FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

CABINET

23 February 2023

Report of the Interim Director of Finance & ICT

Treasury Management Mid-Year Report 2022-23
(Corporate Services and Budget)

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Cabinet with details of Treasury Management activities during the first half of 2022-23 (to 30 September 2022) and to indicate the Council's compliance with the prudential indicators set by Council at its meeting of 2 February 2022, in accordance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes 2021 edition (the CIPFA Code).

4. Information and Analysis

(i) Introduction

4.1 The Council's Treasury Management Strategy for 2022-23 was approved at a Council meeting on 2 February 2022, as part of the Capital Programme Approvals, Treasury Management and Capital Strategy Report. The Council has borrowed and invested substantial 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 remains central to the Council's Treasury Management Strategy.

4.2 Treasury risk management at the Council is conducted within the framework of the CIPFA Code, which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4.3 CIPFA published its revised Treasury Management Code of Practice (the TM Code) and Prudential Code for Capital Finance in December 2021. The key changes in the revised codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the revised codes took immediate effect, although local authorities could defer introducing the revised reporting requirements within the revised codes until the 2023-24 financial year. The Council has elected to take this option.

4.4 Treasury risk management at the Council is conducted within the framework of the TM Code. This TM Code now also includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

(ii) External Context

Economic background

4.5 The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. UK political instability towards the end of the period increased uncertainty further.

4.6 The economic backdrop during April to September 2022 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.

4.7 UK inflation remained extremely high during the period. Annual headline CPI reached 10.1% in July 2022, the highest rate for 40 years, fell to 9.9% in August 2022 and increased back to 10.1% in September 2022. After the end of the period, CPI increased further, to 11.1% in October 2022. The UK energy regulator, Ofgem, increased the energy price cap by 54% in April 2022, while a further increase in the cap from October 2022, which would have resulted in households with average energy consumption paying over £3,500 per annum, was dampened following Government intervention, to provide around £150bn of support which will limit bills to an average of £2,500 annually. This limit was initially to be in place until 2024 but was later revised to April 2023. In November 2022, the Autumn Statement announced a limit of £3,000 for one year from April 2023.

4.8 The Bank of England (BoE) increased its Bank Rate from 0.75% to 2.25% over the period. The BoE's Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% in May 2022, by 0.25% in June 2022, by 0.50% in August 2022 and by 0.50% in September 2022. After the end of the period, in November 2022, the MPC further increased the Bank Rate, by 0.75%, to 3.00%. The MPC noted that domestic inflationary pressures are expected to remain strong with the implication that further Bank Rate rises should be expected to address high inflation.

4.9 US inflation increased to 9.1% in June 2022 and then eased to 8.2% in September 2022, before falling further after the period end, to 7.7% in October 2022. The US Federal Reserve continued its response to high inflation over the period, with a 0.5% increase in May 2022, followed by three increases of 0.75% in each of June 2022, July 2022 and September 2022, taking the Federal Funds Rate to between 3.00% and 3.25% at the period end. There was a further increase of 0.75% in November 2022.

4.10 Eurozone CPI inflation reached 9.9% in September 2022, with energy prices the main contributor but also strong upward pressure from food prices. There was a further increase, to 10.6% in October 2022. In July 2022 the European Central Bank increased interest rates for the first time since 2011, changing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September 2022 by further increases of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%. After the period end, in November 2022, these rates increased by a further 0.75%, to 1.5% and 2.0%, respectively.

4.11 Quarterly Gross Domestic Product (GDP) grew by 0.2% in the quarter to June 2022 but fell back by 0.2% in the quarter to September 2022.

4.12 The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate fell to 3.6% in September 2022. This is back to pre-pandemic levels. Pay growth in September 2022 was 6.0% for regular pay. Once adjusted for inflation, however, the reduction in regular pay was -2.7%.

Financial markets

4.13 Financial market sentiment was affected by uncertainty in the period 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 2022, there was significantly increased volatility in financial markets, following the Government’s announcement of its fiscal plans in a ‘mini budget’ at that time, leading to an acceleration in the rate of the rise in gilt yields and a decline in the value of Sterling. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The important UK interest benchmark, the Sterling Overnight Index Average (SONIA) rate averaged 1.22% over the period.

