Report No: 99/2023
PUBLIC REPORT

CABINET

11 July 2023

ANNUAL REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2022/23

Report of the Strategic Director for Resources

Strategic Aim:	All		
Key Decision: No		Forward Plan Reference: FP/260523	
Reason for Urgency:		N/A	
Exempt Information		No	
Cabinet Member(s) Responsible:		Cllr A Johnson, Deputy Leader and Portfolio Holder for Resources	
Contact Officer(s):	Kirsty Nutton, Strategic Director for Resources (s.151 Officer)		01572 758159 knutton@rutland.gov.uk
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Ward Councillors	Not Applicable		

DECISION RECOMMENDATIONS
That Cabinet: 1. Notes the actual performance for the 2022/23 prudential indicators within the report. 2. Notes that the treasury management stewardship for 2022/23 was in compliance with the treasury management strategy.

1 PURPOSE OF THE REPORT

1.1 Report 02/2022 set the Treasury Management Strategy for 2022/23 linked to the Council's Budget, Medium Term Financial Plan and Capital Plans. It is inextricably linked to delivering the Council's aims and objectives.

1.2 This report sets out how the Council has performed against the Strategy.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Background

2.1.1 The economic conditions during 2022/23 have been turbulent due to various factors including 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. UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields.

2.1.2 The Council’s annual treasury report in Appendix A includes information on the performance of the treasury management service. The key points to note in year are:

- The Council has invested with institutions as determined by the creditworthiness criteria approved by the Section 151 Officer and approved by Council. During 2022/23 a Thurrock Council has been subject to Government intervention following its over exposure on commercial investment and subsequent issuance of a S114 notice. The Council had invested a total of £7m with Thurrock Council, in accordance with the TMS investment criteria of £7m with any local authority. The investment was repaid in accordance with the loan agreement the £7m. However, in recognition of state of Local Government nationally the Council amended its operational investment criteria to restrict investments with local authorities that are subject to government intervention, with further control developed for 2023/24 to link any investments with a Council’s balance sheet strength and performance.

- The Council made a return on investment of 2.02% compared to the SONIA (Sterling Overnight Index Average) 6 month rate of 3.10%. The unpredictable nature of the rate rises experienced during the year meant that meeting this benchmark would be challenging. At a point in time the SONIA rate on the 1 April was 0.69% which illustrates the speed of change due to the economic conditions detailed in 2.1.1. As Appendix A para 2.2.4 shows the Council outperformed its original budget assumptions due to the uncertainty in the markets during the year. The Council has addressed this issue in the 2023/24 TMSS by moving to the 1-month SONIA rate which is reflective of the current laddering approach to investments to take advantage of the changing base rate environment (Appendix A, paragraph 2.3.2 refers);

- The Council did not undertake any external borrowing in year as planned and therefore did not breach the operational boundary for borrowing (£23m) (Appendix A, paragraph 3.4.5 refers);

- No PWLB external debt was repaid early as there was not a financial business case to do so. The total premium, i.e. the charge for repaying early, for the Council’s debt portfolio was £1.435m (Appendix A para 3.4.4); and

- The Council repaid other loans upon maturity during 2022/23. These were a Salix Loan of £420k for street lighting upgrades, with the final instalment paid April 2022, and a Local Enterprise Partnership loan of £630k to contribute to the purchase and renovation of Oakham Enterprise Park, with repayment paid March 2023. Both loans were taken rather than using PWLB as they were interest-free loans.

3 CONSULTATION

3.1 No formal consultation is required. Consultation is performed as part of the budget setting process. This report shows actual performance against the indicators and strategy set as part of the budget process.

