



Civic Centre, Riverside, Stafford

Contact Jim Dean

Direct Dial 01785 619209

Email [jdean@staffordbc.gov.uk](mailto:jdean@staffordbc.gov.uk)

## **Please note start time**

Dear Members

### **Audit and Accounts Committee**

A meeting of the Audit and Accounts Committee will be held in the **Craddock Room, Civic Centre, Riverside, Stafford on Monday 20 February 2023 at 6.15pm** to deal with the business as set out on the agenda.

Please note that this meeting will be recorded.

Members are reminded that contact officers are shown in each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

A handwritten signature in black ink, appearing to read "I. Curran".

Head of Law and Administration

**AUDIT AND ACCOUNTS COMMITTEE -**

**20 FEBRUARY 2023**

**Chair - Councillor A M Loughran**

**AGENDA**

- 1 Minutes of 16 November 2022 as circulated and published on 21 November 2022
- 2 Apologies
- 3 Officers' Reports

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ITEM NO 3(b) **Annual Treasury Management Report 2021/22** 40 - 52

HEAD OF FINANCE

**Chair - Councillor A M Loughran**

M G Dodson  
I D Fordham  
R A James

P W Jones  
A M Loughran  
A Nixon

## Agenda Item 3(a)

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 20 February 2023

**Report of:** Section 151 Officer

**Telephone Number:** 01543 464334

**Ward Interest:** Nil

**Report Track:** Cabinet 09/02/23

Audit and Accounts 20/02/2023  
Council 21/02/2023

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The following matter was considered by Cabinet at its meeting held on 9 February 2023 and is submitted to the Audit and Accounts Committee as required.

## **Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy 2023/24**

### **1 Purpose of Report**

This report is presented to obtain the Council's approval to: -

- 1.1 Prudential and Treasury Indicators - setting of indicators to ensure that the capital investment plans of the Council are affordable, prudent and sustainable;
- 1.2 The Minimum Revenue Provision (MRP) Policy;
- 1.3 Treasury Management Strategy Statement for 2023/24 - to set treasury limits for 2023/24 to 2024/25 and to provide a background to the latest economic forecasts of interest rates
- 1.4 Annual Investment Strategy 2023/24- to set out the strategy of investment of surplus funds.

### **2 Recommendation**

- 2.1 That the following be recommended for approval by Council:-

(a) The Prudential and Treasury Indicators;

- (b) The MRP Policy Statement;
- (c) The Treasury Management Policy;
- (d) The Annual Investment Strategy for 2023/24;

2.2 To note that indicators may change in accordance with the final recommendations from Cabinet to Council in relation to both the General Fund Revenue Budget and the Capital Programme

### **3 Key Issues and Reasons for Recommendations**

3.1 The Council is required to approve its treasury management, investment and capital strategies to ensure that cash flow is adequately planned and that surplus monies are invested appropriately.

### **4 Relationship to Corporate Business Objectives**

4.1 Treasury management and investment activities are interwoven with all of the Council's priorities and their spending plans.

### **5 Report Detail**

#### **Background**

5.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Accordingly, a significant function of Treasury Management is ensuring that cash flows are adequately planned and controlled to meet this objective. Any surplus monies are invested with low risk counterparties and managed appropriately so that sufficient levels of liquid cash are available to meet any payment obligations as well as offer headroom for unexpected circumstances. Such considerations underpin the day-to-day operations of Treasury Management when determining investment-related outcomes rather than the sole factor of yield that aims to generate higher return on investments with little or no regards to financial risks.

5.2 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.3 The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from

cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

5.4 CIPFA defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, including 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.”

5.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

This Council has not engaged in any commercial investments and has no non-treasury investments.

### **Reporting Requirements**

5.6 The CIPFA 2021 Prudential and Treasury Management Codes require all Local Authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

5.7 The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

5.8 The capital strategy approved on the 6 December 2018 covers the period 2018/22 but has been extended to the end of March 2024.

### **Treasury Management Reporting**

5.9 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

5.10 **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:-

- the capital plans (including Prudential Indicators);

- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

5.11 **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending Prudential Indicators as necessary, and whether any policies require revision.

5.12 **An annual treasury report** - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

5.13 **Scrutiny** - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

5.14 The Council has adopted the following reporting arrangements in accordance with the requirements of the CIPFA Code of Practice:-

Area of Responsibility	Council/Committee	Frequency
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy	Full Council	Annually in January/February each year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy/Monitoring of Prudential Indicators	Full Council	Mid-year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy - updates or revisions at other times	Full Council	As required
Annual Treasury Outturn Report	Audit and Accounts Committee and Council	Annually by 30 September after the end of the year

Scrutiny of treasury management strategy	Audit and Accounts Committee	Annually in December before the start of the year
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### **Treasury Management Strategy for 2023/24**

5.15 The Strategy for 2023/24 covers two main areas:-

#### Capital issues

- the capital expenditure plans and the associated Prudential Indicators;
- the minimum revenue provision (MRP) policy.

#### **Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

5.16 These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

#### **Training**

5.17 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council

members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

- 5.18 Training has been undertaken by members of the Audit and Accounts Committee in January 2020 but there has been a gap in training due to Covid and Lockdown since. The training needs of members are currently being reviewed in light of the additional requirements of the code and further training is planned during 2023/24.

