Arun District Council

REPORT TO:	**AUDIT AND GOVERNANCE COMMITTEE – 29 November 2022**
SUBJECT:	**Treasury Management – Mid-year review report 2022/23**
LEAD OFFICER:	**Sian Southerton, Senior Accountant (Treasury)**
LEAD MEMBER:	Cllr Clayden
WARDS:	**All**

DIRECTORATE POLICY CONTEXT:

This report supports the Annual Treasury Management Strategy Statement (TMSS).

It is the mid year update and reviews the report considered by Audit and Governance Committee on 22 February 2022 and Full Council on 9 March 2022. The report updates Members on:

- the economic climate for the first half of the 2022/23 financial year;
- the Treasury Management Strategy Statement and Annual Investment Strategy;
- the Council's investment portfolio for 2022/23;
- the Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- compliance with Treasury and Prudential Limits for 2022/23;
- the Council's borrowing strategy for 2022/23.

FINANCIAL SUMMARY:

The financial implications arising from Treasury Management are outlined throughout the report.

1. PURPOSE OF REPORT

The purpose of this report is to present the Council's Treasury Management activities for the year to date as at 30 September 2022 and updated to include more recent information. Also, to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

Arun District Council

2. RECOMMENDATIONS

Audit and Governance Committee is requested to recommend Full Council to:

- approve the actual prudential and treasury indicators for 2022/23 contained in the report;
- note the treasury management mid-year review (this report) for 2022/23;
- note the treasury mid-year activity for the period ended 30 September 2022, which has generated interest receipts of £500,000 (1.58%) year to date, against a budget of £370,000 (0.84%) for the full year.

3. EXECUTIVE SUMMARY

This mid-year report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and covers the activities to 30 September 2022. It enables the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

4. DETAIL

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, the longer term cash flow planning to ensure the Council can meet its capital spending commitments. 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."

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) and covers the first 6 months of the year to 30 September 2022.

The primary requirements of the Code are as follows:

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

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

- 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 (this report) and an Annual Report, covering activities during the previous year.

- 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.

- 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 and Governance 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;
- A review of the Council's investment portfolio for 2022/23;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of compliance with Treasury and Prudential Limits for 2022/23;
- A review of the Council's borrowing strategy for 2022/23.

5. CONSULTATION

Consultation has been undertaken with the Council's Treasury Advisors – Link Group

6. OPTIONS / ALTERNATIVES CONSIDERED

The Treasury Management Strategy is a mandatory requirement under the Local Government act 2003 and therefore the only option available is to accept the recommendations.

7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER

Determining and pursuing a suitable Strategy will ensure that the expected budget income from interest on investments for the year 2022/23 is achieved and the risk of losing the Council's capital invested is minimised.

8. RISK ASSESSMENT CONSIDERATIONS

- The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:
- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

The consequences of ignoring these are poor practices implemented, diminished interest returns, loss of capital invested, poor liquidity (funds available when required).
The Council's strategies guard against most of these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority including securing effective arrangements for treasury management. There are no specific legal implications arising from this report.

10. HUMAN RESOURCES IMPACT

10.1. N/a

11. HEALTH & SAFETY IMPACT

11.1. N/a

12. PROPERTY & ESTATES IMPACT

12.1. N/a

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. N/a

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. Investments with CCLA (diversified fund and property fund and Standard Chartered (Sustainable deposits) have positive ESG factors.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. N/a

16. HUMAN RIGHTS IMPACT

16.1. N/a

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. N/a

CONTACT OFFICER:
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Job Title: Senior Accountant (Treasury)
Contact Number: 01903 737861

BACKGROUND DOCUMENTS*:*

CIPFA'S Treasury Management in the Public Services: Code of Practice (2017); Guidance notes (2018)
(Link not available as copyright)

The Prudential Code for Capital Finance in Local Authorities (2017)
(Link not available as copyright)

The Local Government Act 2003

Treasury Management Strategy and Annual Investment Strategy 2022/23 report to Audit and Governance Committee; 22 February 2022

Arun District Council

Treasury Management Mid-year review Report 2022/23

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; and
- 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, 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 2017) and covers the first 6 months of the year to 30 September 2022.

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 (this report) and an Annual 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 and Governance 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;
- A review of the Council's investment portfolio for 2022/23;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of compliance with Treasury and Prudential Limits for 2022/23;
- A review of the Council's borrowing strategy for 2022/23.