4 ALTERNATIVE OPTIONS

4.1 This report is for noting there are no alternative options.

5 FINANCIAL IMPLICATIONS

5.1 There are no financial implications arising from this report. Financial performance is contained in the regular reports to Cabinet through the year, and the Outturn Report as part of the interest payments and receipts performance.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

6.2 A summary of the regulatory framework is shown below.

Local Government Act 2003

Local authorities must:

- Set an affordable borrowing limit each year
- Have regard to statutory guidance from CIPFA & DLUHC

Local Authorities must NOT:

- Exceed their affordable borrowing limit

DLUHC Investment Guidance

Local authorities should:

- Prioritise security, liquidity, yield
- Approve an Investment Strategy

DLUHC MRP Guidance

Local Authorities should:

- Make prudent revenue provision for capital expenditure
- Approve an Annual MRP policy

CIPFA Treasury Management Code

Local Authorities should:

- Manage risks before seeking returns

• Borrow in a foreign currency • Mortgage their property as security for borrowing		• Approve an Annual Treasury Management Strategy
		CIPFA Prudential Code <u>Local Authorities should:</u> • Be prudent, affordable and sustainable • Approve a capital Strategy

6.1 The Council's treasury management activities for 2022/23 were regulated by a variety of professional codes, statutes and guidance (which were updated for 2019/20):

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act DLUHC has issued Investment Guidance to structure and regulate the Council's investment activities; and

- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

6.2 The Council's Treasury Management Strategy explains how it intends to comply with the legal framework and this annual report confirms compliance.

7 DATA PROTECTION IMPLICATIONS

7.1 A Data Protection Impact Assessment (DPIA) has not been completed because there are no risks/issues to the rights and freedoms of natural persons.

8 EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment (EqIA) has not been completed because there are no service, policy or organisational changes being proposed.

9 COMMUNITY SAFETY IMPLICATIONS

9.1 There are no community safety implications.

10 HEALTH AND WELLBEING IMPLICATIONS

10.1 There are no health and wellbeing implications.

11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

11.1 The report summarises treasury management performance in the year and meets the requirements set out in section 6.

12 BACKGROUND PAPERS

12.1 Statement of Accounts 2022/23

12.2 Treasury Management Strategy 2022/23 report 02/2022

12.3 Mid-Year Treasury Management Report 2022/23 report 177/2022

12.4 Outturn report 2022/23

13 APPENDICES

13.1 Appendix A Treasury Management Annual Report

13.2 Appendix B Link Commentary on 2022/23

13.3 Appendix C Glossary

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.

Appendix A.

Rutland County Council

Treasury Management Annual Report

2022-23

Version & Policy Number	Annual Report 22/23
Guardian	Andrew Merry, Head of Finance
Date Produced	June 2023
Next Review Date	June 2024

1 OVERVIEW OF STRATEGY

1.1.0 In making arrangements for treasury management, a Council is required to follow CIPFA's Treasury Management Code. The Code aims to help ensure that Councils manage the significant risks associated with the function while also ensuring the Council receives value for money.

1.1.1 The Council approved a Strategy in February 2022 (report 02/2022) which covered:

- borrowing strategy, including capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time); and
- the treasury management strategy (strategy guidelines for choosing and placing investments, the principles to be used to determine the maximum periods for which funds can be committed, what specified and non-specified investments will be considered how the investments and borrowings are to be organised) including treasury indicators

1.1.2 Councils need to prove that they are complying with the Prudential Code and this is done through a series of prudential indicators that are set locally and approved at the same time as the Council sets its budget for the following year.

2 TREASURY PERFORMANCE

2.1.1 The Council receives income from council tax, business rates and central government. The majority of council tax and business rates payments are received between April and January, with expenditure being fairly static throughout the year.

2.1.2 At any point of time in the year, the Council had between £50m - £63m available to invest, due to cashflow timings of income received and payments made, for example grants and contributions received in advance of a project occurring. The table below shows the level of investments held during the year, the average level of investments during the year was £57.9m, compared to expected investments of £31.2m.

2021/22 Actual £000	2022/23 Quarter 1 as at 30-Jun-22 £000	2022/23 Quarter 2 as at 30-Sep-22 £000	2022/23 Quarter 3 as at 31-Dec-22 £000	2022/23 Quarter 4 as at 31-Mar-23 £000
52,284	56,192	58,603	60,473	56,343

2.1.3 The Council will invest surplus money to get a return on balances generating income. As per the agreed overall objectives, surplus balances are managed in a way to maximise the income potential whilst having regard to security risk.

2.1.4 The Council's investment strategy primary objectives, in order of importance are:

- safeguarding the repayment of the principal and interest of its investments on time

- adequate liquidity – the Council needs to ensure that sufficient cash balances are available so it can service the payments of invoices and ensure investments in capital assets can be made on a timely basis.