### **Treasury Management Consultants**

- 5.19 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.
- 5.20 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

### **The Capital Prudential Indicators 2023/24 - 2025/26**

- 5.21 The Council’s capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected



in Prudential Indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### Capital expenditure

5.22 This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, which include a review of current schemes together with the continuation of the applicable rolling programme schemes, but to note these may change as part of the scrutiny process and finalisation of the Budget.

5.23 Any change to the forecast and any new growth bids will be separately identified in future Budget Reports and reflected in this indicator as reported to full Council.

<b>Capital Expenditure (£m)</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Unallocated</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Community Portfolio</b>	887	1,180	3,735	1,522	1,522	2,075
<b>Environment Portfolio</b>	109	231	385	50	50	101
<b>Leisure and Culture Portfolio</b>	156	661	1,917	0	0	16
<b>Planning and Regeneration</b>	137	2,427	13,801	5,500	0	3,548
<b>Resources Portfolio</b>	29	153	50	50	50	750
<b>Total</b>	<b>1,318</b>	<b>4,652</b>	<b>19,888</b>	<b>7,122</b>	<b>1,622</b>	<b>6,490</b>

5.24 In addition to the above Capital Programme, the expenditure and borrowing of the Council may increase as a result of match funding requirements for bids in relation to the Future High streets fund/ Garden Village or Station Gateway projects. The projects and business cases will be subject to reports to Cabinet and Council as approved. Should borrowing need to be undertaken the council will look to utilise the PWLB discount rate if appropriate.

5.25 Other long-term liabilities. The financing need excludes other long-term liabilities, such as leasing arrangements which already include borrowing instruments.

5.26 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Capital expenditure</b>	<b>2021/22 Actual £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>	<b>2024/25 Estimate £'000</b>	<b>2025/26 Estimate £'000</b>	<b>Unallocated £'000</b>
Total Spend	1,318	4,652	19,888	7,122	1,622	6,490
Financed by:						
Capital Receipts	185	603	854	0	43	6
Capital grants/ contributions	943	2,806	18,592	3,522	1,578	2,119
Revenue	190	1,243	442	3,600	1	4,365
Net financing need for the year	0	0	0	0	0	0

5.27 The capital financing of the programme will similarly be reviewed as part of the Budget process and any change will be separately identified in future Budget Reports and reflected in this indicator.

### **The Council's borrowing need (the Capital Financing Requirement)**

5.28 The second Prudential Indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

5.29 The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

5.30 The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £2.301m of such Finance Leases within the CFR,

however going forward it is anticipated that this figure will rise during 2024/25 in respect of the Civic Centre leased land coming on balance sheet. Further work will be undertaken to ensure that this is reflected in the calculations when appropriate.

- 5.31 The Council is asked to approve the following CFR projections, subject to any changes arising from the budget process:-

### Capital Financing Requirement (CFR)

	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Total CFR	4,077	3,777	3,586	4,924	4,764
Movement in CFR		(300)	(191)	1,338	(160)

### Movement in CFR represented by

	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Net financing need for the year	0	0	0	0	0
Less MRP and other financing movements	(357)	(300)	(191)	1,338	(160)
Movement in CFR	(357)	(300)	(191)	1,338	(160)