3. ECONOMICS AND INTEREST RATES

3.1 Economics update (30 September 2022).

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 falls 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 prepandemic 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 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.

- 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.

- 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.

- 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.

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 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

Since the above Interest Rate view, the Bank of England's Monetary Policy Committee (MPC) has increased Bank Rate to 3.00% from 2.25% and Link Group have revised their forecast to below.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

4. TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY UPDATE

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

It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

The Council will aim to achieve the optimum return (yield) on 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.

As shown by the interest rate forecasts in section 3.2, rates have improved dramatically during the first half of 2022/23 and are expected to improve further as Bank Rate continues to increase over the few months.

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.

Investment Balances
The average level of funds available for investment purposes during the first 6 months of 2022/23 was £63m. A proportion of these funds were available on a temporary basis, (more so than in previous years due to the receipt of Covid grants, of which some needs to be repaid to government), and the level of funds available was mainly dependent on the timing of precept payments (WSCC and Sussex Police, approximately £10M per month for 12 months), receipt of grants and progress on the Capital Programme. The authority holds approximately £38M core cash balances for investment purposes (i.e. funds available for more than one year).

A full list of investments held as at 30 September 2022 and the authorised counterparties are shown in Appendices 2 and 3 respectively.

Arun District Council

Investment performance year to date at 30 September 2022

Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
O/N Sonia (average)	1.22%	0.84%	1.58%	£500,000

As illustrated, the Council outperformed the benchmark by 36bps. The Council's budgeted investment return for 2022/23 is £370,000 (0.84%), and performance for the year to date is £130,000 above budget for the whole year. The estimated outturn for 2022/2023 is £1,330,000 (2.20%), a considerable increase on budget.

Based on the Covid 19 situation, the budget for 22/23 was conservative, as at the time it was believed rates would stay low, however the below factors have meant a positive improvement on the budgeted returns:

- the bank of England base rate has had 4 increases from 0.75% to 2.25%. Therefore, investments are achieving much greater rates of return than expected. (Now increased to 3%)

- higher than anticipated balances available to invest (approx. £44m budgeted, but currently £63m average balances year to date).

Fund investments

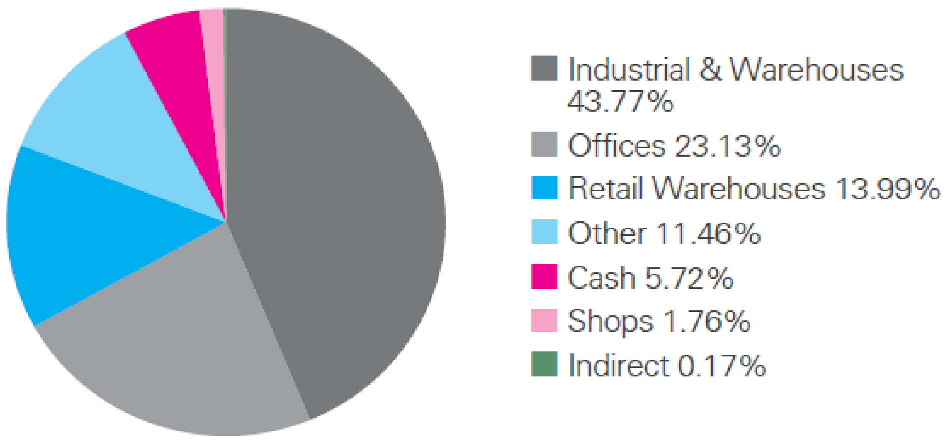
Other than cash investments the Council currently invests in the below funds;

- Money Market Funds (MMFs)
- Multi-Asset Income Funds (MAIFs) – *Diversified Fund Valued at £1.9m at 30 September 2022 (£2m invested)*
- Property Funds (asset allocation below)- *Valued at £6m at 30 June 2022 (awaiting September valuation)*

Currently £5M is invested in the CCLA (Churches, Charities and Local Authorities) property fund achieving a rate of return of approx. 3.77% year to date, and £2m is invested in the CCLA diversified fund with a rate of return of approx. 3.09% These continue to enhance the returns.

Arun District Council

Asset allocation at 30 September 22



Within the CCLA property fund portfolio (above), it is expected to maintain the existing bias towards Industrial Assets. The fund is underweighted to the retail area overall but is positively disposed towards the retail warehouse sector and may increase the exposure if the right asset is found.

