

REPORT TITLE: TREASURY MANAGEMENT MID YEAR MONITORING REPORT  
2022/23

10 NOVEMBER 2022

REPORT OF CABINET MEMBER: CLLR POWER – CABINET MEMBER FOR  
FINANCE AND VALUE

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WARD(S): ALL WARDS

PURPOSE

This report provides detail of the performance of the treasury management function. This includes the effects of the decisions taken in the past six months, and confirmation that there were no instances of non-compliance with the Council's Treasury Management Policy Statement and Treasury Management Practices, for 2022/23 to date.

RECOMMENDATIONS:

1. That the Treasury Management Mid-Year Monitoring Report 2022/23 be noted.

## IMPLICATIONS:

### 1 COUNCIL PLAN OUTCOME

- 1.1 Treasury management is an integral part of helping to deliver the Council Strategy and all of its outcomes. Of key importance is ensuring the security and sufficient liquidity of the council's cash and investment balances whilst, where possible, optimising the yield from those investments. The income from investments is available to be used by the council in achieving its objectives.

### 2 FINANCIAL IMPLICATIONS

- 2.1 Effective treasury management ensures both the financial security and liquidity of the council.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The Council's Treasury Management Strategy Statement follows the latest codes of practice and the DLUHC and CIPFA guidance.
- 3.2 With effect from September 2014 Hampshire County Council (HCC) and Winchester City Council (WCC) established arrangements for the joint discharge of functions under Section (101)(1) and (5) of the Local Government Act 1972 and Section 9EA and 9EB Local Government Act 2000. Under this arrangement, HCC's Investments and Borrowing Team provide a Treasury Service which includes the management of WCC's cash balances and investment of surplus cash or sourcing of short-term borrowing in accordance with the agreed Treasury Management Strategy Statement.

### 4 WORKFORCE IMPLICATIONS

- 4.1 HCC's Investments and Borrowing Team carry out the day-to-day management of the council's cash balances and investments. The council's in-house finance team undertake the accounting and retain responsibility for long-term borrowing decisions.

### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

### 6 CONSULTATION AND COMMUNICATION

- 6.1 This report has been produced in consultation with HCC's Investments & Borrowing team.

### 7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 Following the council's declaration of a Climate Emergency in June 2019 and in line with the ethical stances in its investment policy, the council has no direct or indirect equity investments in companies directly involved in the fossil fuel industry.

## 8 EQUALITY IMPACT ASSESSEMENT

8.1 There are no actions which arise directly from this report.

## 9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required

## 10 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<i>Returns from investments are too low</i>	A diversified strategy that attempts to manage the balance between liquidity risk, credit risk and yield within the council's risk appetite.	Returns above budgeted levels.
<i>A counterparty fails</i>	A diversified strategy that has relatively low levels of counterparty risk.	
<i>Cash is not available</i>	A balanced portfolio of liquid and long-term funds are held to ensure cash is available to utilise. The council also mitigates this risk through cashflow forecasting.	More accurate and immediate cashflow forecasting can help improve the return on investments through more active treasury management activity.

## 11 SUPPORTING INFORMATION:

### 12 Introduction

12.1 The council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021. The CIPFA Code requires the council to approve a treasury management strategy before the start of the year, a mid-year report, and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function at the mid-year point.

### 13 Summary

13.1 The report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2022/23.

13.2 The council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2022. The council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the council's treasury management strategy.

- 13.3 Treasury management in the context of this report is defined as: “the management of the organisation’s 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.”
- 13.4 This report sets out the performance of the treasury management function from the beginning of April to the end of September 2022, to include the effects of the decisions taken and the transactions executed in the past year.
- 13.5 Hampshire County Council’s Investments & Borrowing Team has been contracted to manage the council’s treasury management balances since September 2014 but overall responsibility for treasury management remains with Winchester City Council. No treasury management activity is without risk and as such the effective identification and management of risk are integral to the council’s treasury management objectives.
- 13.6 All treasury activity has complied with the council’s Treasury Management Strategy and Investment Strategy for 2022/23, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the council’s treasury advisers, Arlingclose.
- 13.7 The Prudential Code includes a requirement for local authorities to produce a Capital Strategy, a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the council’s Capital and Investment Strategy, complying with CIPFA’s requirement, was approved by Full Council in February 2022.

