Report to:	**Audit and Governance Committee**
Date:	**10 October 2023**
Title:	**Annual Treasury Management Report 2022/23**
Portfolio Area:	**Cllr C Edmonds – Resources**
Wards Affected:	**ALL**

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Date next steps can be taken**: N/A**

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Recommendations:

That the Audit and Governance Committee:

1. Approves the actual 2022/23 prudential and treasury indicators in this report.

2. Notes the Annual Treasury Management report for 2022/23.

1. Executive summary

1.1 Income from investments this year was £600,571 which is £575,250 higher than the budget of £25,321 at an average return of 2.08%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.11% return on investments below the benchmark for 22/23. The reason for the benchmark not being met is that rates were very low at the start of 2022/23 (0.04%) and then substantially rose throughout the year.

2. Background

2.1 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 2022/23. 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).

2.2 Treasury management is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2.3 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Minute CM 73)
- A mid-year (minimum) treasury update report (Minute AC 29)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

2.4 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.

2.5 This Council also 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 Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during 2020/21 and will be carried out again in November 2023 in order to support their scrutiny role.

3. The Economy and Interest Rates

3.1 **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.

3.2 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	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

3.3 Q2 of 2022 saw UK GDP deliver growth of +0.1% 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. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

3.4 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%.

3.5 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 MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

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

4. Overall Treasury Position as at 31 March 2023

4.1 At the beginning and the end of 2022/23 the Council's treasury position was as follows:

Treasury Portfolio	31 March 2022		31 March 2023	
	£'000	**Rate%**	**£'000**	**Rate%**
Treasury Investments:				
Short term – fixed	17,200	0.74	*10,200	3.98
Money Market Funds	9,650	0.38	10,800	3.98
Property Funds	553	3.25	462	4.26
Total treasury investments	**27,403**		**21,462**	
Treasury External Borrowing				
PWLB	28,341	2.54	27,726	2.54
Total external borrowing (£27.012m of long term borrowing and £714k of short term borrowing)	**28,341**		**27,726**	
Net treasury investments / (borrowing)	**(938)**		**(6,264)**	

* The reduction in investments as at 31 March 2023 of £7m partly relates to the timing of the Council Tax energy rebate grant (£2.99m) which was received at the end of 2021/22 and the payments were made on behalf of Central Government at the beginning of 2022/23. In addition the Council also administered various Business Grants on behalf of Central Government in 2021/22 and part of the reduction in investments relates to unapplied funding being repaid to Central Government in 2022/23.

4.2 The following is a list of the Council's investments at 31 March 2023.

Fixed Term Deposits

Amount	Investment	Average Interest rate
£3,000,000	Lloyds Bank Plc	4.35%
£3,000,000	Standard Chartered	3.82%
£4,200,000	DMO	3.77%
£10,200,000	**Total**	

Money Market Funds

Amount	Investment	Average Interest rate
£1,800,000	Aberdeen Standard Investments	3.95%
£3,000,000	BlackRock	4.06%
£3,000,000	Deutsche	3.95%
£3,000,000	LGIM	3.97%
£10,800,000	**Total**	

Property Funds

Amount	Investment	Dividend Yield
£461,930	CCLA – Property Fund	4.26%

4.3 At Council in February 2017, it was approved (Minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in April 2017.

4.4 The investment was made with a view to a long term commitment. The bid market value as at 31 March 2023 for the Council's investment was £461,930. As at August 2023, the value is £456,640.

South West Mutual

4.5 South West Mutual have provided an update on their website which references that for the past few years, they have worked hard to find the starting point for a regional mutual bank for Devon, Cornwall, Somerset and Dorset. However they have reached a point that it has become clear to them that while there will be a time to launch the bank, that time has not yet come and they are moving forwards as a lean, volunteer-led member organisation.

4.6 In December 2018 the Council supported the formation of the South West Mutual with an economic grant of £49,995 which was funded out of the business rate pilot gain from 2018/19. Further information is available on their website. https://southwestmutual.co.uk/

5. The Strategy for 2022/23

Investment strategy and control of interest rate risk

5.1 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

5.2 Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24. As at September 2023 the bank base rate is 5.25%.

5.3 The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

5.4 Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

5.5 Nonetheless, 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 Great Financial Crisis of 2008/09. 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.

5.6 The Treasury Management Strategy Report for 2022/23 was approved by the Council on 5 April 2022 (Minute – CM73).

Borrowing strategy and control of interest rate risk

5.7 During 2022/23, the Council has a slightly over-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement) is lower than the external borrowing of the Council. This is a temporary position and future Housing capital projects will bring this back into line.

