APPENDIX A

Report of	Meeting	Date
Director of Finance and Section 151 Officer	Governance Committee	3rd August 2022

Treasury Management Annual Report 2021/22 And Quarter One Monitoring 2022/23

Is this report confidential?	No

Is this decision key?	No

Purpose of report

1. To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2022.

2. To present monitoring figures for the quarter ended 30 June 2022, including updated interest rate forecasts from Link Asset Services.

Recommendation to Governance Committee

3. That the report be noted.

Reasons for recommendations

4. Production of an Annual Report is a requirement under the Treasury Management Code of Practice.

Other options considered and rejected

5. Not applicable

Corporate priorities

6. The report relates to the following corporate priorities:

Involving residents in improving their local area and equality of access for all	**A strong local economy**
Clean, safe and healthy communities	**An ambitious council that does more to meet the needs of residents and the local area**

Background to the report

7. This report advises on compliance with Prudential and Treasury Indicators in 2021/22. The return on investments for the year was **0.09%,** which was equal to the previous year, but slightly below the benchmark of **0.10%.** Details of borrowing and investments as at 31 March 2022 are presented in the report.

8. Borrowings and investments as at 30 June 2022 are also presented, and Link Asset Services have provided updated interest rate forecasts for 2022/23 and subsequent financial years.

9. The Treasury Strategy for 2021/22 to 2023/24 was approved by Council on 23 February 2021. The strategy included prudential and treasury indicators, the treasury management strategy, annual investment strategy (including the list of approved investment counterparties), and the annual Minimum Revenue Provision (MRP) Policy.

10. A mid-year review of Treasury Management activity was presented to Governance Committee on 24 November 2021. This reported that during the first half of 2021/22, average daily balances were lower than 2020/21, however still higher than previous years due to the flow of Covid Support Grants. The report also outlined continued low levels of interest available for investments.

11. On 22 February 2022 Council approved the Treasury Strategy for 2022/23 to 2024/25, which included revised prudential and treasury indicators for 2021/22. Where relevant, comparisons with 2021/22 indicators in this outturn report are to those approved most recently.

12. A glossary of technical terms used in this report is presented as Appendix J.

Capital Expenditure and Financing 2021/22

13. The Council undertakes capital expenditure on long-term activities. 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 sufficient financing is not available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

14. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for 2021/22.

Table 1 – Capital Expenditure	2021/22 Estimate £'000	2021/22 Revised £'000	2021/22 Actual £'000	2021/22 Variance £'000
A strong local economy	15,223	11,579	7,581	(3,998)
An ambitious council that does more to meet the needs of residents and the local area	2,497	2,805	2,544	(261)
Clean, safe and healthy homes and communities	19,846	12,107	11,768	(339)
Involving residents in improving their local area and equality of access for all	550	2,112	1,973	(139)

Capital Expenditure Total	**38,116**	**28,603**	**23,866**	**(4,737)**

15. In addition to the usual range of factors which can affect the timing of capital projects, the progression of the 2021/22 programme was affected by the impacts of the Covid 19 pandemic. This is reflected in the reduction in the revised budget and actual levels of expenditure shown above.

16. Additional analysis of the schemes included in the 2021/22 Capital Programme was presented to Executive Cabinet on 16 June 2022 in the report 'Revenue and Capital Budget Monitoring 2021/22Outturn'.

Financing of the capital expenditure is shown in the following table.

Table 2 – Capital Financing 2021/22	**2021/22 Estimate £'000**	**2021/22 Revised £'000**	**2021/22 Actual £'000**	**2021/22 Variance £'000**
Capital Expenditure (from Table 1)	38,116	28,603	23,866	(4,737)
Capital Receipts	(5,166)	(300)	(262)	38
Grants & Contributions	(12,766)	(11,149)	(7,209)	3,940
Revenue & Reserves	(3,949)	(2,183)	(1,695)	488
NET FINANCING NEEDED FOR YEAR	**16,235**	**14,971**	**14,700**	**(271)**

Capital Financing Requirement 2021/22

17. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the unfinanced capital expenditure in 2021/22 plus prior years' unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

18. Part of the Council's treasury activity is to address the funding requirement for this borrowing need. Depending on the capital expenditure programme, the Council's cash position is organised to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB), or the money markets), or utilising temporary cash resources within the Council.