4.14 Due to resulting pressure on pension funds, the BoE announced a direct intervention in the gilt market, to increase liquidity and reduce yields. The majority of the measures in the ‘mini budget’ have since been reversed. The Autumn Statement, in November 2022, has further reassured the market and gilt yields have returned to pre 'mini budget' levels.

Credit background

4.15 The Council's Treasury Management Advisor monitored credit default swap levels in the period, for signs of credit stress, but made no changes to their counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain, at least in the near-term, and the institutions and durations on the Council's recommended counterparty list will remain under constant review.

(iii) Local Context

4.16 On 31 March 2022, the Council had a net borrowing requirement of £13.845m, arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.22 Actual £m
General Fund CFR	571.297
Less: Other debt liabilities*	-59.974
Borrowing CFR	**511.323**
Less: Usable reserves	-412.237
Less: Working capital	-85.241
Net borrowing requirement	**13.845**
Borrowing CFR is comprised:	
External borrowing	413.399
Internal borrowing	97.924
	511.323

** finance leases, PFI liabilities and transferred debt that form part of the Council's total debt*

4.17 The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position at 30 September 2022 and the change during the year are shown in Table 2 below.

Table 2: Treasury Management Summary*

	31.03.22 Balance £m	2022-23 Movement £m	30.09.22 Balance £m	30.09.22 Rate %
Long-term borrowing	285.899	-2.745	283.154	4.29
Short-term borrowing	127.500	22.000	149.500	0.48
Total borrowing	**413.399**	**19.255**	**432.654**	**2.90**
Long-term strategic pooled funds	71.765	-5.012	66.753	3.95
Long-term investments**	15.000	0.000	15.000	0.88
Short-term investments	251.002	-1.500	249.502	0.76
Cash and cash equivalents	42.992	-33.104	9.888	1.93
Total investments	**380.759**	**-39.616**	**341.143**	**1.42**
Net borrowing	**32.640**	**58.871**	**91.511**	

**Nominal values unless stated*
***Excludes Non-Treasury Service Loans*

Borrowing Activity

4.18 At 30 September 2022, the Council held £432.654m of loans, an increase of £19.255m from 31 March 2022, as part of its strategy for funding previous and current years' capital programmes. The mid-year borrowing position at 30 September 2022 and the in-year change is summarised in Table 3 below.

Table 3: Borrowing Position

	31.03.22 Balance £m	2022-23 Movement £m	30.09.22 Balance £m	30.09.22 Interest Rate %	30.09.22 WAM* Years
Public Works Loan Board	257.899	-2.745	255.154	4.47	16
Banks (LOBO)	5.000	0.000	5.000	4.50	17
Banks (Fixed-term)	10.000	0.000	10.000	4.69	22
Local authorities	122.000	16.000	138.000	0.20	1
D2N2 LEP	18.500	6.000	24.500	2.25	0
Total borrowing	**413.399**	**19.255**	**432.654**	**3.07**	**15**

**WAM – Weighted Average Maturity*

4.19 As outlined in the Council's Treasury Management Strategy, 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 being a secondary objective, should the Council's long-term plans change. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.20 From April to September 2022, short term PWLB rates increased dramatically, particular in late September 2022 after the 'mini budget' prompted a fall in Sterling and a rise in market interest rate expectations. Interest rates increased by over 2% during the period, in both the long- and short-term. As an indication, the 5-year maturity certainty rate rose from 2.30% on 1 April 2022 to 5.09% on 30 September 2022 and over the same period, the 30-year maturity certainty rate rose from 2.63% to 4.68%. Although interest rates in general have risen, short-term borrowing from other local authorities remains at lower interest rates than long-term borrowing.

4.21 Despite the increase in interest rates, during the period to September 2022 the Council considered it to be more cost effective in the near-term to either use internal resources or to borrow rolling temporary/ short-term loans instead. At 30 September 2022, the Council held £432.654m of loans (an increase of £19.255m from 31 March 2022), as part of its strategy for funding previous and current years' capital programmes. Additional short-term borrowing has been used in the six months to 30 September 2022, to finance a lump sum payment to the Derbyshire Pension Fund for the Council's employer contributions, in full, on 29 April 2022, for the period 1 April 2022 to 31 March 2023. A similar prepayment in 2021-22 resulted in the Council making a saving of £0.825m. The Council also holds additional funding received by the D2N2 Local Enterprise Partnership (LEP), for which the Council is the accountable body. Outstanding loans as at 30 September 2022, and the movement in loans over the six month period to that date, are summarised in Table 3 above.

