Report To:	**AUDIT PANEL**
Date:	**22 November 2022**
Executive Member /Reporting Officer:	Councillor North – First Deputy (Finance, Resources and Transformation) Caroline Barlow – Assistant Director of Finance
Subject:	**TREASURY MANAGEMENT ACTIVITIES**
Report Summary:	This report provides a mid-year review of the Council's Treasury Management activities for 2022/23. Treasury Management is a critical activity to ensure Value for Money in the use of public funds. It is concerned with safely managing the working capital of an organisation, managing its cash flows, investments, money markets and banking. It ensures that public funds work for us, and are safely maximised, without undertaking high-risk investments. It is unrelated to the Revenue Budget of the Council. This report provides an overview of the Treasury Management activities of the organisation over the first 6 months of the year. At 30 September, the total investment balance was £131m and total long term borrowing was £141m. The current strategy is designed to ensure that borrowing costs are kept low over the longer term, rather than subject to volatility that a high risk strategy might deliver. Where investments are involved, the policy is to ensure the security of the asset rather than pursue the highest returns available. In summary, due to borrowing being taken up at a time of favourable interest rates, there has been a forecast saving on the Council's borrowing costs of £0.1m. The Council has been able to take advantage of rising interest rates in year and interest earned on day-to-day investments is forecast to be £1.8m against a budget of £0.3m, an over performance of £1.5m. This additional investment income can now be invested in Council activities.
Recommendations:	That Executive Cabinet be recommended to note the treasury activity and performance.
Links to Community Strategy:	The Treasury Management function of the Council underpins the ability to deliver the Council's priorities.
Policy Implications:	In line with Council Policies.
Financial Implications: **(Authorised by the Section 151 Officer)**	The achievement of savings on the cost of financing the Council's debt through repayment, conversion and rescheduling, together with interest earned by investing short term cash surpluses, is a crucial part of the Council's medium term financial strategy. This has to be carefully balanced against the level of risk incurred. The Council held £131.020m of investments as at 30 September 2022 and for the first 6 months of the year earned interest of £0.822m. The Council is projecting that, by the end of financial year, this will have increased to £1.8m, significantly greater than

budget.

The Council benchmarks its performance against the Sterling Overnight Interest Average (SONIA) and our performance has consistently been above this benchmark.

However, the rapidly rising interest rate environment, along with some older deals at previously attractive rates still being in the portfolio, has seen benchmark rise above average earnings. Our investment portfolio yield to date of 1.11% is below SONIA of 1.22%

It is expected that as these older deals mature and are replaced, returns will again exceed SONIA.

Legal Implications:

(Authorised by the Borough Solicitor)

There is a statutory duty for the Council deliver a balanced budget and sound treasury management is a key tool in managing this.

Demonstration of sound treasury management will in turn provide confidence to the Council that it is complying with its fiduciary duty to the public purse, and in turn allows the Council to better plan and fulfil its key priorities for the coming year.

Members should ensure that they take the opportunity when considering this report to ensure that they are content with all of the analysis set out in the main body of the report.

Risk Management:

Failure to properly manage and monitor the Council's loans and investments could lead to service failure and loss of public confidence.

Access to Information:

The background papers relating to this report can be inspected by contacting Heather Green, Finance Business Partner by:

phone: 0161 342 2929

e-mail: heather.green@tameside.gov.uk

1. BACKGROUND

1.1 This is the Mid-Year Review of Treasury Management for the financial year 2022/23, produced in accordance with CIPFA's Code of Practice on Treasury Management, the Council's Financial Regulations and the CIPFA Prudential Code.

1.2 The report includes the following:

- An overview of Treasury Management
- Treasury Management Strategy Statement and Annual Investment Strategy Update;
- Prudential indicators;
- The Council's investment portfolio as at September 2022;
- The Council's borrowing position as at September 2022;
- Minimum Revenue Provision;
- Debt rescheduling undertaken during 2022/23;
- Prudential Indicators. Limits v Actuals **Appendix 1;**
- Economic Update as at 30 September 2022, provided by our external LINK Advisor, **Appendix 2;**
- Glossary of Terms, **Appendix 3.**

2. OVERVIEW OF TREASURY MANAGEMENT

2.1 Treasury management is defined as: *"The management of the local authority'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 risk".*

2.2 The Council has cash-flows in and out of its bank accounts often worth millions of pounds in a day. There is often a delay between cash being received and it being needed in order to deliver services. Therefore, the Council often has a temporary surplus of funds. Rather than leaving these funds in the bank, the Treasury Management function of the Council invests them in order to maximise security and also generate interest income which can then be invested into services.