19. The CFR is not matched in full by external borrowing, so the Council is said to have under borrowed by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken, then the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.

20. The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can be borrowed and repaid, but this does not change the CFR.

21. The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

22. The 2021/22 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Strategy 2021/22 to 2023/24 on 23 February 2021.

23. The Council's CFR for the year is shown in Table 3 below and represents a key prudential indicator. It includes financing by means of a finance lease for leisure related capital investment, which increases the Council's borrowing need.

Table 3 – Capital Financing Requirement	**2021/22 Estimate £'000**	**2021/22 Revised £'000**	**2021/22 Actual £'000**	**2021/22 Variance £'000**
Opening CFR	95,208	89,271	89,271	0
Net financing need for the year (Table 2)	16,235	14,971	14,700	(271)
Less MRP / VRP	(2,099)	(1,214)	(5,622)	(4,408)
Closing CFR	**109,344**	**103,028**	**98,349**	**(4,679)**

See also Note 35 Capital Expenditure and Financing in the Statement of Accounts 2021/22.

The CFR and Gross Debt

24. Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

25. Gross borrowing and the CFR. In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2020/21) plus the estimates of any additional CFR for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would allow the Council some flexibility to borrow in advance of its immediate capital needs.

26. An additional loan (PWLB) of £10 million (50 years at 2.02%) was taken out in March 2022 to fund the Capital Programme.

Table 4 – Portfolio Position	**2021/22 Estimate £'000**	**2021/22 Revised £'000**	**2021/22 Actual £'000**	**2021/22 Variance £'000**
Debt at 1 April	69,777	62,160	62,160	0
Other Long Term Liabilities (OLTL)	15	0	0	0
Total Gross Debt 1 April	69,792	62,160	62,160	0
Change in Debt	16,266	16,266	8,105	(8,161)
Change in OLTL	0	0	0	0
Change in Gross Debt	16,266	16,266	8,105	(8,161)

Gross Debt 31 March	86,058	78,426	70,265	(8,161)
Capital Financing Requirement (Table 3)	109,344	103,028	102,574	(454)
Under / (Over) Borrowing	**23,286**	**24,602**	**32,309**	**7,707**

27. An analysis of external borrowing as at 31 March 2022 is presented in Appendix A.

28. **The authorised limit**. This is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level, except that, under s5 of the Act, the authorised limit may be treated as increased in relation to any payment which:

   (i) is due to the authority which has not yet been received by it, and
   (ii) was not a delayed receipt of a payment which was taken into account when the limit was first arrived at.

   The limit set for 2021/22 by Council on 23 February 2021 was £97,215m and actual gross was £70.265m. The Council has therefore maintained gross borrowing within its authorised limit throughout the year.

29. **The operational boundary**. This 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. The operational boundary set for 2021/22 was £90,415m and actual gross debt at 31 March 2021 was £70.265m. The Council remained within its operational boundary throughout the year.

30. **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 revenue stream (council tax, business rates, and various Government grants).

Table 5 – Ratio of Financing Costs to Net Revenue Stream	**2021/22 Estimate %**	**2021/22 Revised %**	**2021/22 Actual %**	**2021/22 Variance %**
Ratio	16.66	17.12	16.30	-0.82

   The actual ratio was lower than originally estimated in 2021/22, principally because borrowing was lower than expected and the revenue stream being increased by additional government grants relating to the Pandemic.

Treasury Position As At 31 March 2022

Treasury management debt and investment position

31. The Council's treasury management debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities. Gross debt is shown in Table 4, and Investments (including Cash and Cash equivalents but excluding accrued interest) are shown in Table 6.