4.22 The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained during the period.

4.23 The Council continues to hold a £5.000m LOBO (Lender's Option Borrower's Option) loan, where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Although no banks exercised their option during the period, the rising interest rates have increased the probability of these options being called.

Borrowing Update

4.24 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council.

4.25 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

Other Debt Activity

4.26 Private Finance Initiative (PFI) contracts, finance leases and transferred debt liabilities, total debt other than borrowing, stood at £59.974m on 30 September 2022, taking total debt to £492.628m.

Treasury Investment Activity

4.27 CIPFA's revised TM Code defines treasury management investments as those which arise from the Council's cash flows, or treasury risk management activity, that ultimately represent balances which need to be invested until the cash is required for use in the course of business.

4.28 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2022-23, the Council's investment balance ranged between £354.707m and £435.570m because of timing differences between income and expenditure. The period end investment position and the in-year change are shown in Table 4 below.

Table 4: Treasury Investment Position

	31.03.22 Balance £m	2022-23 Movement £m	30.09.22 Balance £m	30.09.22 Income Return %	30.09.22 Weighted Average Maturity Days
Banks and building societies (unsecured)	107.994	-58.104	49.890	1.68	113
Government (including local authorities)	186.000	33.500	219.500	0.61	175
Registered Providers	15.000	-10.000	5.000	1.05	508
Pooled Funds – Strategic Bond Funds	4.854	-0.613	4.241	4.02	N/A
Pooled Funds – Equity Income Funds	15.143	-2.129	13.014	5.70	N/A
Pooled Funds – Property Funds	27.129	0.636	27.765	3.40	N/A
Pooled Funds – Multi Asset Income Funds	24.639	-2.906	21.733	3.42	N/A
Total investments	**380.759**	**-39.616**	**341.143**	**1.41**	**170**

**Weighted average maturity will apply to the first three categories above.*
Strategic Pooled Funds have no maturity date but are realised when all units are sold.

4.29 The Pooled Fund investments are expected to be held over the medium-term (five years) to mitigate any fluctuations in the market, however all funds can be realised within one week, except for the Property Fund (90 days). They have no fixed maturity date.

4.30 Both the CIPFA TM Code and Government guidance 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 to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.31 As a result of the increases in BoE Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, which had ranged from 0.7% to 1.5% at the end of March 2022, rose by around 1.5% for overnight/7-day maturities, and by nearly 3.5% for maturities of 9 to 12 months over the period. By the end of September 2022, the rates on Debt Management Account Deposit Facility (DMADF) deposits ranged between 1.85% and 3.5%.

4.32 Given the risk of short-term unsecured bank investments, the Council previously diversified into more secure and/or higher yielding asset classes as shown in Table 4 above. The Council identified £70m (nominal value), as available for longer-term investment and moved this sum into a diversified mix of pooled property/bond/equity/multi-asset funds on an incremental basis.

4.33 The progression of credit risk and return metrics for the Council's investments managed in-house are shown in the extracts from the Council's external investment advisor's (Arlingclose) benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
Derbyshire – 30.09.2022	5.13	A+	16%	170	0.76
Similar Local Authorities	4.00	AA-	30%	2045	1.46
All Local Authorities	4.29	AA-	55%	18	1.47

4.34 At 30 September 2022, the Council's portfolio of externally managed pooled strategic bond, equity, property and multi-asset funds amounted to £66.753m (£70m nominal value). The Council holds these funds with the aim of receiving regular revenue income and because over the long-term their prices are relatively stable.

4.35 The April to September 2022 period was a very difficult environment for bonds, engendered by global central banks' determination to bring high and persistent inflation under control through increases in policy rates and strong rhetoric. The sell-off in gilts, other sovereign bonds and corporate bonds, with a corresponding rise in gilt/bond yields (i.e. a fall in price), was reflected in lower capital values of the Council's bond and multi-asset income funds at the period end. The increase in policy rates in the UK, US and Eurozone and the prospect of low to no growth, and a recessionary period ahead, was also a challenging period for equities, with the FTSE All Share index falling from 4187 on 31 March 2022 to 3763 on 30 September 2022, whilst the MSCI World Index fell from 3053 to 2378 over the same period. The fall in equity valuations is reflected in lower capital values of the Council's equity and multi-asset income funds at the period end.