2.3 Conversely the Council can opt to borrow money in order to finance large scale capital projects. In these cases a judgement is made on whether borrowing is necessary or internal borrowing (i.e. temporarily using surplus cash balances) can be used in order to save interest costs and provide better value for money.

2.4 In this way the Council ensures that the money works for us, and public funds are maximised.

2.5 Some examples of where such cash surpluses can arise are set out below:

- When a capital grant is received but the costs of the scheme are not expected to occur for several months later;
- When the monthly direct debits for Council Tax payments are processed but associated revenue spend occurs later in the month;
- To invest balance sheet reserves, balances and provisions.

2.6 The Council has traditionally operated a relatively low risk Treasury Management strategy. This in effect means that controls and strategy are designed to ensure that borrowing costs are kept reasonably low over the longer term, rather than subject to volatility that a high risk strategy might deliver. Where investments are involved, the policy is to ensure the security of the asset rather than pursue the highest returns available. These objectives are in line with the Code of Practice.

3 TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY UPDATE

3.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by the Council on 22 February 2022 as part of the Budget Report.

3.2 There are no required policy changes to the TMSS; the details in this report update the position in the light of the current economic position and budgetary changes already approved.

3.3 As highlighted in Section 2.6, the Council operates a relatively low risk Treasury Management strategy and this has put us in a strong position to respond to the current volatility in the financial markets, as the global financial crisis has raised the overall possibility of default.

3.4 The Council continues to maintain strict credit criteria for investment counterparties to manage this risk. A system of counterparty selection was agreed by the Council in the Treasury Management Strategy, as part of the budget setting process. All counterparties used have been selected on the basis that they are highly rated and meet the criteria set out in the Council's Treasury Management Strategy.

4. PRUDENTIAL INDICATORS

4.1 CIPFA's Prudential Code aims to ensure that investment plans are affordable, prudent and sustainable, and that treasury management decisions reflect good professional practice and support affordability, prudence, and sustainability. The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and option appraisals.

4.2 To demonstrate that the objectives are being fulfilled, councils are required to set specific Prudential and Treasury Indicators. These indicators draw together the Council's balance sheet, its revenue budget proposals, capital expenditure plans and the Treasury Management Strategy.

4.3 The Prudential Indicators are reported on a quarterly basis as part of the Capital Monitoring process. The Prudential Indicators show the current position against the limits initially set as part of the 2022/23 Budget Report.

4.4 The Prudential Indicators are updated from the Capital Programme as at 30 September 2022, showing the Council's capital expenditure plans and how these plans are being financed. Any changes in the capital expenditure plans will impact on the prudential indicators and the underlying need to borrow.

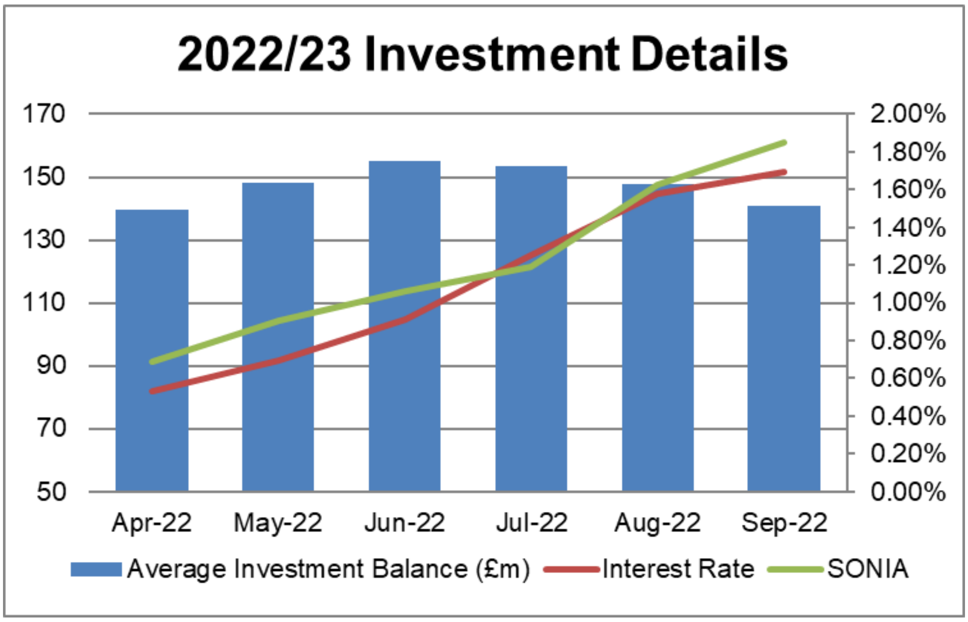
4.5 The current prudential indicator position is shown as **Appendix 1** of this report. All the indicators are within the set limits confirming that the Council's borrowing strategy remains a prudent, affordable and sustainable one.