#### 14 External Context

- 14.1 The following sections outline the key economic themes in the UK against which investment and borrowing decisions have been made so far in 2022/23.

##### Economic commentary

- 14.2 The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak.
- 14.3 The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers’ cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China’s zero-Covid policy.
- 14.4 UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem,

increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide support to limit bills to £2,500.

- 14.5 The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.
- 14.6 Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

#### Financial markets

- 14.7 Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.
- 14.8 Due to pressure on private sector pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

#### Credit review

- 14.9 Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.
- 14.10 Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

15 Local Context

- 15.1 At 31 March 2022 the council's underlying need to borrow for capital purposes was £258.8m as measured by the Capital Financing Requirement (CFR). The Council held £47.6m of investments (principal invested plus gains on investments with a variable net asset value) and £166.7m of external borrowing. These factors are summarised in Table 1.

<b>Table 1: Balance sheet summary</b>	<b>31/03/22 Balance £m</b>
General Fund CFR	(72.8)
Housing Revenue Account CFR	(186.0)
<b>Borrowing CFR</b>	<b>(258.8)</b>
External borrowing	(166.7)
Internal borrowing	(92.1)
<b>Total funding of the CFR</b>	<b>(258.8)</b>
<b>Total investments</b>	<b>47.6</b>

- 15.2 The council's strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as at 30 September 2022 and the movement since 31 March 2022 are shown in Table 2.

<b>Table 2: Treasury management summary</b>	<b>31/03/22 Balance £m</b>	<b>Movement £m</b>	<b>30/09/22 Balance £m</b>	<b>30/09/22 Rate %</b>
Long-term borrowing	(161.7)	0.0	(161.7)	3.2
Short-term borrowing	(5.0)	0.0	(5.0)	2.6
<b>Total borrowing</b>	<b>(166.7)</b>	<b>0.0</b>	<b>(166.7)</b>	<b>3.2</b>
Long-term investments	5.0	0.0	5.0	3.7
Short-term investments	21.1	8.4	29.5	1.8
Cash and cash equivalents	21.5	(3.1)	18.4	2.0
<b>Total investments</b>	<b>47.6</b>	<b>5.3</b>	<b>52.9</b>	<b>2.1</b>
<b>Net borrowing</b>	<b>(119.1)</b>	<b>5.3</b>	<b>(113.8)</b>	

Note: the figures in Table 2 at 31 March 2022 are from the balance sheet in the council's statement of accounts

15.3 The reduction in net borrowing of £5.3m shown in Table 2 reflects an increase in total investments of £5.3m and there has been no change to the borrowing position. Further details are provided in the Borrowing Activity and Treasury Investments Activity sections of this report.

## 16 Borrowing Update

16.1 The council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code. The council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB.

16.2 Further, the council has invested in a pooled property fund as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the council's aim of protecting reserves from high inflation.

16.3 The council is a net borrower and as stated in the Treasury Management Strategy 2022/23, the council expects a positive liability benchmark across the forecast period, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. Although the council currently has taken external borrowing, this is not predicted to be sufficient to meet the CFR and, depending on the internal borrowing position, further borrowing will be considered by the Section 151 Officer if required.

16.4 The Section 151 Officer will review the current pooled fund investment prior to making any external borrowing decisions.

## 17 Borrowing Activity

17.1 At 30 September 2022 the council held £166.7m of loans, the vast majority of which (£156.7m) relates to the financing settlement of the HRA in 2012. The mid-year treasury management borrowing position at 30 September 2022 and the movement since 31 March 2022 are summarised in Table 3. During 2022/23 to date there have been no maturing PWLB debt, and the council has not taken out any additional borrowing.

<b>Table 3: Borrowing position</b>	<b>31/03/22 Balance</b>	<b>Net movement</b>	<b>30/09/22 Balance</b>	<b>30/09/22 Weighted average rate</b>	<b>30/09/22 Weighted average maturity (years)</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	
Public Works Loan Board	(166.7)	0.0	(166.7)	3.2	20.0
<b>Total borrowing</b>	<b>(166.7)</b>	<b>0.0</b>	<b>(166.7)</b>	<b>3.2</b>	<b>20.0</b>

Note: The figures in Table 3 at 31 March 2022 are from the balance sheet in the Council's statement of accounts but adjusted to exclude accrued interest.