4.36 Significant financial market volatility and uncertainty remain at the period end, due to stagflation fears (persistent high inflation combined with stagnant demand in the economy), little sight of the war in Ukraine ending soon and ongoing supply chain issues, a lingering problem over the past 30 months, yet to be fully resolved.

4.37 The change in capital values and income return earned over the 6-month period, in respect of the Council's pooled funds, is shown in Table 4.

4.38 The Council has budgeted £2.800m of income from these pooled funds in 2022-23. Including income declared since the end of the period ended 30 September 2022, pooled fund income of £3.246m is forecast for 2022-23, so is within budget.

4.39 It should be noted that the Council has received £15.064m of income from the pooled funds from the point of investment to date. The unrealised capital loss on the pooled funds was £4.639m at November 2022, leading to a forecast combined income and capital loss for 2022-23 of an overall loss of £1.393m at that date. In light of their performance over the medium-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

4.40 These pooled funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

The Council is using an accounting method to record the fair value movements of these funds in a specific, unusable reserve, rather than in its General Fund. This means that if there are any long-term unrealised losses in the funds' fair values there will not be an impact on the Council's General Reserve balance until 2023-24 at the earliest. However, with the initial permission (known as a statutory override) from the Department of Levelling-Up, Housing and Communities (DLUHC) to allow this method of accounting due to expire in March 2023, after five years, DLUHC has sought feedback as to whether this permission should become permanent, be temporarily extended or end. CIPFA has recommended a two-year extension. The outcome of this DLUHC consultation has yet to be announced.

Other Non-Treasury Holdings and Activity

4.41 The definition of investments in CIPFA's revised 2021 Code 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).

4.42 Investment Guidance issued by DLUHC also includes, within the definition of investments, all such assets held partially or wholly for financial return.

4.43 At 30 September 2022, the Council held £13.254m of such investments. £12.754m of the balance is in respect of a regeneration loan to a local business/landlord, Buxton Crescent Ltd. This represents an increase in the period of £0.207m, which is capitalised interest. On 29 July 2021 it was agreed that repayments on the loan were deferred until 1 October 2023.

4.44 The other loan of £0.500m is to Chesterfield Football Club Community Trust. The loan was agreed to continue their sports and community programmes with schools and community groups in the greater Chesterfield area. Interest to date was repaid on 5 August 2022.

4.45 These investments generated £0.215m of investment income for the Council during the period to 30 September 2022, representing a rate of return of 3.27%.

Treasury Performance

4.46 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in Table 6 below.

Table 6: Performance

	30.09.22 Actual £m	30.09.22 (CFR) Budget £m	Over/ (Under) £m	Interest Actual %	Interest Other LA (Counties) Benchmark %
Interest paid on capital and temporary borrowing	7.110	15.990	-8.880	3.07	No data held
Interest received on treasury investments	-1.033	-4.498	-3.465	0.76	1.47

4.47 The interest received on treasury investments is lower than the benchmark as a number of investments were committed prior to the invasion of Ukraine by Russia on 24 February 2022. Prior to this event, BoE Base Rate was only at 0.50% and expected to rise to a peak of 1.00% by June 2022, before remaining at this rate until at least December 2024. The global impact on energy prices, inflation and interest rates could not have been foreseen 12 months ago. Total investment income for 2022-23 is currently forecast to be £5.089m.

Compliance Report

4.48 The Assistant Director of Finance, as Deputy Section 151 Officer, reports that all treasury management activities undertaken during the first half of 2022-23 complied fully with the CIPFA Code of Practice and the Council’s approved Treasury Management Strategy.

4.49 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 7 below and compliance with specific investment limits is demonstrated in Table 8 below.