5. INVESTMENT PORTFOLIO 2022/23

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Whilst maintaining a cautious approach, the Council has still managed to take advantage of the current rise in interest rates and consequently returns in year are greatly in excess of what was originally budgeted.

5.2 The Council held £131.020m of investments as at 30 September 2022, with an investment portfolio yield to date of 1.11% against Sterling Overnight Interest Average (SONIA) of 1.22%. At 31 March 2022 the portfolio consisted of £143.855m of investments. The reduction is largely in relation to the payment of balances of COVID related grants such as business rates relief and support to businesses.

5.3 The below graph illustrates the change in investment balances over time along with the change in interest earned and the SONIA benchmark:



5.4 Both the SONIA benchmark and the rates of interest earned by the Council have increased rapidly since April. SONIA is largely a forward looking indicator whereas the Council's portfolio includes some fixed investments, made when the prevailing rate of interest was much lower, which has seen the average rate of interest earned brought slightly below SONIA. As these investments mature and are replaced, the average interest earned will continue to rise. Since the start of the second half of the year, £10m of fixed investments have been made at rates in excess of 4%

5.5 The portfolio as at 30 September 2022 was as follows:

Investment Type	Total Invested	Weighted Average Duration	Average Interest Rate
	(£m)	(days)	(%)
Money Market Funds	23.320	n/a (overnight)	2.05
Banks (fixed term)	30.000	187	1.98
Banks (notice)	Nil	n/a	n/a
Local Authorities	78.700	335	1.67
Total	**131.020**		

5.6 The Assistant Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2022/23.

5.7 The below table shows the projected interest against budget for 2022/23:

Interest	Budget	Forecast	Forecast Variation
	(£000)	(£000)	(£000)

Investments	(295)	(1,754)	1,459
Manchester Airport Group	(3,263)	(3,416)	153
Total	**(3,558)**	**(5,170)**	**1,612**

5.8 As outlined in the Treasury Management Strategy, the Council uses the Link Group creditworthiness service to inform counterparty selection.

5.9 The Link Group creditworthiness service uses a wider array of information to provide a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

5.10 Typically the minimum credit ratings criteria the Council use will be:
- Short Term rating (Fitch or equivalents) of F1
- Long Term rating of A-

There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

5.11 All credit ratings are monitored regularly. The Council is alerted to changes to ratings through its use of the Link Group creditworthiness service:
- If there is a downgrade which results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use for new investment is withdrawn immediately.
- The Council is advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Group. If this results in extreme market movements this may result in downgrade of an institution or removal from the Council's lending list.

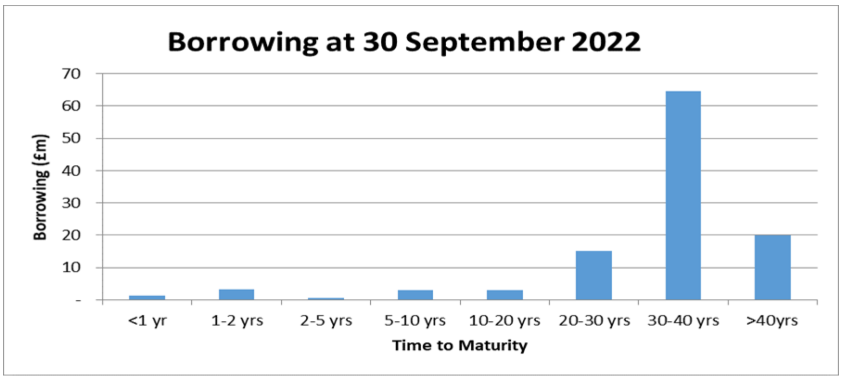
5.12 Sole reliance will not be placed on the use of this external service. In addition the Council also uses market data and market information, and information on any external support for banks to help support its decision making process.

6. THE COUNCIL'S BORROWING POSITION

6.1 The Council has not taken up any new borrowing in the first half of 2022/23.

6.2 The Council has previously utilised the Public Works Loan Board (PWLB) as a major source of funding, but will consider potential alternative sources of borrowing when the need arises.