- Maximising the investment return

2.1.5 All of the Council's investments during the financial year were made with approved institutions within the agreed limits contained within the Treasury Management Strategy 2022/23 (02/2022). These limits are:

- £7m for a maximum of three years for institutions within the upper limit of the credit ratings (Fitch rating AA-/F1);

- £7m for a maximum of 364 days for institutions within the middle limit of credit ratings (Fitch rating A-/F1); other local authorities and Money Market Funds;

- £1m for a maximum of six months those institutions without a credit rating, normally certain Building Societies whose operation does not require a credit rating.

2.1.6 Following the principles set out in paragraph 2.2.2, the Council made investment returns as shown below:

	Original Estimate 2022/23 £000	**Revised Estimate 2022/23 Q2 £000**	**Actuals 2022/23 £000**
Investment Income	188	922	1,170
Other Interest Received *	12	12	12
Total	**200**	**934**	**1,182**

** The Council also receives interest from sources other than investments. A Housing Association has been recharged £12k for the interest of loans that the Council has made to it, the final payment will be in 2051/52.*

2.1.7 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. An example of a performance indicator often used for the investment treasury function is internal returns above the 6-month SONIA rate (the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another).

2.1.8 The Council monitored performance against the 6-month SONIA rate during 2022/23 and the results are shown on the following page.

	2021/22	**2022/23 (Q2)**	**2022/23 (Q4)**

RCC Returns (%)	0.38	1.32	2.02
SONIA (%)	0.34	2.24	3.19

2.1.9 The Council's performance was below the SONIA rate due to the time lag between the base rate increasing and an improvement of the Council's average rate achieved. This lag was due to fixed rate investments placed prior to the base rate increases that achieve a lower rate of return. For example, 6-month investment traded in March 2022 achieved an interest rate of 0.95%, comparatively an investment traded in July 2022 with the same maturity achieved an interest rate of 2.03%. Due to the highly volatile financial environment, the Council sought advice from Link, the Council's Treasury advisors, who advised a laddering approach to investments. This approach staggered the maturity of investments to lock in increases in interest rates whilst also being able to take advantage of future increases. This enabled the Council to take advantage of base rate changes.

2.1.10 The Council has updated assumptions for the 2023/24 TMSS by moving to the 1-month SONIA rate which is reflective of the current laddering approach to investments to take advantage of the changing base rate environment. The average 1-month rate for 2022/23 was 2.41%.

2.1.11 During 2022/23 £7m has been invested in sustainable fixed term deposits, and these deposits are with counterparties that meet the Council's counterparty credit criteria. They differ from 'traditional' fixed term deposits as they have an underlying commitment to supporting activities that provide sustainable and environmentally friendly services and products. The investments are referenced against the United Nations Sustainable Development, so funds are put to work addressing some of the world's biggest long-term threats including, but not limited to, climate change, health, financial inclusion and education. These provide an equivalent return to the 'traditional' fixed rate investments.

2.1.12 During 2022/23 the Council had £7m invested with Thurrock Council , who had intervention measures introduced by DLUHC due to concerns about its financial management. Link, our Treasury advisors, score Local Authorities based on credit risk and thus apply a risk score of 1, this is equivalent to government credit quality. Due to the government structure of Local Authorities it would be highly unlikely for debts from other local authorities not to be repaid as ultimately, they are underwritten by the UK Government. All investments have now been repaid. In the TMSS 2023/24 the Council has introduced an additional verification on the status of other Local Authorities, where the Authority is subject to DLUHC intervention they will not be included as a suitable counterparty for investment. There will be a further health check to enhance this approach by reviewing balance sheet health and its direction of travel for all local authorities which provides a benchmark to assess security of funds.

3 PRUDENTIAL (BORROWING AND DEBT) INDICATORS

3.1.1 Councils borrow to fund capital expenditure or refinance/reschedule existing borrowings e.g. replace one loan with one at a lower rate.

3.1.2 If the capital schemes are deemed affordable within the overall context of the MTFS the Council works out its capital expenditure plans and then calculates how much it needs to borrow having considered whether it should fund capital expenditure using other options.

3.1.3 The Council's capital expenditure during 2022/23 was £7.1m. The outturn report (73/2023) contains detailed analysis of the capital programme and financing. The £7.1m was financed as per the following table. The financing need represents an increase in borrowing requirements.