Table 7: Debt Limits

	2022-23 Maximum £m	30.09.22 Actual £m	2022-23 Operational Boundary £m	2022-23 Authorised Limit £m	Complied
Total debt	497.636	492.628	734.000	769.000	✓

Table 8: Investment Limits

	Half Year Maximum* £m	2022-23 Limit £m	30.09.22 Actual £m	Complied
Local authorities and other UK Government entities	234.500	Unlimited	219.500	✓
Banks (unsecured)	74.536	30.000 per Bank, Lloyds 60.000	44.888	✓
Negotiable instruments held in a broker's nominee account	5.002	100.000	5.002	✓
Strategic pooled funds	72.472	30.000 per Fund, 100.000 Total	66.753	✓
Registered providers (RP) (unsecured)	10.000	10.000 per RP, 50.000 Total	5.000	✓
Money Market Funds	30.000	30.000 per Fund, Unlimited Total	0.000	✓

**Maximum held at any one time.*

Treasury Management Indicators

4.50 The Council measures and manages its exposure to treasury management risks using the following indicators.

4.51 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. Compliance with this indicator is demonstrated in Table 9 below.

Table 9: Credit Risk Exposure

	30.09.22 Actual	**2022-23 Target**	**Complied**
Portfolio average credit rating	A+	A	✓

4.52 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of either cash available to meet unexpected payments within a rolling three-month period, without additional borrowing, or the amount it can borrow each period without giving prior notice. Compliance with this indicator is demonstrated in Table 10 below.

Table 10: Liquidity Risk Exposure

	30.09.22 Actual £m	**2022-23 Target £m**	**Complied**
Total cash available within 1 month	10.068	10.000	✓
Total sum borrowed in past 3 months without prior notice	2.000	30.000	✓ (N/A)

4.53 The Council had borrowed sufficient funds in the first quarter, so there was no additional borrowing requirement in the second quarter (£2m additional D2N2 deposit).

4.54 **Interest Rate Exposures**: This indicator is set to control the Council’s exposure to interest rate risk (Short-term investments – Short-term borrowing x 1%). Compliance with this indicator is demonstrated in Table 11 below.

Table 11: Interest Rate Exposure

	30.09.22 Actual £m	2021-23 Limit £m	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates.	1.095	1.435	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	1.095	-1.435	✓

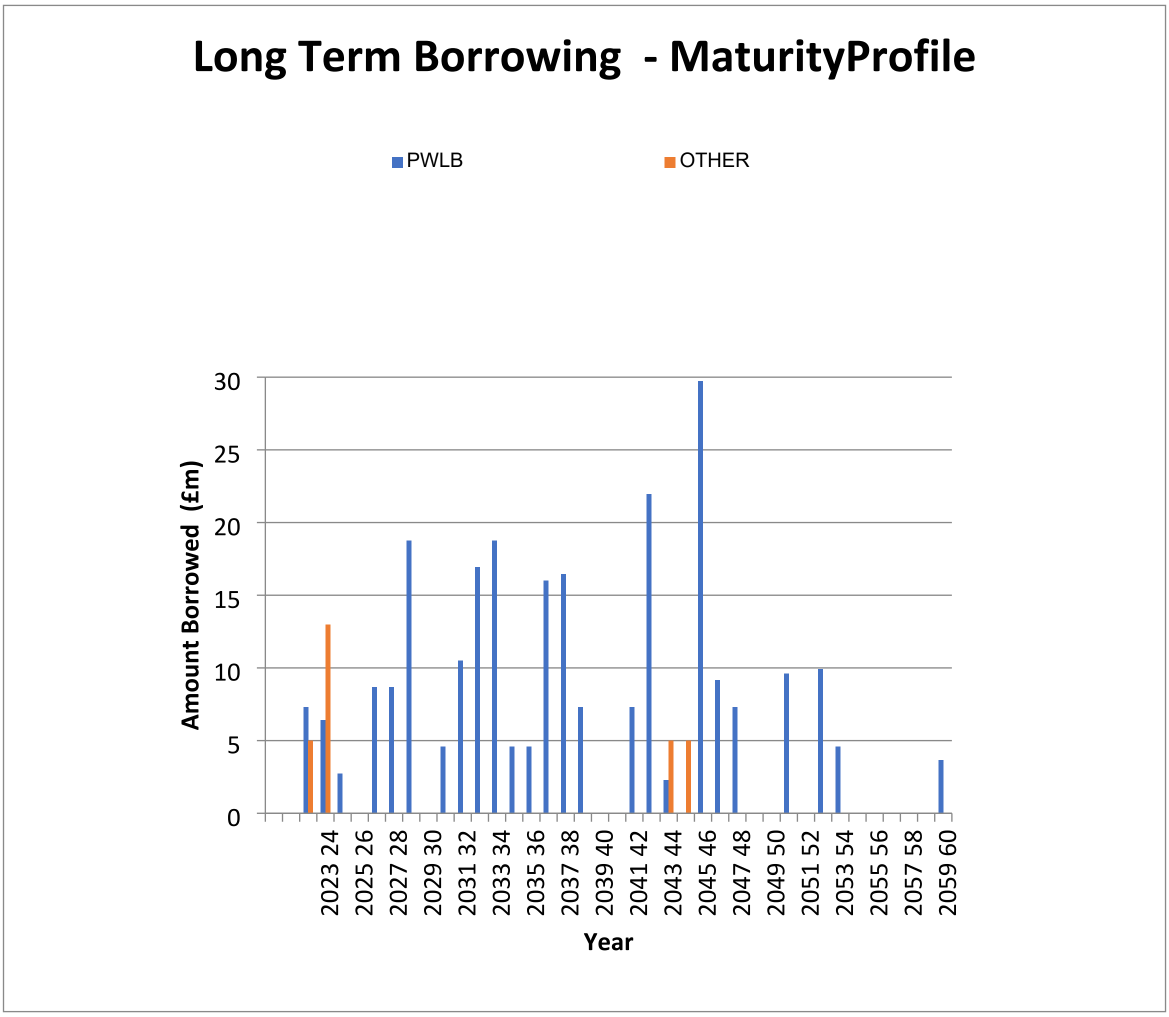
4.55 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The BoE Bank Rate increased by 1.50%, from 0.75% to 2.25%, during the first six months of 2022-23.