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

5. BORROWING

No new borrowing was undertaken during the first half of the year. All prior borrowing was for the sole purpose of funding the HRA self-financing settlement payment and all loans are fixed maturity loans. The 4 remaining loans are shown in Appendix 4.

The Council's capital financing requirement (CFR) at 31 March 2022 was £48.09m. 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 external borrowings of £35.46m (PWLB) which relates to the HRA Self-Financing settlement (originally £70.9m) and has utilised £13.94 of cash flow funds instead of borrowing externally (as at 31 March 2022). 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.

Prior to this borrowing being undertaken Arun had a negative CFR of £2.6m which had arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. Arun's gross external debt does not exceed its CFR and is not expected to except in the short term.

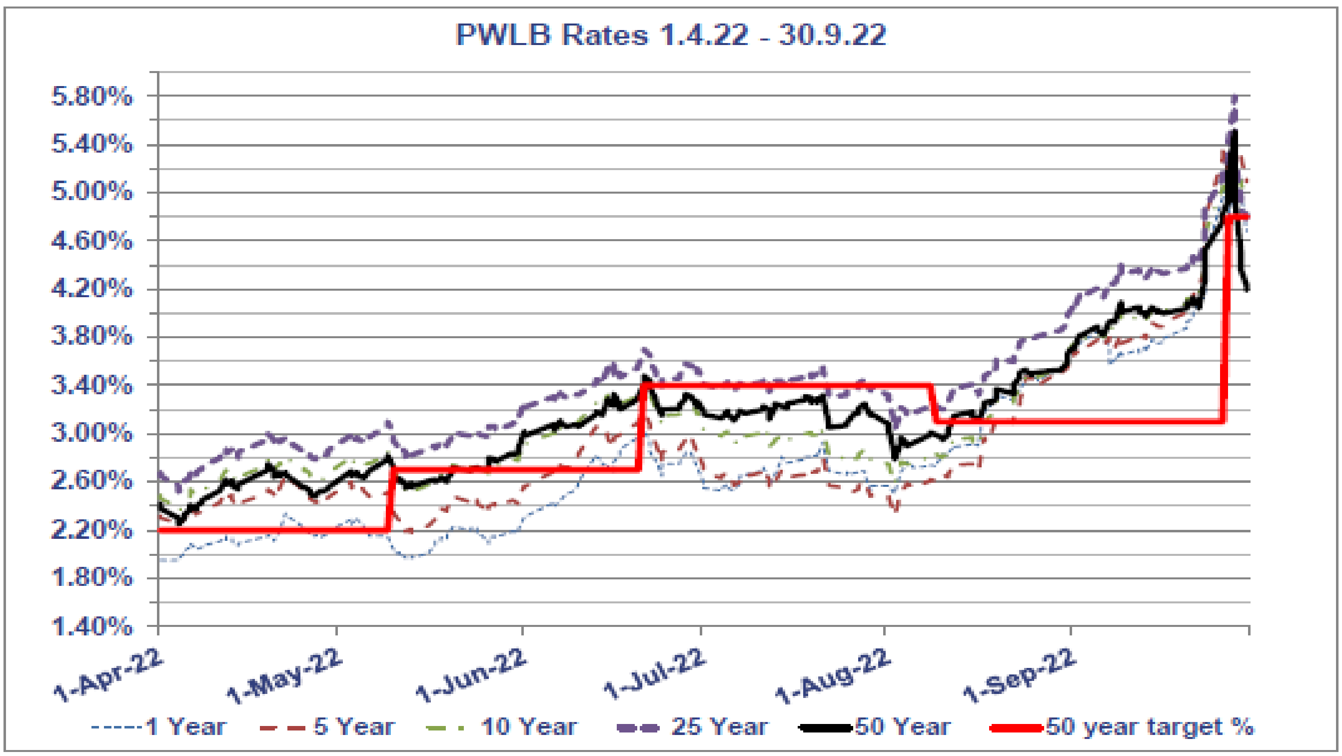
The borrowing activity is constrained by prudential indicators for net borrowing, the CFR, and by the authorised limit.