Table 6 – Year End Resources 2021/22	**2021/22 Estimate £'000**	**2021/22 Revised £'000**	**2021/22 Actual £'000**	**2021/22 Variance £'000**
Core Funds / Working Balances	(26,431)	(26,431)	(41,803)	(15,372)
Under / (over) borrowing (Table 4)	23,286	24,602	32,309	7,707
Investments	(3,145)	(1,829)	(9,494)	(7,665)

32. The working balances held at 31 March 2022 were higher than would normally be the case because of the continued impacts of measures taken in response the pandemic. A detailed analysis of Short Term Investments and Cash and Cash Equivalents is presented as Appendix B. The maximum balance invested with each counterparty complied with the limits approved by the Council. Appendix C presents the approved counterparty limits for 2021/22.

33. The Council approved that a maximum of £4m should be invested with UK local authorities for more than 365 days and up to two years, with a maximum of £2m per individual authority. No sums were invested for more than 365 days.

Table 7 – Maximum Principal Sums Invested >365 Days	**2021/22 Estimate £'000**	**2021/22 Revised £'000**	**2021/22 Actual £'000**	**2021/22 Variance £'000**
UK Government	0	0	0	0
UK Local Authorities **	4,000	4,000	0	(4,000)
UK Banks & Building Societies	0	0	0	0
Non-UK Banks	0	0	0	0
Total	**4,000**	**4,000**	**0**	**(4,000)**
** Maximum of £2 million per local authority				

Investment Performance 2021/22

Review of Performance

34. Investment returns dropped to historically exceptionally low levels from late March 2020 onwards and remained there throughout 2020/21. Whilst the Bank of England base rate increased from 0.10% to 0.75% throughout 2021/22, this did not translate to higher investment yields with an average yield of just 0.09% being achieved.

35. Given the low returns available compared to borrowing rates, the Council has continued to achieve budget savings by maintaining a position of under borrowing, which means that it has used its own cash balances to finance capital expenditure rather than taking additional external loans.

36. **Investment Policy.** The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Council for 2021/22. 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 ratings outlooks, credit default swaps, banks share prices etc.). Link Asset Services, the Council's treasury advisors, provide suggested investment durations for the approved counterparties. During 2021/22 cash was not invested in term deposits. To manage the Council's cash flow, balances were held only in highly liquid accounts, specifically in call accounts and MMFs, with the need for money to be available at short notice having been heightened by the unusual pattern of cash flows resulting from the impacts of the pandemic.

Investment performance in 2021/22 is presented in Table 8.

Table 8 – Investment Performance 2021/22	**Average Daily Investment £'000**	**Interest 2021/22 £**	**Average Rate %**
Fixed Term Deposits	0	0	0
Notice Accounts	0	0	0
Call Accounts	6,613	6,557	0.10
Money Market Funds	2,453	2,247	0.09
Debt Management Office DDMADF	250	26	0.01
Total	**9,316**	**8,830**	**0.09**

37. The average return of 0.09% in 2021/22 equals that achieved in 2020/21 and reflects the exceptionally low level of returns available throughout the financial year.

38. The original earnings target for 2021/22, set in February 2021, was 0.10%, this was confirmed in the half-yearly update in November 2021. Given the challenges of sourcing investment opportunities, actual performance is marginally below this target.

Monitoring June Quarter 2022/23

Borrowing and Investments

39. External borrowing as at 30 June 2022 is presented in Appendix E. No additional long term borrowing has been entered into, but it is expected that further loans may be taken out during the year. This will be to finance the capital programme and the borrowing has been budgeted for.

40. Investments as at 30 June 2022 are presented in Appendix F. Cash balances available to invest fluctuate throughout the year, depending on the timing of receipts and payments. The balance at the end of the first quarter was slightly lower than at the beginning of the year

(£9.0m compared to £9.5m) however yield is improving (average 0.58%). It is expected the balance will reduce further by 31 March 2023 as pandemic cash flows come to an end.

41. Appendix G presents the counterparty limits for 2022/23. It is unlikely that cash will be invested in anything other than liquid accounts with instant access.

Prudential and Treasury Indicators and Investment Counterparty Limits

42. These remain unchanged from those approved by Council on 22 February 2022 and there are no current proposals for any changes.