Estimates of capital expenditure (PI3) and actual capital expenditure (PI4)

	2021/22 Actual*	2022/23 TMSS	2022/23 Actual***
	£000	£000	£000
Capital Expenditure	**5,173**	**1,939**	**7,145**
Financed by:			
Capital Receipts/Developers Contributions	32	0	106
Capital Grants & Contributions	5,093	1,939	6,852
Revenue Contributions	46	0	187
Net financing need for the year	**2**	**0**	**0**

*Statement of Accounts 2021/22 (unaudited)
*** Note 20 - Statement of Accounts 2022/23 (unaudited)

3.1.4 The Council's Capital Financing Requirement (CFR) is the total capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. The CFR is reduced through the Minimum Revenue Provision which is a charge made against revenue to pay back the principal element of the debt taken.

3.1.5 **Estimates of CFR (PI5) and Actual CFR (PI6)**

	2021/22 Actual* £000	2022/23 TMSS £000	2022/23 Actual*** £000
CFR – 1 April	**20,038**	**19,775**	**19,426**
Movement in Year - CFR	(612)	(629)	(615)
CFR – 31 March	**19,426**	**19,160**	**18,811**
Movement in CFR Represented by			
Net financing need for the year	2	0	0
MRP	(614)	(629)	(615)
Movement in CFR	**(612)**	**(629)**	**(615)**

* Note 20 – Statement of Accounts 2021/22 (unaudited)
** Revised Estimate per Mid-Year Treasury Report (177/2022)
*** Note 20 - Statement of Accounts 2022/23 (unaudited)

3.1.6 The CFR was estimated to reduce during 2022/23 by £629k, it actually reduced by £615k, this was for the MRP contribution. The change of £14k was due to a change of funding on the Digital Rutland full fibre project, which had previously been anticipated to require some external borrowing.

3.1.7 The Council currently has loans outstanding of £21.4m, these are all long-term loans with the Public Works Loans Board (PWLB).

3.1.8 During 2022/23 loans have been repaid, these were

- a Salix Loan of £420k (final instalment paid April 2022) and
- a Local Enterprise Partnership loan (LEP) of £630k (repayment paid March 2023).

3.1.9 All PWLB loans have been borrowed on a maturity basis. Interest payments will be made every six months on equal instalments throughout the term of the loan, with the principal being repaid on the maturity date.

3.1.10 The overall debt position is monitored, and advice provided by Link Asset Services to identify opportunities for the repayment or restructuring of debt. No such opportunities were identified as cost effective in the year. Repayment of debt is subject to either a premium or dividend equating to the difference in interest payable for the remainder of the term of the loan and that which could be earned by the lender on a new loan for the same period.

3.1.11 The latest advice from Link, the Council's Treasury Management Advisors, indicates that the premium at 19 June 2023 was £1.4m. This would mean it would cost £1.4m in addition to the £21.386m principal to repay the Council's PWLB loans. At this date gilt yields were higher, the premiums on these loans have come down at the time of writing since the start of the year when gilt yields were lower. The Council has some historical loans (15% of total PWLB debt) where the interest rate on the loans is in excess of 7%, these loans in particular will be harder to repay and recoup much benefit unless gilt yields climb significantly higher in order to reduce the premium.

3.1.12 The debt position at the 31 March 2023 compared to the previous year is shown in the following table:

Loan Type	**2021/22 £m**	**2021/22 Ave. %**	**2022/23 £m**	**2022/23 Ave. %**
Long Term Debt (fixed rate) PWLB	21.4	4.83%	21.4	4.83%
Local Enterprise Partnership (LEP)	0.6*	0.00%	0.0	0.00%
Salix Loan	0.042*	0.00%	0.0	0.00%
Total long term debt	**22.0**		**21.4**	
Operational Boundary	*23.0*		*23.0*	
Capital Financing Requirement	19.4		18.8	
Over / (under) borrowing	**2.6**		**2.6**	
Total investments	(54.2)	0.38%	(51.7)	2.02%
Net cash position	**(32.2)**		**(30.4)**	

3.1.13 There are a number of prudential indicators to ensure the Council operates its activities within limits. The indicators focus on two key aspects:

- Setting limits to control borrowing; and
- Assessing the affordability of the capital investment plans.