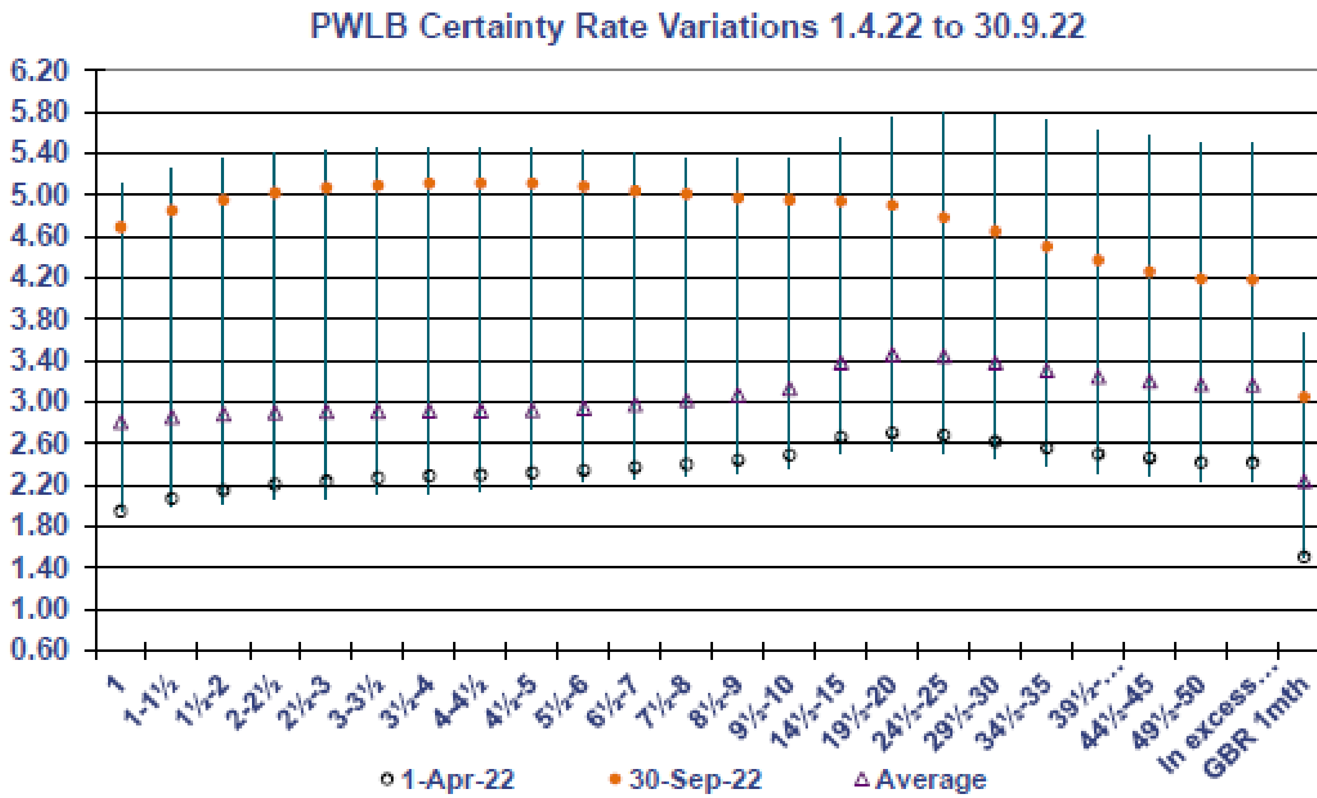
It is anticipated that no further external borrowing will be undertaken during this financial year.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2022
Gilt yields and PWLB rates were on a rising trend between 1st April and 30th September.

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.)

PWLB RATES 01.04.22 - 30.09.22





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%

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)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps

Arun District Council

6. COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The authorised limit of £58m was not breached in the first half of the year (2022/23).

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. The operational boundary of £53m was not breached in the first half of the year (2022/23).

During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	31 March 2022 Actual £000	2022/23 Original Budget £000	2022/23 Current Budget £000	**30 Sept 2022 Position £000**
Capital Expenditure • Non – HRA • HRA • **TOTAL**	 4,341 6,940 **11,280**	 3,939 8,351 **12,290**	 *31,054 **19,277 **50,330**	 3,321 2,712 **6,033**
Total Debt	35,460	35,460	35,460	**35,460**
Capital Financing Requirement at 31st March: • Non-HRA • HRA • **Total**	 (4,442) 52,531 **48,089**	 (3,655) 54,475 **50,820**	 (3,757) 56,515 **52,758**	 **(3,757)** **53,926** **50,169**
Over / (under) borrowing	(12,629)	(15,360)	**(17,298)**	**(14,709)**

* *£19m due to Levelling Up Fund for Alexander Theatre and Littlehampton Seafront, £3m public realm.*

** *£11m due to Council House New Build-stock development.*

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The HRA capital financing requirement will reduce by the amount set aside for debt repayment. This reduction will be offset by any increase due to new borrowing (or use of cash flow funds) in respect of the new build programme.