6.3 As at 30 September 2022 the Council's total borrowing was £141m. The maturity profile is as follows:

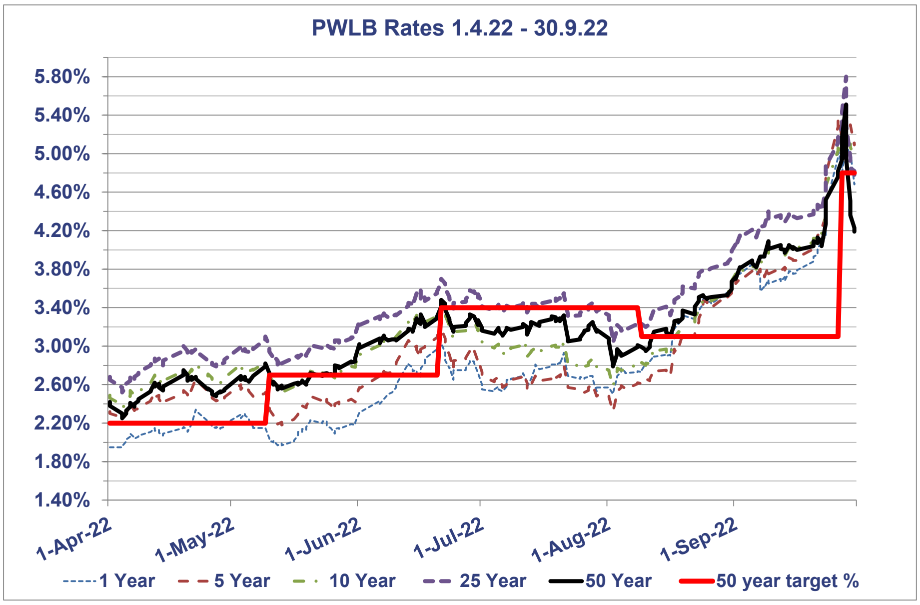


6.4 One of the Council's key prudential indicators is its Capital Financing Requirement (CFR). The CFR is a calculation that denotes the Council's underlying need to borrow for capital purposes. As at 30 September 2022, the CFR was £199.265.

6.5 As at 30 September the Council had an outstanding borrowing requirement of £58.662m. This is forecast to decrease slightly to £57.593m by the end of 2022/23. The remaining outstanding borrowing requirement is currently funded from internal balances which reduces the funds available for the Council to invest.

6.6 The balance of external and internal borrowing is generally driven by market conditions and at this time this approach continues to be prudent and cost effective in the current economic climate but is kept under regular review.

6.7 The table below shows the increase in Public Works Loan Board borrowing since 1 April 2022.



7. MINIMUM REVENUE PROVISION

7.1 The Council must make provision for the repayment of its debt. It does this through its Minimum Revenue Provision (MRP). This is the minimum amount that the Council must set aside annually.

7.2 The Local Authority (Capital Finance and Accounting) Regulations 2008 introduced a duty that an authority calculates an amount of MRP which it considered prudent. Although the 2008 Regulations do not define "prudent provision", they provide guidance to authorities on how they should interpret this.

7.3 In 2015/16 the Council updated its MRP policy. MRP is to be calculated as follows:

- 2% of the existing 2015/16 capital financing requirement over a period of 50 years.

- Any new prudential borrowing taken up to be provided for based upon the expected useful life of the asset or by an alternative approach deemed appropriate to the expenditure in question. This will continue to be reviewed on an ongoing basis.

- For any finance leases and any on-balance sheet public finance initiative (PFI) schemes, the MRP charge to be equal to the principal repayment during the year, calculated in accordance with proper practices.

- There will be no MRP charge for any cash backed Local Authority Mortgage Scheme (LAMS) that the Council operates. As for this type of scheme, any future debt liability would be met from the capital receipt arising from the deposit maturing after a 5 year period. Any repossession losses for this type of scheme would be charged to a LAMS reserve.

7.4 The MRP policy was updated in 2018/19 to clarify the Council's position on loans to third parties. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor. The only expenditure consequence of a loan is the interest shortfall on its cash balances whilst the loan is outstanding. Therefore MRP for loans is not necessary unless and until such time as there is an assumption that the loan will not be repaid.

8. DEBT RESCHEDULING

8.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2022/23.