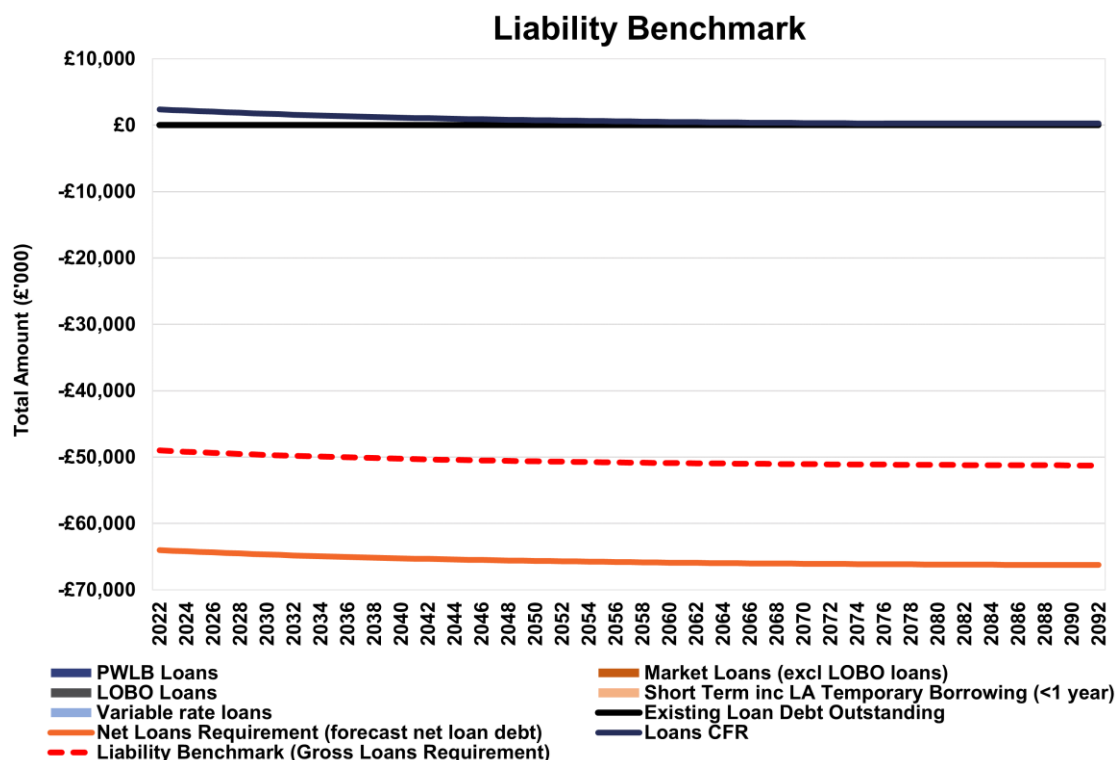
### Liability Benchmark

- 5.32 A third and new Prudential Indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.



As the Council’s Treasury position is debt-free across the entire forecast period, the Council’s Liability Benchmark is also negative across the same time horizon. The Graph therefore indicates that there is no present need to borrow given the Council’s current resources and capital intentions.

### Core funds and expected investment balances

5.33 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

<b>Year-End Resources</b>	<b>2021/22 Actual £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>	<b>2024/25 Estimate £'000</b>	<b>2025/26 Estimate £'000</b>
Earmarked Fund balances / reserves	31,749	30,326	28,658	22,919	27,187
Unallocated Reserves	395	830	830	830	830
Capital receipts	1,506	903	49	49	6
Capital grants	7,709	16,777	3,817	2,823	798
Provisions	3,435	3,435	-	-	-
Section 106 Capital	3,214	3,489	2,970	1,970	1,970
Section 106 Revenue	2,003	2,082	1,625	1,625	1,625
<b>Total core funds</b>	<b>50,011</b>	<b>57,842</b>	<b>37,949</b>	<b>30,216</b>	<b>32,416</b>
Working Cashflow requirement	(16,278)	5,000	5,000	5,000	5,000
Under/over borrowing	2,289	2,197	2,109	2,024	1,943
Expected investments	<b>64,000</b>	<b>50,645</b>	<b>30,840</b>	<b>23,192</b>	<b>25,473</b>

\*Working cashflow requirement shown are estimated year-end; these may be higher mid-year.

### **Minimum revenue provision (MRP) Policy Statement**

- 5.34 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (the Minimum Revenue Provision - MRP).
- 5.35 The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is

reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent. The MRP Policy Statement requires Full Council approval in advance of each financial year.

5.36 The Authority is recommended to approve the following MRP Statement:

Under powers delegated to the Section 151 Officer, the Council's Annual MRP provision for expenditure incurred after 1 April 2008 and before 31 March 2017 will be based on the uniform rate of 4% of the Capital Financing Requirement.

The Council's Annual MRP provision for expenditure incurred on or after 1 April 2017 will be based on the asset life method (i.e. the provision will be calculated with reference to the estimated life of the assets acquired), in accordance with the Regulations.

5.37 Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational.

5.38 The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

5.39 Repayments included in finance leases are applied as MRP.

5.40 The Council are satisfied that the policy for calculating MRP set out in this Policy Statement will result in the Council continuing to make prudent provision for the repayment of debt, over a period that is on average reasonably commensurate with that over which the expenditure provides benefit.

5.41 The Section 151 Officer will, where it is prudent to do so, use discretion to review the overall financing of the Capital Programme and the opportunities afforded by the regulations, to maximise the benefit to the Council whilst ensuring the Council meets its duty to charge a prudent provision.

5.42 For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

5.43 **MRP Overpayments** - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

The Council has previously not made any VRP overpayments.

### **Affordability Prudential Indicators**

5.44 The previous sections cover the overall capital and control of borrowing Prudential Indicators, but within this framework Prudential Indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:-

#### **Ratio of financing costs to net revenue stream**

5.45 This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream. The figures below show a negative ratio due to the investment income being received by the council on its treasury investments.

%	<b>2021/22</b> <b>Actual</b>	<b>2022/23</b> <b>Estimate</b>	<b>2023/24</b> <b>Estimate</b>	<b>2024/25</b> <b>Estimate</b>	<b>2025/26</b> <b>Estimate</b>
<b>Ratio of financing costs</b>	1.2%	-2.4%	-1.8%	-2.4%	-0.5%

### **Borrowing**

5.46 The capital expenditure plans above provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / Prudential Indicators, the current and projected debt positions, and the Annual Investment Strategy.