5.8 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been 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.

5.9 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Strategic Finance (S.151 Officer) 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.

5.10 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

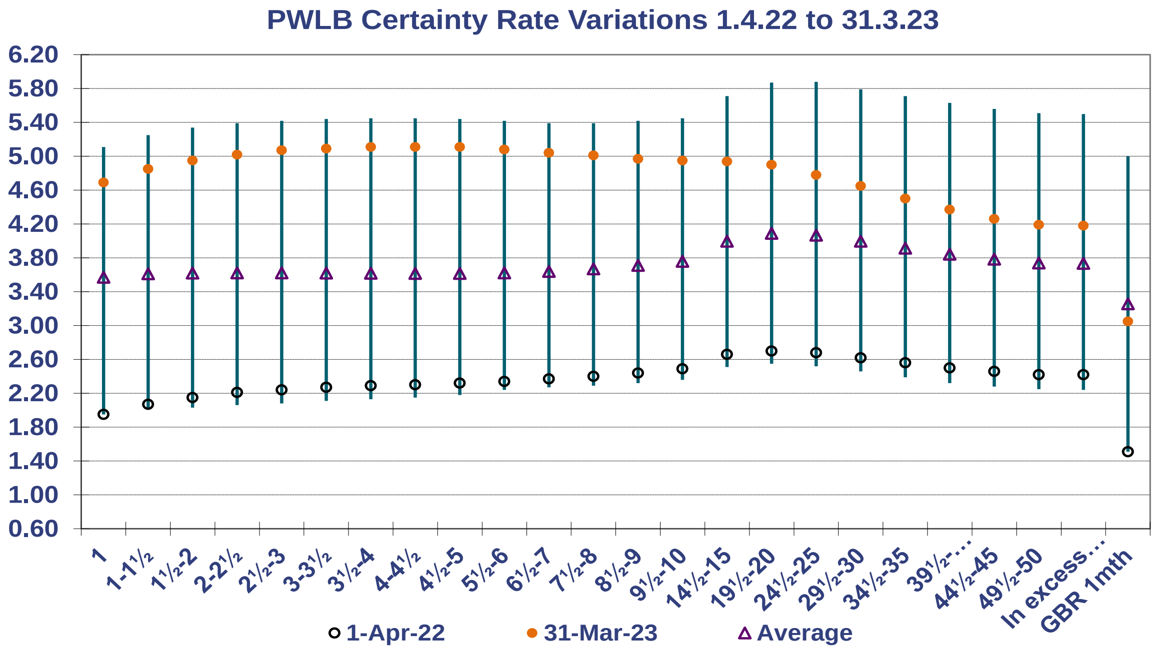
5.11 Interest rate forecasts during 2022/23 are shown below (as at 27.03.2023).

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

5.12 The latest interest rate forecasts as at 25 September 2023 are shown below.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

5.13 Actual PWLB borrowing rates - the graph below shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

5.14 PWLB rates are based on gilt (UK Government bonds) yields through HM 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. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned 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.

5.15 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

5.16 At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

5.17 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)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

6. Borrowing Outturn for 2022/23

6.1 Details of the loans outstanding at 31 March 2023 are shown below:

Lender	Type	Maturity	Interest Rate %	Principal held at 31 March 2022 £'000	Principal held at 31 March 2023 £'000
PWLB - Maturity	Fixed Interest Rate	45 Years	4.55	2,100	2,100
PWLB - Annuity	Fixed Interest Rate	9 Years	1.92	1,528	1,234
PWLB – Annuity	Fixed Interest Rate	22 Years	1.95	1,331	1,273
PWLB – Annuity	Fixed Interest Rate	50 Years	2.65	12,241	12,105
PWLB - Annuity	Fixed Interest Rate	50 Years	2.60	3,471	3,432
PWLB – 23 maturity loans	Fixed Interest Rate	49 Years	2.54*	3,592	3,592
PWLB – Annuity	Fixed Interest Rate	50 Years	2.31	1,740	1,720
PWLB – Annuity	Fixed Interest Rate	30 Years	1.73	2,338	2,270
Total				**28,341**	**27,726**

*Average interest rate

Repayments

6.2 During 2022/23 the Council repaid interest of £733,000 at an average rate of 2.54%.

Borrowing in advance of need

6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. The Council has not taken out any borrowing in 2022/23.