Advice of Link Asset Services

Treasury Advisors' review of 2021/22 and forward looking commentaries

43. Link Asset Services' review of the Economy and Interest Rates in 2021/22 is presented as Appendix D.

44. A detailed economic commentary on developments during the quarter ended 30 June 2022 is presented as Appendix H.

45. Appendix I is a detailed commentary on interest rate forecasts.

Climate change and air quality

46. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

Equality and diversity

47. Not applicable

Risk

48. Regular monitoring and reporting of the Council's Treasury Management position ensure compliance with Prudential Indicators and the Treasury Management Code of Practice.

Comments of the Statutory Finance Officer

49. There are no direct financial implications arising from this report. All financial implications in respect of treasury management activity arise as a result of the annual Treasury Strategies for 2021/22 and 2022/23 approved previously by Council. This report presents details of actual performance achieved as a result of implementing the approved strategies. Variances from the revised budgets for interest receivable and payable for 2020/21 were reflected in the report 'Revenue and Capital Budget Monitoring 21-22 Outturn', presented to Cabinet on 20 June 2022.

50. In March 2020 the government consulted on revising the PWLB's lending terms and to end the situation in which a minority of local authorities used PWLB loans to support the acquisition of investment assets primarily for yield.

51. In November 2020, the government published its response to this consultation and implemented these reforms.

52. The Council is compliant with the latest PWLB reforms.

Comments of the Monitoring Officer

53. Presentation of this report is required to comply with the CIPFA Code of Practice on Treasury Management in the Public Services (2017 edition).

Background documents

- CIPFA Treasury Management in the Public Services: Code of Practice & Cross-Sectoral Guidance Notes (December 2017 edition)
- CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities (July 2018 edition)
- CIPFA Prudential Code for Capital Finance in Local Authorities (December 2017 edition)
- CIPFA Standards of Professional Practice: Treasury Management
- MHCLG Guidance on Local Government Investments
- MHCLG Guidance on Minimum Revenue Provision
- Treasury Management Policy Statement 2021/22 to 2024/25 (Council 24 February 2021)
- Treasury Management Policy Statement 2022/23 to 2025/26 (Council 23 February 2022)

Appendices

Appendix A: External Borrowing as at 31 March 2022

Appendix B: Investments as at 31 March 2022

Appendix C: Investment Counterparties 2021/22

Appendix D: Link Asset Services' review of the Economy and Interest Rates 2021/22

Appendix E: External Borrowing as at 30 June 2022

Appendix F: Investments as at 30 June 2022

Appendix G: Investment Counterparties 2022/23

Appendix H: Link Asset Services' Economic Commentary 2022/23

Appendix I: Link Asset Services' commentary on Interest Rates 2022/23

Appendix J: Glossary of Terms

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APPENDIX A

External Borrowing 31 March 2022

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Total £000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	1,580
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	1,636
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	1,517
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	1,310
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	982
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	337
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	2,500
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	1,786
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	2,743
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	2,775
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	2,250
PWLB loan - Annuity	509641	09/08/2019	09/08/2059	1.87	30,611
PWLB loan - Annuity	509689	16/08/2019	16/08/2059	1.86	1,914
PWLB loan - EIP	509691	16/08/2019	16/08/2039	1.32	2,625
PWLB loan - EIP	165470	28/02/2020	28/02/2060	2.71	5,700
PWLB loan - Maturity	New	01/03/2022	01/03/2072	2.02	10,000
Public Works Loan Board total					70,265
Local Authorities total					0
External Borrowing total					**70,265**

APPENDIX B

List of Investments as at 31/03/22

Counterparty	Type	Amount £'000	Rate %	Date	Maturity
Fixed Term Deposit sub total		**0**			
Santander	Call	5,000	0.23%	On Call	n/a
Barclays BPA Deposit Account	Call	1,494	0.01%	On Call	n/a
Call Accounts sub total		**6,494**			
Federated	MMF	0	0.51% (1)	On Call	n/a
Aberdeen Standard	MMF	0	0.51% (1)	On Call	n/a
Blackrock	MMF	3,000	0.53% (1)	On Call	n/a
Money Market Funds sub total		**3,000**			
Total		**9,494**			

