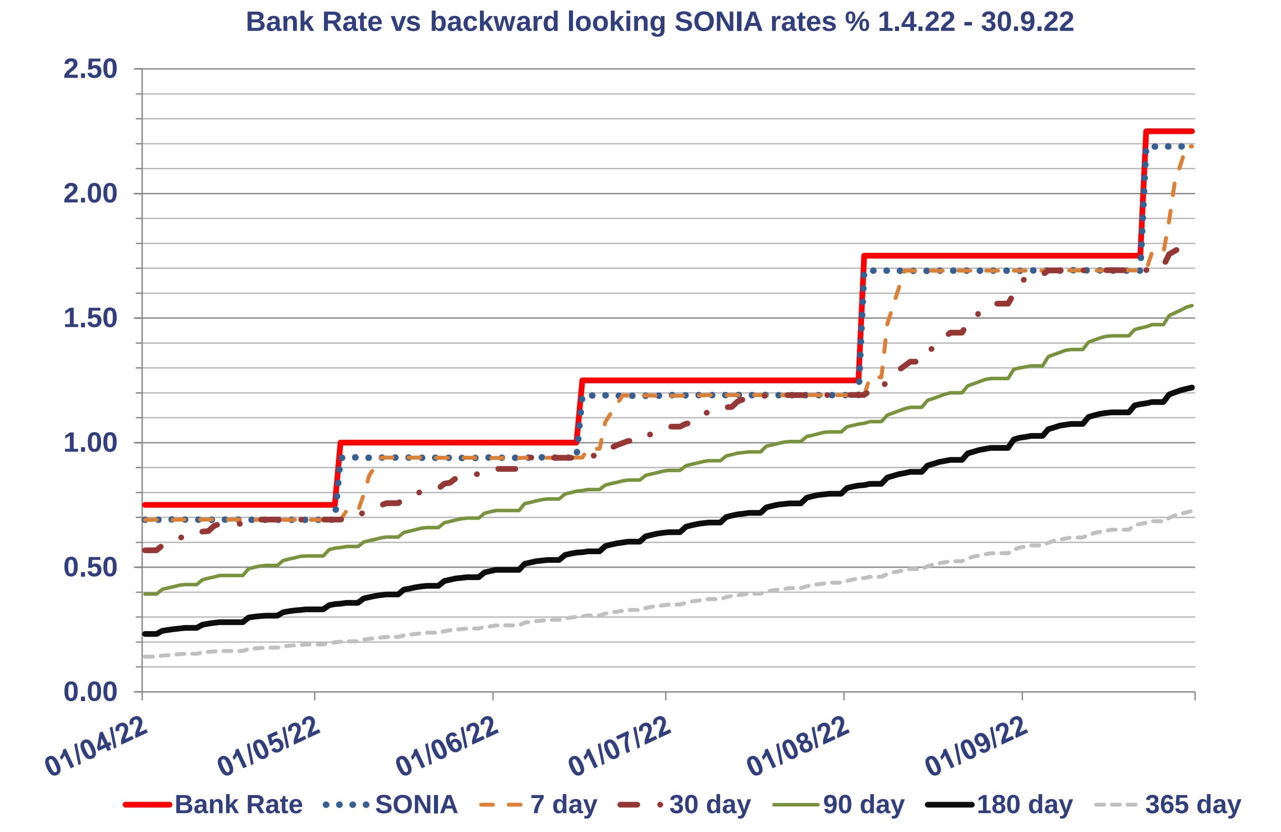
It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances

The average level of funds available for investment purposes during the first half of the year was **£62.03 m**. 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 half year ended 30th September 2022

As highlighted earlier in this report, the levels shown below use the traditional market method for calculating Sterling Overnight Index Average (SONIA) rates.



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

The table above, for completeness, covers both the first and second quarters of 2022/23.

Investment performance year to date as at 30th September 2022

Period	SONIA benchmark return	Council performance	Investment interest earned
1 April-30 Sept 2022	**1.22 %**	**0.511%**	**317,046.76**

As mentioned above, there was huge uncertainty in markets and Bank of England continuously increased interest rate therefore it was prudent to keep investment short term in highly volatile market and benefit from increased interest rate by central bank where possible.

Fund investments

- Money Market Funds (MMFs)
- DMO Deposits
- Interest earning call accounts

Investments As at 30 September 2022			
Type	**Counterparty**	**Rate**	**Principal O/S (£)**
Fixed	DMADF (Debt Management Account Deposit Facility)	1.89%	31,000,000.00
Call	Barclays Bank plc	0.16%	5,986,601.20
MMF	Morgan Stanley Sterling Liquidity Inst	2.12%	4,005,762.24
MMF	BlackRock Institutional Sterling Liquidity	2.01%	4,000,000.00
MMF	Goldman Sachs MMF	1.98%	4,000,000.00
Total			**48,992,363.44**

Following BoE, Monetary Policy Committee (MPC) meeting in September 2022, there is now an expectation that interest rates will rise in the next 2 quarters. The Council is exploring possible investment opportunities with improved returns. The outcome of this will be reported in the annual outturn report for 2022-23.

Approved limits

The approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2022.

10. Other

There are no other issues to report.