9. RECOMMENDATIONS

9.1 As set out on the front of the report.

APPENDIX 1

Prudential Indicators

Actuals v limits as at 30 September 2022

	Limit	Actual	Amount within limit
	£000s	£000s	£000s
Operational Boundary for External Debt	206,642	140,603	(66,039)
Authorised Limit for External Debt	226,642	140,603	(86,039)

These limits include provision for borrowing in advance of the Council's requirement for future capital expenditure. This may be carried out if it is thought to be financially advantageous to the Council.

	Limit	Actual	Amount within limit
	£000s	£000s	£000s
Upper Limit for fixed	199,265	2,742	(196,523)
Upper Limit for variable	66,422	6,833	(59,589)

These limits are in respect of the Council's exposure to the effects of changes in interest rates.

The limits reflect the net amounts of fixed/variable rate debt (i.e. fixed/variable loans less fixed/variable investments).

	Limit	Actual	Amount within limit
	£000s	£000s	£000s
Capital Financing Requirement	199,265	199,265	-

The Capital Financing Requirement (CFR) is aimed to represent the underlying need to borrow for a capital purpose and is calculated from the aggregate of specified items on the balance sheet. The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment.

	Limit	Actual	Amount within limit
	£000s	£000s	£000s
Capital expenditure	87,414	6,873	(80,541)

This is the estimate of the total capital expenditure to be incurred.

Gross borrowing and the capital financing requirement	CFR @ 31/03/22 + increase years 1,2,3	Gross borrowing	Amount within limit
	£000s	£000s	£000s
	199,265	140,603	(58,662)

To ensure that medium term debt will only be for capital purposes, the Council will ensure that the gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement (CFR).

Maturity structure for borrowing 2021/22 Fixed rate		
Duration	**Limit**	**Actual**
Under 12 months	0% to 15%	0.87%
12 months and within 24 months	0% to 15%	2.28%
24 months and within 5 years	0% to 30%	0.39%
5 years and within 10 years	0% to 40%	2.14%
10 years and above	50% to 100%	94.32%

These limits set out the amount of fixed rate borrowing maturing in each period expressed as a percentage of total fixed rate borrowing. Future borrowing will normally be for periods in excess of 10 years, although if longer term interest rates become excessive, shorter term borrowing may be used.

APPENDIX 2

Economic Update

The Council's treasury management advisors, Link Group, provided the below economic update as at 30th September, in line with the period end date for this report.

However, please note that this only provides a snapshot as at the 30th September and since this update there have been further significant political changes in the UK with the resignation of Liz Truss and the appointment of Rishi Sunak as Prime Minister in October, along with the reversal of the vast majority of the "mini Budget".

This appears to have calmed markets and tempered interest rate expectations, although rises in base rate are still anticipated.

This economic update therefore covers the period up to 30th September 2022, but should not be seen as representing the current economic position by the date this report is to be published.

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 fall 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 pre-pandemic levels.

There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households *are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.*

The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

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.

Link Group's view on the anticipated future movement in interest rates is shown below.

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

APPENDIX 3

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate / Base Rate - The rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Capital Expenditure – The Council's spend on fixed assets, including investment in things such as buildings, infrastructure, and vehicles.

Capital Financing Requirement (CFR) - The CFR is aimed to represent the underlying need to borrow for a capital purposes and is calculated from the aggregate of specified items on the balance sheet. The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment.

Counterparty - one of the opposing parties involved in a borrowing or investment transaction.

Credit Rating - A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount - Where the prevailing interest rate is higher than the fixed rate of a longterm loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate - A fixed rate of interest throughout the duration of the loan or investment. The rate is fixed at the start and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

LIBID (London Interbank Bid Rate) - This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months. This has recently been replaced with SONIA.

LIBOR (London Interbank Offer Rate) - This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months. As with LIBID, this rate is no longer produced following the introduction of SONIA.

Liquidity - The ability of an asset to be converted into cash quickly and without any loss in value. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) - This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market -The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to prevailing interest rates.

Minimum Revenue Provision (MRP) – MRP is the minimum amount which the Council must charge to its revenue budget each year, to set aside a provision for repaying borrowing. This is an annual revenue expense in a Council's budget.

Monetary Policy Committee (MPC) - the independent body that determines Bank of England Base Rate.

Money Market Funds (MMFs) - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

Operational Boundary – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium - Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

Prudential Indicators – Indicators designed by CIPFA with the intention of demonstrating that the Council is operating in line with the Prudential Code. The Council sets its own limits and they are not intended to be an inter-authority comparative.

Public Works Loan Board (PWLB) - Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Sterling Overnight Index Average (SONIA) - An interest rate benchmark which is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

Treasury Bills - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.

Variable Rate - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt or investment portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.