Notes
(1) MMF rates are variable. This is the calculated average for the year to March

APPENDIX C

Investment Counterparties 2021/22

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£5m per group (or institution if independent)
Money Market Funds				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

Yellow	5 years
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

The Economy and Interest Rates 2021/22

UK Economy. Over the last two years, the coronavirus outbreak has had a significant impact on the UK and global economies. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.
The UK economy began to return to business-as-usual through 2021/22 with robust GDP (9% y/y Q1 2022), however this was coupled with rising inflation in the UK and globally.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have improved in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the pressure on real household disposable incomes arising from NI increases, global energy and general price increases continues to provide challenges as inflation continues to rise.

Average inflation targeting. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and *achieving the 2% target sustainably*". However supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

USA. The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the pressure on disposable incomes and the additional uncertainty points in the opposite direction.

More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed's interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

EU. With euro-zone inflation having risen to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said "we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation."

While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a "technical" recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; however with the recent outbreak of Covid-19 in large cities, such as Shanghai, near-term economic performance is likely to be subdued. Official GDP numbers suggest growth of c4% y/y, but other data measures suggest this may be an overstatement.

Japan. The Japanese economic performance through 2021/22 was impacted by a succession of local lockdowns throughout the course of the year, GDP is expected to have risen only 0.5% y/y with Q4 seeing a minor contraction. The policy rate has remained at -0.1%, unemployment is currently only 2.7% and inflation is sub 1%, although cost pressures are mounting.

World growth. World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia's recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

External Borrowing 30 June 2022

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Total £000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	1,573
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	1,613
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	1,486
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	1,263
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	914
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	226
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	2,500
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	1,696
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	2,743
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	2,775
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	2,200
PWLB loan - Annuity	509641	09/08/2019	09/08/2059	1.87	30,611
PWLB loan - Annuity	509689	16/08/2019	16/08/2059	1.86	1,914
PWLB loan - EIP	509691	16/08/2019	16/08/2039	1.32	2,625
PWLB loan - EIP	165470	28/02/2020	28/02/2060	2.71	5,700
PWLB loan - Maturity	New	01/03/2022	01/03/2072	2.02	10,000
Public Works Loan Board total					69,838
Local Authorities total					0
External Borrowing total					**69,838**

APPENDIX F

List of Investments as at 30/06/22

Counterparty	Type	Amount £'000	Rate %	Date	Maturity
Fixed Term Deposit sub total		**0**	**Listed in Order of Maturity**		
Santander	Call	0	0.41%	On Call	n/a
Barclays BPA Deposit Account	Call	2,523	0.20%	On Call	n/a
Call Accounts sub total		**2,523**			
Federated	MMF	2,500	1.125% (1)	On Call	n/a
Aberdeen Standard	MMF	0	1.077% (1)	On Call	n/a
Blackrock	MMF	4,000	1.069% (1)	On Call	n/a
Money Market Funds sub total		**6,500**			
Total		**9,023**			

Notes
(1) MMF rates are variable. This is the calculated average for the year to June

APPENDIX G

Investment Counterparties 2022/23

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£5m per group (or institution if independent)
Money Market Funds				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

Yellow	5 years
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

Economics Update 2022/23

The overall balance of risks to economic growth in the UK is to the downside.

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 three 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, Iran, China, 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 within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

• The pound weakens on the back of UK/EU trade friction resulting in investors pricing in a risk premium for holding UK sovereign debt.

• Longer term US treasury yields continue to rise strongly and pull gilt yields up higher than forecast.

LINK GROUP FORECASTS

We now expect the MPC to swiftly increase Bank Rate during 2022 and 2023 to combat the sharp increase in inflationary pressures. We do not think that the MPC will embark on a series of increases in Bank Rate that would take it to more than 2.75%.