### **Current portfolio position**

5.47 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
External Debt{	£'000	£'000	£'000	£'000	£'000
PWLB debt at 1 April	0	0	0	0	0
Expected change in Debt	0	0	0	0	0
Other long-term liabilities (OLTL)	2,049	1,788	1,580	1,477	2,900
Expected in-year change in OLTL	(261)	(208)	(103)	1,423	(79)
Actual gross debt at 31 March	1,788	1,580	1,477	2,900	2,821
The Capital Financing Requirement	4,077	3,777	3,586	4,924	4,764
<b>Under / (over) borrowing</b>	<b>2,289</b>	<b>2,197</b>	<b>2,109</b>	<b>2,024</b>	<b>1,943</b>

5.48 Within the range of Prudential Indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

5.49 The Director of Finance reports that the Authority complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

### Treasury Indicators: limits to borrowing activity

5.50 **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000
Debt	2,385	2,385	11,385	11,385
Other long-term liabilities	1,580	1,477	2,900	2,821
Total	3,965	3,862	14,285	14,206

5.51 **The Authorised Limit for External Debt.** This is a key Prudential Indicator and represents a control on the maximum level of borrowing. This represents



a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:-

Authorised limit	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000
Debt	5,385	5,385	14,385	14,385
Other long-term liabilities	1,580	1,477	2,900	2,821
Total	6,965	6,862	17,285	17,206

### Prospects for interest rates

- 5.52 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08.11.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

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

- 5.53 Link's central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very

tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

- 5.54 **Bond yields / PWLB rates.** Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

Link views the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

#### **The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

#### **Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.
- **The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.
- **The pound weakens** because of a lack of confidence in the UK Government’s fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

5.55 **Borrowing advice:** Link’s long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Link’s suggested budgeted earnings rates for investments up to about three months’ duration in each financial year are as follows: -

<b>Average earnings in each year</b>	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

- 5.56 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Link's interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. The Council's advisors continue to monitor events and will update our forecasts as and when appropriate.

### **Borrowing strategy**

- 5.57 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023

- 5.58 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years

- 5.59 Any decisions will be reported to Members appropriately at the next available opportunity.

### **Treasury management limits on activity**

- 5.60 **Maturity structure of borrowing.** These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

- 5.61 The Council is asked to approve the following treasury indicators and limits:

**Maturity structure of fixed interest rate borrowing 2023/24**

	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

**Maturity structure of variable interest rate borrowing 2023/24**

	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	75%
12 months to 2 years	0%	75%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years and above	0%	75%

**Policy on borrowing in advance of need**

- 5.62 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 5.63 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

## **Rescheduling**

- 5.64 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is to be undertaken, it will be reported to the Council, at the earliest meeting following its action.

## **New Financial Institutions as a Source of Borrowing and / or Types of Borrowing**

- 5.65 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- UK Municipal Bonds Agency
- UK Infrastructure Bank - where the project meets its investment principles (namely, economic regeneration and tackling climate change), the Infrastructure Bank offers loans at the relevant Gilts rate +60 basis points (20 basis points lower than the PWLB Certainty rate) and can match the length of the loan and repayment profile to needs of the project.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

## **Annual Investment Strategy**

### **Investment policy – management of risk**

- 5.66 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The Authority’s investment policy has regard to the following: -

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)

- CIPFA Treasury Management Guidance Notes 2021

5.67 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

5.68 The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

5.69 This Authority has defined the list of types of investment instruments that the Treasury Management Team are authorised to use, as per **APPENDIX 2**.

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

- 5.70 **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.
- 5.71 **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in the **APPENDIX 2**.
- 5.72 **Transaction limits** are set for each type of investment in **APPENDIX 2**.
- 5.73 The Council will set a limit for the amount of its investments which are invested for longer than 365 days.
- 5.74 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.
- 5.75 The Council has engaged external consultants, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- 5.76 All investments will be denominated in sterling.
- 5.77 As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. Following consultation this has now extended until 31.3.25.
- 5.78 However, this Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the financial year.

### **Creditworthiness policy**

- 5.79 The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:-
- credit watches and credit outlooks from credit rating agencies;
  - Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;



- sovereign ratings to select counterparties from only the most creditworthy countries.
- 5.80 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:-
- Yellow 5 years \*
  - Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
  - Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
  - Purple 2 years
  - Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
  - Orange 1 year
  - Red 6 months
  - Green 100 days
  - No colour not to be used
- 5.81 The Link creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
- 5.82 Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a 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.
- 5.83 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.
- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 5.84 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.
- 5.85 The Council has determined that it will only use approved counterparties from the UK and countries with a minimum sovereign credit rating of AA- from Fitch

or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in **APPENDIX 3**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

### **Creditworthiness**

- 5.86 Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

### **CDS Prices**

- 5.87 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

### **Investment Strategy**

- 5.88 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.
- 5.89 Accordingly, while most cash balances are required in order to manage the peaks and troughs of cash flows, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.
- 5.90 **Investment returns expectations.** It should be observed that there is a relationship with inflation and interest rates. Rise in inflation will invariably lead to a rise in interests . The same wisdom holds turn from the opposite situation. Holding true to this relationship, the persistent rise of inflation as seen at the time of writing this report, has correspondingly increased the Bank Rate.

Based on current modelling, it is projected that Bank Rate could reach 4.50% in Q2 2023.

5.91 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

<b>Average earnings in each year</b>	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

It should be observed, however, that as there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

5.92 **Investment treasury indicator and limit** - Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Authority is asked to approve the Treasury Indicator and limit:-

**Maximum principal sums invested > 365 days**

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Principal sums invested > 365 days	£10m	£10m	£10m

- 5.93 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

#### **Investment risk benchmarking**

- 5.94 This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA.