- 17.2 The council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the council's long-term plans change being a secondary objective.
- 17.3 In keeping with these objectives no new borrowing has been undertaken within the first half of the financial year.
- 17.4 This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the council to keep long-term borrowing costs low and mitigates against future interest rate increases.
- 18 Treasury Investment Activity
- 18.1 The council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period from 1 April to 30 September 2022, the council's investment balances have ranged between £37.0m and £65.9m due to timing differences between income and expenditure.
- 18.2 Table 4 shows investment activity for the council as at 30 September 2022 in comparison to the reported activity as at 31 March 2022. The increase in total investments since 31 March 2022 reflects the fact that the balance at 31 March is typically the lowest of the year.



<b>Table 4: Treasury investment position</b>	<b>31/03/22 Balance</b>	<b>Net movement</b>	<b>30/09/22 Balance</b>	<b>30/09/22 Income return</b>	<b>30/09/22 Weighted average maturity (years)</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	
<b>Short term investments:</b>					
Banks and building societies:					
- Unsecured	7.97	1.43	9.40	2.16	0.16
- Secured	4.04	(2.04)	2.00	0.47	0.28
Government:					
- Local authorities	3.00	(3.00)	0.00	0.00	0.00
- UK Treasury Bills	3.00	5.00	8.00	1.82	0.25
- DMADF	4.50	2.00	6.50	2.37	0.33
- UK Gilts	1.00	1.50	2.50	1.25	0.34
Money market funds	18.09	(2.04)	16.05	2.08	0.00
Supranational banks	0.0	2.50	2.50	1.25	0.21
Cash plus funds	1.00	0.00	1.00	0.79	0.00
	<b>42.60</b>	<b>5.35</b>	<b>47.95</b>	<b>1.91</b>	<b>0.16</b>
<b>Long term investments:</b>					
Banks and building societies:					
- Secured	0.00	0.00	0.00	0.0	0.00
	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.0</b>	<b>0.00</b>
<b>High yield investments</b>					
Pooled property fund*	5.00	0.00	5.00	3.68	N/A
	<b>5.00</b>	<b>0.00</b>	<b>5.00</b>	<b>3.68</b>	<b>N/A</b>
<b>Total investments</b>	<b>47.60</b>	<b>5.35</b>	<b>52.95</b>	<b>2.08</b>	<b>0.16</b>

\* The rate provided for the pooled property fund investment is reflective of annualised income returns over the year to 30 September 2022 based on the market value of investments 12 months earlier.

Note: the figures in Table 4 at 31 March 2022 are from the balance sheet in the council's statement of accounts but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 18.3 The council made a payment of £2.6m on 1 April 2022 to prepay its employer's LGPS pension contributions for one year only. By making this payment in advance the council was able to generate an estimated saving of 2.1% (£56,000) over the year on its pension contributions.
- 18.4 Investment balances have increased since 31 March 2022 in line with previous years due to 31 March typically holding the lowest balances, and the mid-year position reflects the higher balances typically seen at this time of year, due to the difference in timing between income and expenditure. A large proportion of investment balances continue to be held as short-term investments to enable the funding of the capital programme, as well as to meet the council's business as usual working capital requirements.

- 18.5 The CIPFA Code and government guidance both require the council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income. The council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.
- 18.6 The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The council invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.
- 18.7 In delivering investment returns, the Council has operated against a backdrop in which the UK Bank Rate have risen from 0.75% in April 2022 to 2.25% in September 2022. This has led to improved returns for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management Account Deposit Facility (DMADF). However, investment income has still largely come from investments arranged through the Council's investments in pooled funds.
- 18.8 The council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing the latest data as at 30 June 2022 and at 31 March 2022 for comparison.