3.1.14 In addition, we also set limits on interest rate exposure.

3.1.15 **Controlling borrowing prudential indicators**

3.1.16 The Council 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 2022/23 and the following two financial years. Consideration of the future CFR is important as the Council could take advantage of 'favourable' rates if there is a borrowing requirement, and thus 'borrow in advance of need'. This indicator measures whether actual external debt exceeds the need to borrow. The Council's position reflects the additional Voluntary Revenue Provision made in 2013/14 for £1.4m and 2015/16 £0.6m, which reduced the Council's underlying borrowing need.

3.1.17 The Council is currently in an overborrowed position. The Council's maturity debt profile remains the same, as all the Council's debt is long term this will not change in future years unless there is a change in CFR e.g. utilising cash balances to repay debt, or the Council repays some of this debt earlier with associated premiums. This is shown in the following table with gross debt shown to be fixed, and the CFR position reducing as the minimum revenue provision is used to 'repay' debt.

3.1.18 Ideally, to reduce interest costs, the Council would have preferred to use capital receipts etc to repay external debt. However, there has not been a viable business case that has enabled existing loans to be repaid earlier than the maturity date. The Council would have to pay a premium to repay early, which would cost the Council more in the long term.

3.1.19 **Actual External Debt (PI9) and Gross Debt and the CFR (PI10)**

	2022/23 Actual £000	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**
Gross Debt	21,386	21,386	21,386	21,386
Capital Financing Requirement (CFR)	18,811	18,195	17,930	17,301
Under / (Over) borrowing	**(2,575)**	**(3,191)**	**(3,456)**	**(4,085)**

3.1.20 **Authorised limit for external debt (PI7)** this is a control on the maximum level of borrowing. The Council approved the Authorised Limit of £28m. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. The table in paragraph 3.4.5

shows that Council did not breach this limit for 2022/23.

3.1.21 **Operational boundary for external debt (PI8)** – this is the maximum amount of money a Council expects to borrow during the year. This is lower than the Authorised Limit and acts as a useful warning sign if it is breached during the year, as it could mean that underlying spending may be higher or income lower than budgeted. The Council approved an Operational Boundary of £23m within the 2022/23 Treasury Strategy. The table in paragraph 3.4.5 shows that Council did not breach this limit for 2022/23.

Affordability Prudential Indicators

3.1.22 The previous section covered 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.

3.1.23 **Estimates of Financing Costs to Net Revenue Stream (PI1) and Actual financing costs to net revenue stream (PI2)**. This indicator helps a Council identify if borrowing costs become too high as a proportion of its budget. This is important as borrowing costs always have to be paid and are very hard to cut if income sources fall.

	Budgeted £000	**Actual £000**	
Capital Financing Costs	**1,647**	**1,647**	**A**
Revenue Stream:			
Government Grants	5,379	6,391	
Retained Business Rates	5,776	7,177	
Council Tax	30,004	31,045	
Total	**41,159**	**44,613**	**B**
Ratio (A / B as a percentage)	4.00%	3.69%	

3.1.24 **Incremental Impact of Capital Investment Decisions on Band D Council Tax (PI13)**.

This indicator identifies the revenue costs associated with changes to the three-year capital programme recommended in the TMSS compared to the Council's previously approved commitments and current plans.

Council Tax - Band D	**2021/22 Actual £**	**2022/23 TMSS £**	**2022/23 Actual £**
Services	0.01%	0.07%	0%

3.1.25 **Upper and lower of maturity structure of borrowing (fixed & variable) (PI11).**

These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing all at the same time causing cash flow problems and are required for upper and lower limits. The Council has met this indicator during 2022/23.