#### **End of year investment report**

- 5.95 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## **6 Implications**

### **6.1 Financial**

Included in the report

### **6.2 Legal**

Nil

### **6.3 Human Resources**

Nil

### **6.4 Human Rights Act**

Nil

### **6.5 Data Protection**

Nil

### **6.6 Risk Management**

The Council regards security of the sums it invests to be the key objective of its Treasury Management activity. Close management of counterparty risk is therefore a key element of day-to-day management of treasury activity. The practices designed to ensure that risks are managed effectively are set out in the Treasury Management Practices available on the Council's website.

## 6.7 Community Impact Assessment Recommendations

### Impact on Public Sector Equality Duty:

Nil

### Wider Community Impact:

Nil

## 7 Previous Consideration

Cabinet – 9 February 2023 – Minute No TBC

## 8 Background Papers

Available in Financial Services

Appendix 1:	Economic Update (provided by Link Asset Services as of 30 November 2022).
Appendix 2:	Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management
Appendix 3:	Approved Countries for Investment
Appendix 4:	Treasury Management Scheme Of Delegation
Appendix 5:	The Treasury Management Role Of The Section 151 Officer

## Appendix 1

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 20 February 2023

# Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy 2023/24

## ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
<b>Bank Rate</b>	3.0%	1.5%	3.75%-4.00%
<b>GDP</b>	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
<b>Inflation</b>	11.1%/y/y (Oct)	10.0%/y/y (Nov)	7.7%/y/y (Oct)
<b>Unemployment Rate</b>	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

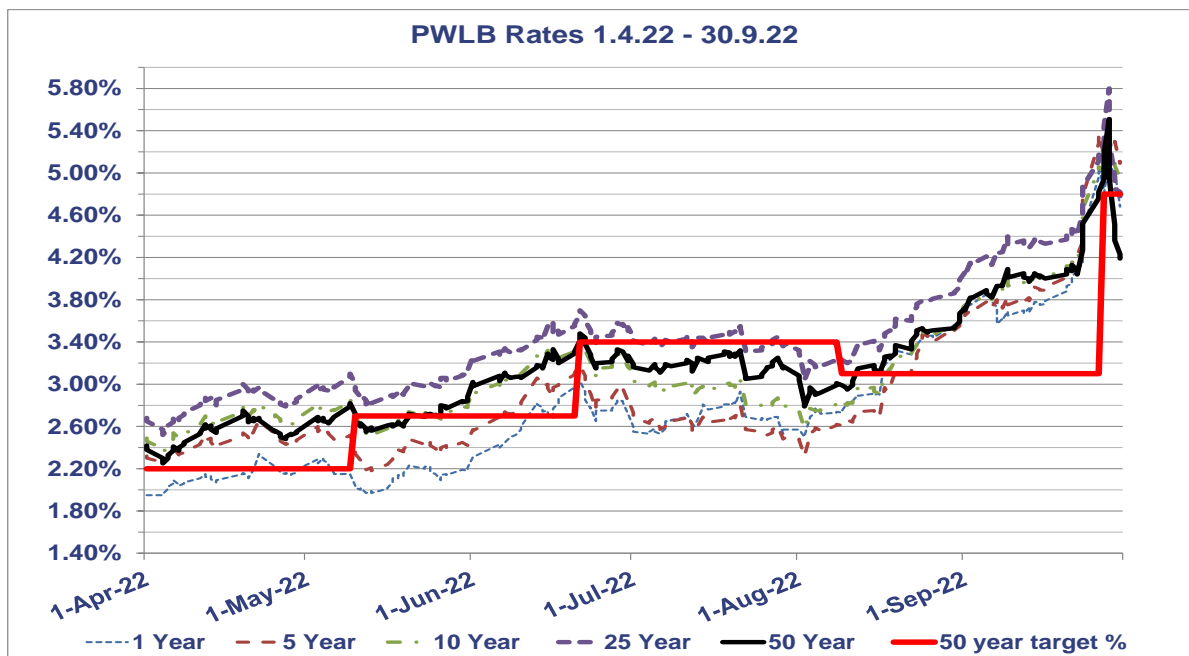
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17 November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28 September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.35%	5.80%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
<b>Average</b>	2.81%	2.92%	3.13%	3.44%	3.17%
<b>Spread</b>	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

### CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England



Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

## Appendix 2

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 20 February 2023

### Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy 2023/24

#### TREASURY MANAGEMENT PRACTICE (TMP1) - CREDIT AND COUNTERPARTY RISK MANAGEMENT

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investments.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:-

	<b>Minimum credit criteria / colour band</b>	<b>Max % of total investments/ £ limit per institution</b>	<b>Max. maturity period</b>
DMADF – UK Government	Yellow	100%	6 months (max. is set by the DMO*)
UK Government gilts	UK sovereign rating	£6 million	5 years

UK Government Treasury bills	UK sovereign rating	£6 million	12 months
Bonds issued by multilateral development banks	AAA	£6 million	5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNAV	AAA	100%	Liquid
Money Market Funds VNAV	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	12 months
Call Accounts	N/A	£9 million	Liquid
Term deposits with housing associations	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use

Term deposits with banks and building societies	Blue	£6 million	12 months
	Orange		12 months
	Red		6 months
	Green		100 days
	No Colour		Not for use
CDs or corporate bonds with banks and building societies	Blue	£6 million	12 months
	Orange		12 months
	Red		6 months
	Green		100 days
	No Colour		Not for use
Gilt funds	UK sovereign rating	£6 million	12 months

\* DMO – is the Debt Management Office of HM Treasury

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

## Appendix 3

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 20 February 2023

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### **Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy 2023/24**

#### **APPROVED COUNTRIES FOR INVESTMENT**

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

#### **Based on lowest available rating**

##### **AAA**

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

##### **AA+**

- Canada
- Finland
- U.S.A.