4.56 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Compliance with this indicator is shown in Table 12 below. The upper and lower limits on the maturity structure of all borrowing were:

Table 12: Refinancing Risk Exposure

	30.09.22 Actual %	Upper Limit %	Lower Limit %	Complied
Under 12 months	38	60	0	✓
12 - 24 months	4	20	0	✓
24 months - 5 years	2	20	0	✓
5 - 10 years	10	20	0	✓
10 - 20 years	24	40	10	✓
20 - 30 years	18	40	10	✓
Over 30 years	4	40	0	✓

4.57 The Council's long-term repayment profile at 30 September 2022 is shown below. A good spread of maturities is desirable. The average redemption is £7.652m per year over the next 37 years. The maximum redemption is £29.738m in 2045-46. The average duration of all the Council's loans is approximately 15.01 years. Any new borrowing would be targeted for maturity in years with nil/low repayments.



4.58 **Principal Sums Invested for Periods Longer than a year:** 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:

Table 13: Investment Early Repayment Risk Exposure

Loans Maturing =>	Beyond 30.09.23 £m	Beyond 30.09.24 £m	Beyond 30.09.25 £m
Actual principal invested beyond one year (including strategic pooled funds and non - treasury investments)	81.753	66.753	66.753
Limit on principal invested beyond one year	150.000	125.000	100.000
Complied?	✓	✓	✓

Other

4.59 **Economic Outlook for the remainder of 2022-23:** the Council's external Treasury Management Advisors expect that the BoE Bank Rate will rise further during 2022-23, to reach 5.0% by the end of the year. The BoE's 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 the Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation.

4.60 The Council's Treasury Management Advisors now expect the BoE Bank Rate to peak at 5.0%, with 200bps of increases this calendar year. They expect that this action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024. It is also expected that 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.

<u>Economic Outlook for the remainder of 2022/23 (based on 26 September 2022 interest rate forecast)</u>

	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
Official Bank Rate													
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
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
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

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 Not Applicable - This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

7. Implications

7.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

8 Background Papers

8.1 The Council's Treasury Management Strategy for 2022-23 was approved at the Council meeting on 2 February 2022 as part of the Capital Programme Approvals, Treasury Management and Capital Strategy Report.

9 Appendices

9.1 Appendix 1- Implications.

10 Recommendation

10.1 That Cabinet notes the Treasury Management Mid-Year Report 2022-23 and notes the Council's compliance with the prudential indicators set by Council at its meeting of 2 February 2022 for 2022-23, in accordance with the Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes 2021.