<b>Table 5: Investment benchmarking (excluding pooled funds)</b>	<b>Credit rating</b>	<b>Bail-in exposure</b>	<b>Weighted average maturity (days)</b>	<b>Rate of return</b>
		<b>%</b>		<b>%</b>
31.03.2022	AA-	63	35	0.39
30.06.2022	AA-	79	39	1.11
Similar LAs	AA-	64	45	0.89
All LAs	AA-	64	16	0.92

- 18.9 Table 5 shows the average credit rating of the portfolio has remained consistent over the first half of the financial year. Bail-in exposure rose reflecting a greater balance in unsecured investments which, although exposed to bail in risk, are considered good investments due to their

diversification and AAA credit rating. The council keeps a large proportion of its cash balance either short term or liquid to meet capital payments during the year which has led to a favourable average maturity measure.

- 18.10 The council compared favourably with the other local authorities included in the benchmarking exercise at 30 June 2022 across most metrics.

Externally managed pooled property fund

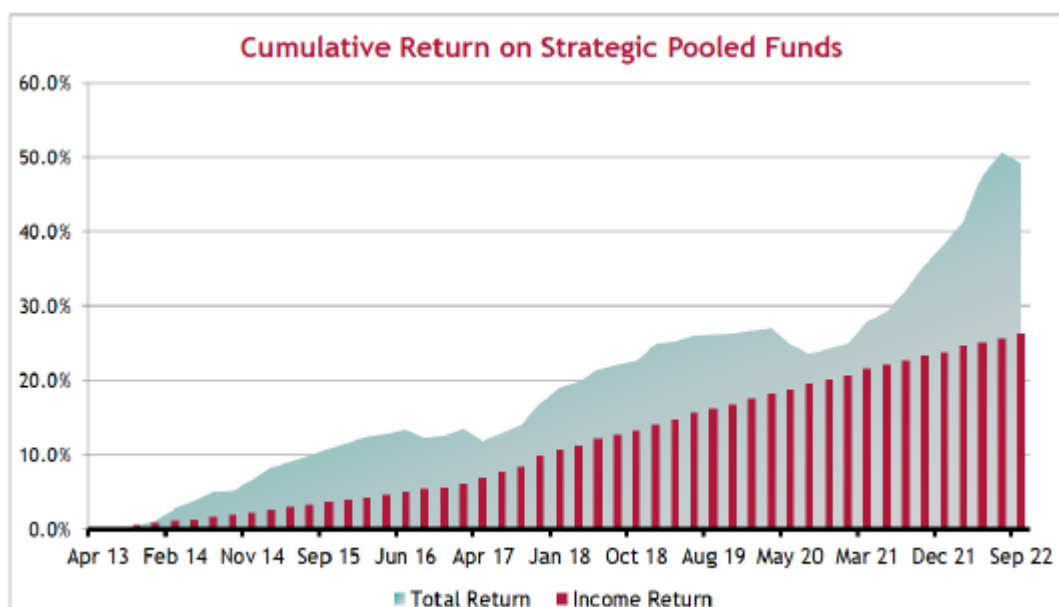
- 18.11 In order to minimise the risk of receiving unsuitably low investment income, the council has continued to invest a proportion of steady core balances in an externally managed pooled property fund as part of its higher yielding strategy.
- 18.12 The CIPFA Code requires the council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the council's investments.
- 18.13 The council's investment in the pooled property fund fell considerably in value when the coronavirus pandemic hit world markets but has since recovered. This recovery means this capital market value continues to remain significantly above the amount invested, as shown in Table 6. This demonstrates the importance of taking a longer-term approach and being able to ride out periods of market volatility, ensuring the council is not a forced seller at the bottom of the market.

Table 6 – Higher yielding investments – market value performance	Amount invested*	Market value at 30/09/22	Gain/(fall) in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Pooled property fund	5.00	6.46	1.46	0.73
<b>Total</b>	<b>5.00</b>	<b>6.46</b>	<b>1.46</b>	<b>0.73</b>

- 18.14 The council's investment in the pooled property fund targets long-term price stability and regular revenue income and brings significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 26.40% pa (per annum) since purchase, contributing to a total return of 49.17% over its life.

<b>Table 7 – Higher yielding investments – income and total returns since purchase</b>	<b>Annualised income return</b>	<b>Total return</b>
	%	%
Pooled property fund	26.40	49.17
<b>Total pooled funds</b>	<b>26.40</b>	<b>49.17</b>

- 18.15 The council's pooled property fund investment continues to deliver income returns far in excess of what could be generated from cash investments. The cumulative total return from the council's investment in pooled property, as well as the previously owned investments in pooled equity funds since purchase is shown in the following graph. This highlights that the council has benefited from strong and steady income returns over time.