APPENDIX I

Updated Interest Rate Forecasts 2022/23

Link Group Interest Rate View 21.06.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
BANK RATE	1.75	2.25	2.75	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25
3 month ave earnings	2.00	2.50	2.80	2.80	2.80	2.80	2.60	2.50	2.30	2.30	2.20	2.20
6 month ave earnings	2.50	2.80	3.00	3.00	2.90	2.90	2.80	2.70	2.60	2.50	2.40	2.30
12 month ave earnings	3.10	3.20	3.20	3.20	3.00	2.90	2.80	2.60	2.50	2.40	2.40	2.40
5 yr PWLB	3.20	3.30	3.30	3.30	3.30	3.20	3.10	3.00	3.00	3.00	2.90	2.90
10 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.30	3.20	3.20	3.20	3.10	3.10
25 yr PWLB	3.70	3.70	3.70	3.70	3.70	3.70	3.60	3.50	3.50	3.40	3.40	3.30
50 yr PWLB	3.40	3.40	3.50	3.50	3.40	3.40	3.30	3.20	3.20	3.10	3.10	3.00

Link Group Interest Rate View 10.5.22													
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
BANK RATE	1.25	1.50	1.75	2.00	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75
3 month ave earnings	1.20	1.50	1.70	2.00	2.00	2.00	2.00	2.00	1.70	1.70	1.70	1.70	1.70
6 month ave earnings	1.60	1.90	2.10	2.20	2.20	2.20	2.20	2.10	2.00	1.90	1.90	1.90	1.90
12 month ave earnings	2.00	2.20	2.30	2.40	2.40	2.30	2.30	2.20	2.20	2.10	2.10	2.10	2.10
5 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.50	2.50	2.50	2.50	2.50
10 yr PWLB	2.80	2.80	2.90	2.90	2.90	2.90	2.90	2.90	2.80	2.80	2.80	2.80	2.80
25 yr PWLB	3.00	3.10	3.10	3.20	3.20	3.20	3.10	3.10	3.00	3.00	3.00	3.00	3.00
50 yr PWLB	2.70	2.80	2.80	2.90	2.90	2.90	2.80	2.80	2.70	2.70	2.70	2.70	2.70

Glossary of Terms

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

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

Capital expenditure – material expenditure on capital assets, such as land and buildings, capitalised in accordance with regulations.

Capital Financing Requirement (CFR) – the level of capital expenditure to be financed from borrowing. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision (MRP) mechanism.

CIPFA – Chartered Institute of Public Finance and Accountancy

Counterparty – the other party involved in a borrowing or investment transaction.

Credit Rating – a qualified assessment and formal evaluation of the credit history and capability of repaying obligations of an institution (bank or building society). It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time. Ratings are prepared by Finch, Moody's and Standard & Poor's, and these are monitored by Link Asset Services.

Gilt - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

Liquidity – the ability of an asset to be converted into cash quickly and without any price discount. The more liquid an organisation is, the better able it is to meet short term financial obligations.

LIBID – London Interbank Bid Rate - the interest rate at which London banks ask to pay for borrowing Eurocurrencies from other banks. Unlike LIBOR, which is the rate at which banks lend money, LIBID is the rate at which banks ask to borrow. It is not set by anybody or organisation, but is calculated as the average of the interest rates at which London banks bid for borrowed Eurocurrency funds from other banks. It is also the interest rate London banks pay for deposits from other banks.

LVNAV MMF (Low Volatility Net Asset Value MMF) - a type of fund categorised as a Short Term MMF. Units in the fund are purchased or redeemed at a constant price, as long as the value of the assets in the fund do not deviate by more than 0.2% from par.

MHCLG – Ministry of Housing, Communities and Local Government (formerly DCLG)

Minimum Revenue Provision (MRP) - is a provision the council has set-aside from revenue to repay loans arising from capital expenditure financed by borrowing. MRP is required even when borrowing is internal rather than external.

Monetary Policy Committee (MPC) – independent body which determines the Bank Rate.

Money Market Fund (MMF) - mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating debt-based securities with a short-term, maturity—less than 13 months. As a result, these funds offer high liquidity with a very low level of risk.

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

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

PWLB – Public Works Loan Board. An institution managed by the Government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell gilts.

Revenue expenditure – day to day items which may not be capitalised without a Government direction, including employees' pay, transport and premises costs, supplies and services, and benefits.