11 Reasons for Recommendation

11.1 The report on treasury management activities at mid-year 2022-23 highlights the borrowing strategy and investments position of the Council during the first half of the current financial year.

11.2 The report on treasury management activities mid-year 2022-23 also highlights the Council's performance and compliance with targets agreed as part of the Treasury Management Strategy 2022-23.

12. Is it necessary to waive the call-in period?

12.1 No

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Appendix 1

Implications

Financial

1.1 The requirements of the Council's Treasury Management Strategy for 2022-23, the CIPFA Code and the CIPFA Treasury Management Code are set out in paragraphs 4.1 to 4.4.

1.2 External context, as it relates to treasury management activities, is set out in paragraphs 4.5 to 4.15, covering economic, financial markets and credit background.

1.3 Local context, as it relates the Council's treasury management activities, is covered in the majority of the remainder of the report, from paragraph 4.16 on.

1.4 On 31 March 2022, the Council had a net borrowing requirement of £13.845m, arising from its revenue and capital income and expenditure, as set out at paragraph 4.16/Table 1. The Council's strategy was to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management summary for the period at paragraph 4.17/Table 2 shows that net borrowing has increased from £32.640m to £91.511m in the period, with total borrowing increasing by £19.255m and total investments decreasing by £39.616m.

1.5 The Council's Borrowing and Other Debt Activity is set out in paragraphs 4.18 to 4.26 and Table 3. Despite the increase in interest rates during the period, the Council considered it to be more cost effective in the near-term to either use internal resources or to borrow rolling temporary/ short-term loans instead. At 30 September 2022, the Council held £432.654m of loans (an increase of £19.255m from 31 March 2022), as part of its strategy for funding previous and current years' capital programmes. Additional short-term borrowing has been used in the six months to 30 September 2022, to finance a lump sum payment to the Derbyshire Pension Fund for the Council's employer contributions, in full, on 29 April 2022, for the period 1 April 2022 to 31 March 2023.

1.6 The Council’s Treasury Investment Activity is set out in paragraphs 4.27 to 4.40 and Tables 4-5. The Council’s total investments decreased by £39.616m over the period, to £341.143m, with a total income return of 1.41%. The Council holds significant invested funds, representing income received in advance of expenditure, plus balances and reserves held. During the first half of 2022-23, the Council’s investment balance ranged between £354.707m and £435.570m because of timing differences between income and expenditure. The period end investment position and the in-year change are shown in Table 4.

1.7 Given the risk of short-term unsecured bank investments, the Council previously diversified into more secure and/or higher yielding asset classes shown in Table 4, with the aim of receiving regular revenue income and because over the long-term their prices are relatively stable. Pooled fund considerations are set out in paragraphs 4.32 to 4.40. At 30 September 2022, the Council’s portfolio of externally managed pooled strategic bond, equity, property and multi-asset funds amounted to £66.753m (£70m nominal value). The Council holds these funds with the aim of receiving regular revenue income and because over the long-term their prices are relatively stable.

1.8 The Council’s non-treasury holdings of £13.254m at 30 September 2022 and associated activity are set out in paragraphs 4.41 to 4.45, with the majority relating to a regeneration loan to a local business/landlord, Buxton Crescent Limited.

1.9 Financial performance of the Council’s treasury management activities is set out at paragraphs 4.46 and 4.47 and Table 6. The Council has paid £8.880m less interest on its capital and temporary borrowing in the period than was budgeted in the Council’s Capital Financing Requirement, at a rate of 3.07%, but has also received £3.645m less interest than budgeted on its investments over the same period, at a rate of 0.76% compared to the other counties local authority benchmark return of 1.47%. The reason for this is explained at 4.47.

1.10 The Council’s treasury management activities during the first half of 2022-23 have fully complied with the CIPFA Code of Practice and the Council’s approved Treasury Management Strategy, as set out in 4.48 to 4.58 and Tables 6 to 13, covering debts limits, investment limits and exposure to credit risk, liquidity risk, interest rates risk, refinancing risk and investments early repayment risk.

1.11 The Council’s External Treasury Management Advisers expect that the Bank of England’s Base Rate will peak at 5.0% by 31 March 2023, as set out in paragraphs 4.59 to 4.60.

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations. The Council has borrowed and invested substantial 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 remains central to the Council's Treasury Management Strategy.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None