##### **AA**

- Abu Dhabi (UAE)
- France

##### **AA-**

- Belgium
- U.K.

## Appendix 4

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 20 February 2023

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# Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy 2023/24

## TREASURY MANAGEMENT SCHEME OF DELEGATION

### Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

### Committees/Council

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

### Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## Appendix 5

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 20 February 2023

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### **Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy 2023/24**

#### **THE S151 (RESPONSIBLE) OFFICER:**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long-term timeframe.

## Agenda Item 3(b)

<b>Committee:</b>	Audit and Accounts Committee
<b>Date of Meeting:</b>	20 February 2023
<b>Report of:</b>	Head of Finance
<b>Contact Officer:</b>	Chris Forrester
<b>Telephone Number:</b>	01543 464334
<b>Ward Interest:</b>	Nil
<b>Report Track:</b>	Audit and Accounts Committee 20/02/2023 Council 21/02/203

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## Annual Treasury Management Report 2021/22

### 1 Purpose of Report

- 1.1 To update members on treasury management activity and performance during the 2021/22 financial year.

### 2 Recommendation

- 2.1 To note the annual treasury management report for 2021/22;
- 2.2 To approve the actual 2021/22 prudential and treasury indicators set out in the **APPENDIX**.

### 3 Key Issues and Reasons for Recommendation

- 3.1 Treasury management activity and performance during the 2021/22 financial year.

### 4 Relationship to Corporate Business Objectives

- 4.1 Treasury management and investment activity link in with all of the Council's priorities and their spending plans.



## 5 Report Detail

### Background

- 5.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
- 5.2 During 2021/22, the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year
  - a mid-year (minimum) treasury update report
  - an annual review following the end of the year describing the activity compared to the strategy (this report)
- 5.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 5.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Accounts Committee before they were reported to the full Council. Training has been undertaken by members of the Audit and Accounts Committee and further training will be arranged as required.

### The Council's Capital Expenditure and Financing

- 5.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
  - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 5.6 The actual capital expenditure forms one of the required prudential indicators. This is detailed in the appendix.

### The Council's Overall Borrowing Need

- 5.7 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

- 5.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any net (gross less MRP) additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22. The table in the appendix highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.
- 5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" determined in compliance with the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table in the appendix demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.
- 5.10 **The operational boundary** - the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.
- 5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

### Treasury Position as at 31 March 2022

- 5.12 At the beginning and the end of 2021/22 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

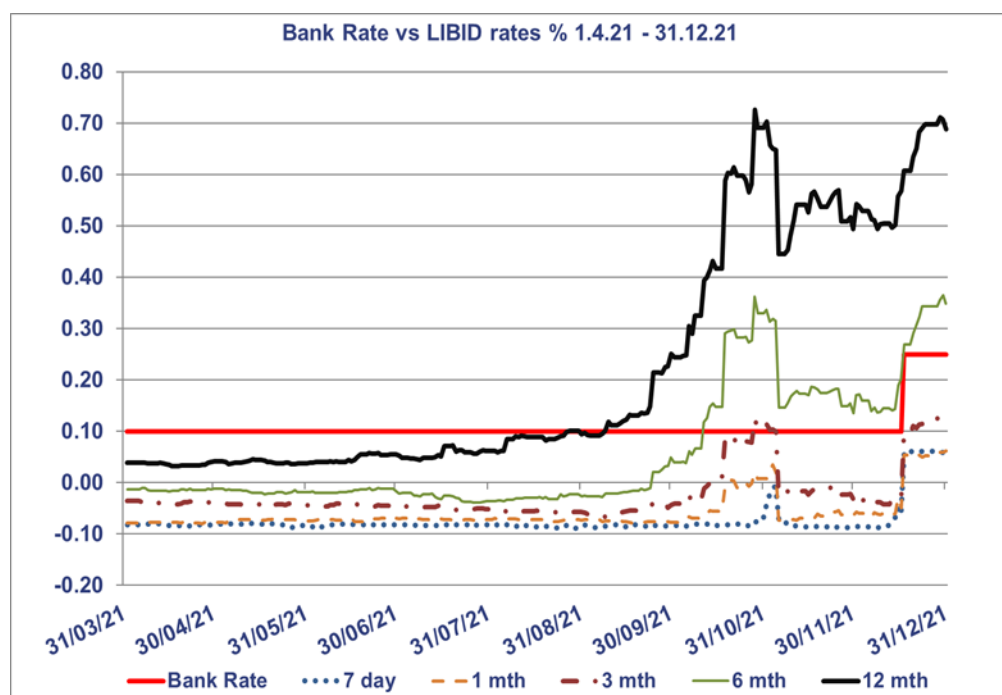
Debt Portfolio	31 March 2021 Principal	Rate/Return	Average Life (yrs)	31 March 2022 Principal	Rate/Return	Average Life (yrs)
Total debt (PWLB)	£0m			£0m		
CFR	£4.4m			£4.1m		
Over / (under) borrowing	(£4.4m)			(£4.m)		
Total investments	£41.0m	0.21%	0.12	£64.0m	0.14%	0.14
Net investments	£41.0m			£64.0m		