During the financial year to date the Council has operated within the Treasury and Prudential Indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 1.

Arun District Council

Appendix 1

Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2021/22	2022/23	2022/23
Extract from budget and rent setting report	**Actual**	**Original**	**Position as at 30th Sept**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non – HRA	4,341	3,939	3,321
HRA	6,940	8,351	2,712
TOTAL	**11,280**	**12,290**	**6,033**
Ratio of financing costs to net revenue stream			
Non - HRA	-2.06%	-1.88%	-1.97
HRA	31.35%	*15.58%	15.92
Capital Financing Requirement			
Non – HRA	-4,442	-3,655	-3,757
HRA	52,531	54,475	53,926
TOTAL	**48,089**	**50,820**	**50,169**
Annual change in Cap. Financing Requirement			
Non – HRA	-219	787	684
HRA	-442	5,128	**1,395
TOTAL	**-661**	**5,915**	**2,079**

* Reduced VRP for HRA debt
** Reduced as sheltered accommodation pushed back to 2023-24

2. TREASURY MANAGEMENT INDICATORS	2021/22	2022/23	2022/23
	Actual	**Original**	**Actual at 30th September 22**
	£'000	**£'000**	**£'000**
Authorised Limit for external debt			
Borrowing	54,000	53,000	53,000
Other long term liabilities	1,000	5,000	5,000
TOTAL	**55,000**	**58,000**	**58,000**
Operational Boundary for external debt			
Borrowing	49,000	48,000	48,000
other long term liabilities	1,000	5,000	5,000
TOTAL	**50,000**	**53,000**	**53,000**
Actual external debt	35,460	35,460	35,460
Upper limit for total principal sums invested for over 364 days	**18,000**	**24,000**	**24,000**

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 30/09/22	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

Appendix 2

INVESTMENTS at 30 September 2022

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	807	Yorkshire Building Society	20/10/2021	20/10/2022	£4,000,000.00	0.56
Fixed Term Deposit	811	Goldman Sachs	22/11/2021	22/11/2022	£2,000,000.00	0.825
Fixed Term Deposit	835	Qatar National Bank	06/06/2022	06/12/2022	£1,000,000.00	1.820
Fixed Term Deposit	819	Goldman Sachs International	14/01/2022	14/12/2022	£1,000,000.00	0.9850
Fixed Term Deposit	817	Standard Chartered Bank - Sustainable Deposits	06/01/2022	05/01/2023	£1,000,000.00	0.8200
Fixed Term Deposit	818	Goldman Sachs International	07/01/2022	05/01/2023	£1,000,000.00	0.9300
Fixed Term Deposit	839	First Abu Dhabi Bank	07/07/2022	05/01/2023	£1,000,000.00	2.140
Fixed Term Deposit	838	Qatar National Bank	06/07/2022	06/01/2023	£1,000,000.00	2.325
Fixed Term Deposit	843	Nationwide Building Society	28/07/2022	06/02/2023	£1,000,000.00	2.000
Fixed Term Deposit	844	National Westminster Bank	28/07/2022	06/02/2023	£1,000,000.00	2.200
Fixed Term Deposit	845	Qatar National Bank	11/08/2011	13/02/2023	£1,000,000.00	2.715
Fixed Term Deposit	834	Goldman Sachs International	23/05/2022	23/02/2023	£6,000,000.00	1.9800
Fixed Term Deposit	849	Santander UK Plc	25/08/2022	24/02/2023	£1,000,000.00	2.790
Fixed Term Deposit	832	Standard Chartered Bank - Sustainable Deposits	15/05/2022	06/03/2023	£2,000,000.00	1.7900
Fixed Term Deposit	821	Close Brothers Limited	21/03/2022	21/03/2023	£4,000,000.00	1.5000
Fixed Term Deposit	825	Standard Chartered Bank - Sustainable Deposits	31/03/2022	31/03/2023	£1,000,000.00	1.9400
Fixed Term Deposit	853	Qatar National Bank	28/09/2022	05/04/2023	£4,000,000.00	4.685
Fixed Term Deposit	828	Standard Chartered Bank - Sustainable Deposits	06/04/2022	06/04/2023	£2,000,000.00	1.94
Fixed Term Deposit	829	Standard Chartered Bank - Sustainable Deposits	14/04/2022	14/04/2023	£1,000,000.00	1.88
Fixed Term Deposit	830	Standard Chartered Bank - Sustainable Deposits	21/04/2022	21/04/2023	£1,000,000.00	1.9500
Fixed Term Deposit	846	National Westminster Bank	11/08/2022	11/05/2023	£1,000,000.00	2.500
Fixed Term Deposit	836	National Westminster Bank	22/06/2022	22/06/2023	£1,000,000.00	2.550
Fixed Term Deposit	842	First Abu Dhabi Bank	21/07/2022	21/07/2023	£1,000,000.00	3.010
Fixed Term Deposit	840	Close Brothers Limited	10/08/2022	10/08/2023	£1,000,000.00	2.800
Fixed Term Deposit	848	Santander UK Plc	25/08/2022	25/08/2023	£2,000,000.00	3.470
Fixed Term Deposit	850	Standard Chartered Bank - Sustainable Deposits	26/09/2022	26/09/2023	£1,000,000.00	4.420
Fixed Term Deposit	851	Standard Chartered Bank - Sustainable Deposits	28/09/2022	28/09/2023	£2,000,000.00	5.250
Fixed Term Deposit	852	Goldman Sachs International	28/09/2022	28/09/2023	£1,000,000.00	5.450
Fixed Term Deposit	854	Santander UK Plc	28/09/2022	28/09/2023	£2,000,000.00	5.250
Money Market Fund	110000	Federated			£4,000,000.00	*2.0814
Money Market Fund	99999	Fidelity			£4,000,000.00	*2.0806
Money Market Fund	120000	Aberdeen Standard			£1,420,000.00	*2.135
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£10,000.00	*1.9551
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*3.7062
Diversified Fund	140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*2.5471
					£65,430,000.00	