- 18.16 The IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five-year statutory override was put in place for local authorities that exempts them from complying with this requirement.
- 18.17 Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the council's investment objectives is monitored regularly and discussed with Arlingclose.
- 19 Other Non-Treasury Holdings and Activity
- 19.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the council as well as other non-financial

assets which the council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

- 19.2 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 19.3 This could include loans made to local businesses or the direct purchase of land or property and such loans and investments will be subject to the council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.
- 19.4 Further information on the council's non-Treasury investments is included in CAB3352 General Fund Outturn 2021/22 presented to Cabinet on 19 July 2022.

## 20 Compliance Report

- 20.1 The council confirms compliance of all treasury management activities undertaken during the period covered by this report with the CIPFA Code of Practice and the council's Treasury Management Strategy.
- 20.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 8.

<b>Table 8: Debt limits</b>	<b>2022/23 Maximum £m</b>	<b>30/09/22 Actual £m</b>	<b>2022/23 Operational Boundary £m</b>	<b>2022/23 Authorised Limit £m</b>	<b>Complied?</b>
Borrowing	166.7	166.7	337.0	353.9	✓
Other long-term liabilities	0.0	0.0	0.0	0.0	✓
<b>Total debt</b>	<b>166.7</b>	<b>166.7</b>	<b>337.0</b>	<b>353.9</b>	✓

- 20.3 The total actual debt as measured by the debt limits was £166.7m on 30 September 2022 which is the council's £166.7m PWLB debt.
- 20.4 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

21 Treasury Management Indicators

- 21.1 The council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

- 21.2 The following indicator shows the sensitivity of the council's current investments and borrowing to a change in interest rates:

<b>Table 9 – Interest rate risk indicator</b>	<b>30/09/22 Actual</b>	<b>Impact of +/-1% interest rate change</b>
Sums subject to variable interest rates:		
Investments	£48.0m	+/- £0.5m
Borrowing	£0.0m	+/- £0.0m

- 21.3 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

- 21.4 This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the TMSS:

<b>Table 10: Refinancing rate risk indicator</b>	<b>30/09/22 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	12%	25%	0%	✓
5 years and within 10 years	21%	30%	0%	✓
10 years and within 20 years	21%	50%	0%	✓
20 years and within 30 years	12%	50%	0%	✓
30 years and within 40 years	22%	75%	0%	✓
40 years and within 50 years	6%	100%	0%	✓

Principal sums invested for periods longer than a year

- 21.5 The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

<b>Table 11: Price risk indicator</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Actual principal invested beyond year end	£5m	£5m	£5m
Limit on principal invested beyond year end	£20m	£18m	£15m
Complied	✓	✓	✓

21.6 The table includes investments in strategic pooled funds of £5m as although these can usually be redeemed at short notice, the council intends to hold these investments for at least the medium term.

## 22 Other

### CIPFA consultation – IFRS 16

22.1 The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. However, following a consultation, CIPFA/LASAAC announced an optional two-year delay to the implementation of this standard - a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The council intends to adopt the new standard on 1st April 2024.

### Arlingclose's outlook for the remainder of 2022/23

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
<b>Official Bank Rate</b>													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Arlingclose Central Case</b>	<b>2.25</b>	<b>4.25</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>4.75</b>	<b>4.25</b>	<b>3.75</b>	<b>3.25</b>
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

22.2 Arlingclose expects Bank Rates to rise further during 2022/23 to reach 5% by the end of the year.

22.3 The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages. The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year. This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

22.4 Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

- 22.5 Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the “Mini-Budget”, poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.
- 22.6 The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.
- 22.7 UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.
- 22.8 The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

#### BACKGROUND DOCUMENTS:-

##### Previous Committee Reports:-

Treasury Management Practices, 22 June 2015

Treasury Management Mid-Year Monitoring Report 2021/22

Treasury Management Strategy 2022/23

Treasury Management Outturn 2021/22

##### Other Background Documents:-

None

#### APPENDICES:

None