5.12.1 The following table sets out the Council's investments held at 31 March 2022:

<b>Counterparty</b>	<b>Start Date</b>	<b>End Date</b>	<b>Value (£)</b>	<b>Rate %</b>
Santander UK	180 Day Notice	180 Day Notice	6,000,000	0.58
Aberdeen GBP Liquidity Fund	Money Market Fund	Money Market Fund	6,000,000	0.39
Federated Prime Fund Class	Money Market Fund	Money Market Fund	6,000,000	0.39
Deutsche Bank	Money Market Fund	Money Market Fund	6,000,000	0.36
Invesco	Money Market Fund	Money Market Fund	1,000,000	0.34
Morgan Stanley	Money Market Fund	Money Market Fund	3,000,000	0.33
Handelsbanken	Call Account	Call Account	6,000,000	0.02
Nationwide Building Society	03/11/2021	19/04/2022	6,000,000	0.13
Helaba Bank	22/11/2021	19/05/2022	5,000,000	0.35
National Bank of Kuwait (International) PLC	22/11/2021	19/05/2022	6,000,000	0.37
Skipton Building Society	21/03/2022	20/06/2022	3,000,000	0.20
National Westminster Bank Plc (RFB)	04/11/2021	04/08/2022	4,000,000	0.58
Al Rayan Bank Plc	21/02/2022	22/08/2022	6,000,000	1.12
<b>Total investments</b>			<b>64,000,000</b>	

5.13 All investments in the portfolio have a maturity of under 1 year.

**Investment strategy and control of interest rate risk**



5.14 Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated. The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that

investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

- 5.15 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- 5.16 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets

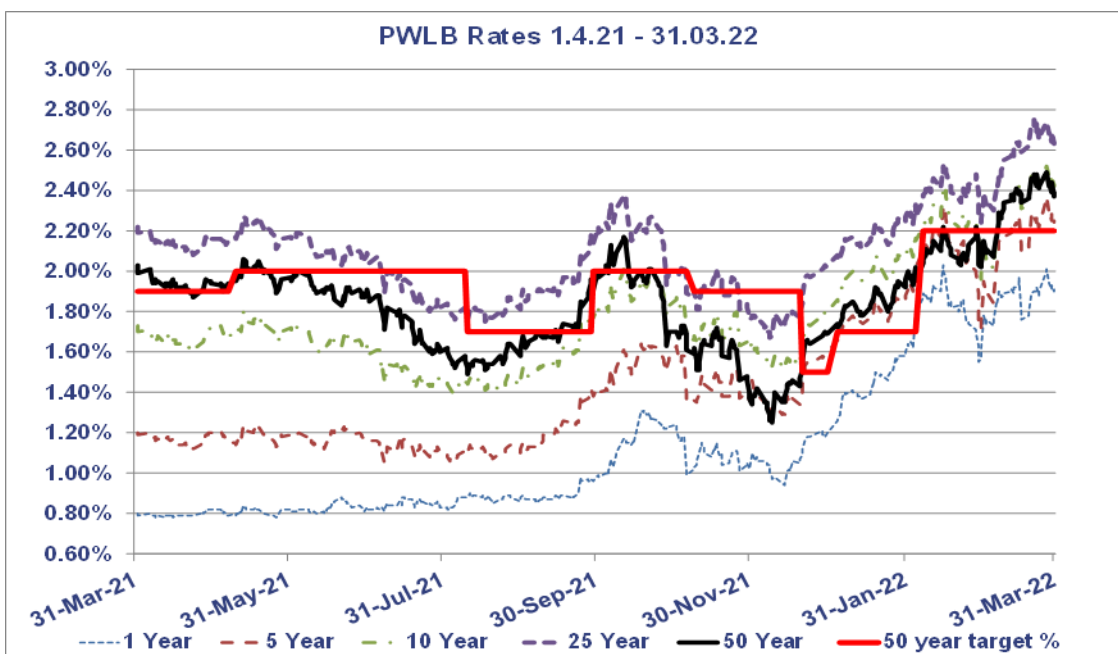
#### **Borrowing strategy and control of interest rate risk**

- 5.17 During 2021-22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
- 5.18 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost - the difference between (higher) borrowing costs and (lower) investment returns.
- 5.19 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 5.20 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Head of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