* rates at 30-9-22

Appendix 3

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

Bank of Nova Scotia (CAN)
DBS Bank Ltd (SING)
National Australia Bank
Oversea-Chinese Banking Corp Ltd (SING)
JP Morgan Chase
United Overseas Bank Ltd (SING)
First Abu Dhabi Bank (U.A.E)

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Bank of Scotland PLC (RFB) (Lloyds Banking Group)
Goldman Sachs International Bank (UK)
HSBC Bank plc (UK)
Standard Charted Bank (UK)
National Westminster Bank PLC (RFB) (UK)
Royal Bank of Scotland PLC (RFB) (UK)
Santander (UK)

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Nationwide Building Society (UK)
Close Brothers (UK)
Qatar National Bank (Qatar)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Leeds Building Society (UK)
Principality Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Bank Plc (RFB) (Cat 2)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years
banks effectively nationalised by UK government

		Long Term	Short Term
Min Criteria	**Fitch**	**BBB-**	**F3**
	Moody	**Baa3**	**P-3**
	S&P	**BBB-**	**A-3**

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

- Money Market Funds (MMF's), (CNAV, LVNAV, VNAV) & Enhanced MMF's
- Government Liquidity Funds

Limit of £4million for each institution

	Fitch	NAV
Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV
Northern Trust	AAA	

Category 8 - Alternative Investments (Asset Backed Bonds) - 25 Years
Maximum investment £4 million

Category 9 - Debt Management Office
Debt management Account - NO LIMIT (UK Govt)

Category 10 - Bonds issued by multilateral development banks - 5 Years
Maximum investment £4 million AAA

Category 11 – Property Funds - 25 Years
Maximum investment £6 million

CCLA

Category 12 - Multi-Asset Funds - 15 Years
Maximum investment £6 million

CCLA - Diversified Income Fund

Appendix 4

Arun District Council - Loans at 30 September 2022

Reference	Lender	Start Date	Maturity Date	Principal	Rate
499493	Public Works Loan Board	28/03/2012	28/03/2030	8,870,000	3.21%
499494	Public Works Loan Board	28/03/2012	28/03/2035	8,870,000	3.40%
499491	Public Works Loan Board	28/03/2012	28/03/2050	8,860,000	3.53%
499490	Public Works Loan Board	28/03/2012	28/03/2062	8,860,000	3.48%
				35,460,000	