Maturity structure of fixed interest rate borrowing 2022/23			**£m**	**%**
	Lower	**Upper**	**Actual**	**Actual**
Under 12 months	0%	25%	0	0%
12 months to 2 years	0%	25%	0	0%
2 years to 5 years	0%	20%	0	0%
5 years to 10 years	0%	20%	0	0%
10 years and above	0%	100%	21.4	100%
Maturity structure of variable interest rate borrowing 2022/23				
	Lower	**Upper**		
Under 12 months	0%	25%	0	0%
12 months to 2 years	0%	25%	0	0%
2 years to 5 years	0%	20%	0	0%
5 years to 10 years	0%	20%	0	0%
10 years to 20 years	0%	100%	0	0%

£000	**2021/22 Actual**	**2022/23 TMSS**	**2022/23 Actual**
Long term treasury management investments; invested for longer than 365 days	0%	10%	0%

3.1.26 **Debt to net service expenditure (PI14)**

This indicator shows gross debt as a percentage of net service expenditure, this helps to explain the relationship between gross debt and resources available to deliver services. Net service expenditure is considered to be a proxy for the size and financial strength of a local authority.

£000	**Services**		**Commercial Activities**	
	Budget	**Actual**	**Budget**	**Actual**
Gross Debt	21,386	21,386	0	0
Net Service Expenditure	41,925	43,570	41,925	43,570
Debt to net service expenditure %	51%	49%	0%	0%
Maximum Level	60%	60%	0%*	0%*

*Current policy prohibits investment in commercial activities

3.1.27 The new accounting standard IFRS16 Leases was due to be implemented from 1 April 2022. This has now been delayed until 1 April 2024 to allow local authorities more time to implement following the delays allowed through the need to contribute to the national pandemic response. This task requires all arrangements that convey the right for the Council to use an asset – whether or not there is a formal lease agreement in place, and regardless of whether any payment is made – to be considered potentially as a finance lease.

3.1.28 The finance team are working on an implementation plan for this, which will fully establish the potential liability to the Council within the Council's existing lease arrangements. It may impact some of Prudential Indicators as these assets may need to be included on the Council's balance sheet, both recognising the asset which is used to provide services, and the associated liability of the leasing finance. The Council will continue data collection to meet the new implementation date and should any amendments be required to these prudential indicators linked to this work, this will be reported and revised indicators set at the earliest opportunity.

Appendix B. Link Asset Services Commentary on The Economy and Interest Rates

Below is a summary of the Economy and financial environment across the UK, the United States of America and Europe. This is provided by Link, our Treasury advisors to give some background as to the current financial climate and challenging environment during 2022/23.

UK Economy. 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 2022/23.

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 in 2022. 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**
Bank Rate	4.50%	4%	5-5.25%
GDP	0.1%q/q Q1 (4.1%y/y)	-0.1%q/q Q1 (1.9%y/y)	1.3% Q1 Annualised
Inflation	8.7%y/y (Apr)	7.0%y/y (Apr)	4.0%y/y (May)
Unemployment Rate	3.8% (Apr)	6.5% (Apr)	3.7% (Apr)

Q2 of 2022 saw UK GDP deliver growth of +0.1% quarter on quarter 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. Q4 GDP was positive at 0.1% quarter on quarter.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k 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 over 6% the Monetary Policy Committee who will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% year on year in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% quarter on quarter in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. 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 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%. As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

Appendix C. Treasury Management Glossary of Terms

Authorised Limit (Also known as the Affordable Limit):

A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).

Balances and Reserves:

Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.

Bank Rate:

The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.

Basis Point:

A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%.

Bond:

A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.

Capital Expenditure:

Expenditure on the acquisition, creation or enhancement of capital assets.

Capital Financing Requirement (CFR):

The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.

Capital Receipts:

Money obtained on the sale of a capital asset.

Credit Rating:

Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Counterparty List:

List of approved financial institutions with which the Council can place investments with.

Debt Management Office (DMO):

The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the

DMADF. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Gilts: Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. Being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Maturity: The date when an investment or borrowing is repaid.
Money Market Funds (MMF): Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision (MRP): An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Voluntary Revenue Provision (VRP): An additional contribution over and above the MRP that the Council can choose to make to reduce the CFR which in turn will reduce the MRP for future years.
Non Specified Investment: Investments which fall outside the CLG Guidance for Specified investments (below).
Operational Boundary: This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.
Prudential Code: Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators: Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that Councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. They are indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A Council may also choose to use additional voluntary indicators.

Public Works Loans Board (PWLB): The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Sterling Overnight Index Average (SONIA): the risk-free rate for sterling markets administered by the Bank of England. SONIA 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
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Yield: The measure of the return on an investment.

A large print version of this document is available on request

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