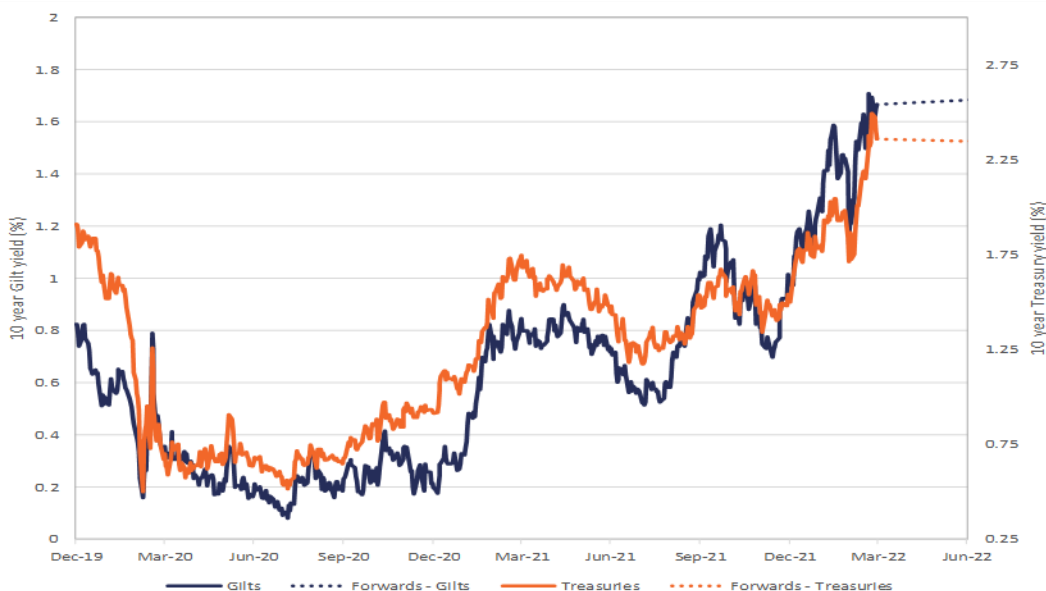
5.21 Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

Link Group Interest Rate 8.3.21												
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30



5.22 PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns

**Graph of UK gilt yields v. US treasury yields**



5.23 Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

5.24 At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% - 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

5.25 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

#### **Borrowing Outturn**

5.26 **Borrowing** - Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

#### **Investment Outturn**

5.27 **Investment Policy** - the Council's investment policy is governed by DHLUC guidance, which has been implemented in the approved annual investment strategy. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc).

5.28 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

5.29 **Resources** - the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

<b>Balance Sheet Resources</b>	<b>31 March 2021</b> £'000	<b>31 March 2022</b> £'000
Earmarked Fund balances / reserves	25,239	31,732
Unallocated Reserves	395	830
Capital receipts	1,399	1,506
Capital grants	3,191	7,709
Provisions	3,170	3,435
Other S106 capital	2,842	3,214
Other S106 revenue	1,415	2,003
<b>Total</b>	<b>37,651</b>	<b>50,429</b>



### 5.30 Investments held by the Council

- The Council maintained an average balance of £64.1m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.14%.
- Total investment income was £87,601.77 compared to a budget of £21,0000.

5.31 On one occasion during the year the balance held at Barclays was slightly above the £6 million limit. This was due to unexpected grants being received and lack of capacity within the approved investments. This gave rise to the change requested during 2022/23 to increase MMF from £6 million to £9 million to give greater capacity for short term liquid investments. It was determined that the risk was minimal and fully understood at the point of exceeding this investment limit.

## 6.1 Financial

Included in the report

## 6.2 Legal

Nil

## 6.3 Human Resources

Nil

## 6.4 Human Rights Act

Nil

## 6.5 Data Protection

Nil

## 6.7 Risk Management

Included in the report

## 6.8 Community Impact Assessment Recommendations

**Impact on Public Sector Equality Duty:**

Nil

**Wider Community Impact:**

Nil

**6 Previous Consideration**

Nil

**7 Background Papers**

Held in Finance

## Appendix 1

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 20/02/2023

### Annual Treasury Management Report 2021/22

<b>1 PRUDENTIAL INDICATORS</b>	<b>2020/21 Actual £'000</b>	<b>2021/22 Estimate £'000</b>	<b>2021/22 Actual £'000</b>
Capital Expenditure	5,005	3,775	1,318
Ratio of financing costs to net revenue stream	-0.3%	1.6%	1.2%
Gross borrowing requirement - Finance leases	2,049	1,788	1,788
Gross debt	0	0	0
Capital Financing Requirement as at 31 March	4,434	4,077	4,077
Annual change in Cap. Financing Requirement	-352	-357	-357

<b>2 TREASURY MANAGEMENT INDICATORS</b>	<b>2020/21 Actual £'000</b>	<b>2021/22 Estimate £'000</b>	<b>2021/22 Actual £'000</b>
Authorised Limit for external debt -	7,534	7,173	7,173
Operational Boundary for external debt	4,534	4,173	4,173
Actual external debt	0	0	0

<b>Maturity structure of fixed rate borrowing during 2021/22</b>	<b>upper limit</b>	<b>lower limit</b>
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

## Appendix 2

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 20/02/2023

### Annual Treasury Management Report 2021/22

The following table sets out an analysis of investments held 31 March 2022 (together with a comparator at 31 March 2021).

<b>INVESTMENT PORTFOLIO</b>	<b>Actual 31.3.21</b>	<b>Actual 31.3.21 %</b>	<b>Actual 31.3.22</b>	<b>Actual 31.3.22 %</b>
Money Market Funds	£18.0m	44%	£22.0m	34%
Banks	£23.0m	56%	£42.0m	66%
Local authorities	£0.0m	0%	£0.0m	0%
<b>TOTAL TREASURY INVESTMENTS</b>	<b>£41.0m</b>	<b>100%</b>	<b>£64.0m</b>	<b>100%</b>