6.4 In September 2019, when borrowing rates fell to a point where it was considered optimal to do so in order to finance capital expenditure which would be incurred within the time frame of the forward approved Capital Financing Requirement estimates, the Council borrowed £2.5 million at an interest rate of 1.73% for future forecast capital expenditure. In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, the current economic climate and that the Council could ensure the security of such funds placed on temporary investment.

Debt rescheduling

6.5 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn for 2022/23

7.1 **Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 5 April 2022 (Minute – CM73). 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.).

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

7.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. Income from investments this year was £600,571 which is £575,250 higher than the budget of £25,321 at an average return of 2.08%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.11% return on investments below the benchmark for 22/23. The reason for the benchmark not being met is that rates were very low at the start of 2022/23 (0.04%) and then substantially rose throughout the year.

7.4 By March 2023 the rate of investment return achieved on investments was 4.19% (Link Services March 2023 report).

7.5 The Council's core cash resources comprised as follows:

Balance Sheet Resources £'000	31 March 2022	31 March 2023
General Fund Balance	1,490	1,569
Earmarked Reserves	9,189	8,902
Usable Capital Receipts	56	70
Provisions	921	733
Other (Collection Fund and Capital contributions unapplied)	(511)	2,125
Total	**11,145**	**13,399**

8. Other Issues 2022/23

IFRS 9 fair value of investments

8.1 Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

9. Outcomes/outputs

9.1 Income from investments this year was £600,571 which is £575,250 higher than the budget of £25,321.

9.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The SONIA rate at the end of March was 2.19% which is 0.11% higher than our average return of 2.08% as at 31 March 2023.

10. Options available and consideration of risk

10.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

10.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

10.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

11. Proposed Way Forward

11.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

12. Compliance with Treasury Limits and Prudential Indicators

12.1 During 2022/23 the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2022/23 are detailed and shown in Appendix B.

13. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003
Financial Implications to include reference to value for money	Y	Income from investments this year was £600,571 which is £575,250 higher than the budget of £25,321 at an average return of 2.08%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.11% return on investments below the benchmark for 22/23. By March 2023 the rate of investment return achieved on investments was 4.19% (Link Services March 2023 report). Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.

		The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members.
Supporting Corporate Strategy		The income from treasury management supports all the Council's corporate strategy themes.
Climate Change - Carbon / Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	None directly arising from this report.
Safeguarding	N	None directly arising from this report.
Community Safety, Crime and Disorder	N	None directly arising from this report.
Health, Safety and Wellbeing	N	None directly arising from this report.
Other implications	N	None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Lending list as at 31 March 2023
Appendix B - Prudential and Treasury Indicators 2022/23

Background Papers:

Annual treasury strategy in advance of the year (Council 5 April 2022 – CM73)
A mid-year treasury update report (Audit Committee 14 March 2023 –AC29)

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	**Yes**
SLT Rep briefed	**Yes**
Relevant Exec Director sign off (draft)	**Yes**
Data protection issues considered	**Yes**
Accessibility checked	**Yes**

APPENDIX A

Counterparty as at 31st March 2023		Fitch Rating					Moody's Ratings			S&P Ratings			
United Kingdom			Long Term	Short Term	Viability	Support		Long Term	Short Term		Long Term	Short Term	Suggested Duration
AAA Rated and Government Backed Securities	Collateralised LA Deposit*												Y - 60 mths
	Debt Management Office												Y - 60 mths
	Multilateral Development Banks												Y - 60 mths
	Supranationals												Y - 60 mths
	UK Gilts												Y - 60 mths
	Al Rayan Bank PLC	SB					SB	A1	P-1				R - 6 mths
	Bank of Scotland PLC (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a	WD	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Close Brothers Ltd	NO	A-	F2	a-	WD	SB	Aa3	P-1				R - 6 mths
	Clydesdale Bank PLC	SB	A-	F2	bbb+	WD	SB	A3	P-2	SB	A-	A-2	G - 100 days
	Co-operative Bank PLC (The)	SB	BB	B	b	WD	PO	Ba1	NP				N/C - O mths
	Goldman Sachs International Bank	SB	A+	F1		WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	SB	AA	F1+		WD				SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	SB	AA-	F1+	a	WD	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	HSBC UK Bank Plc (RFB)	SB	AA-	F1+	a	WD	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A+	F1		WD	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	National Bank of Kuwait (International) PLC	SB	A+	F1		WD				SB	A	A-1	R - 6 mths
	NatWest Markets Plc (NRFB)	SB	A+	F1	WD	WD	SB	A1	P-1	SB	A-	A-2	R - 6 mths
	Santander Financial Services Plc (NRFB)	SB	A+	F1		WD	NO	A1	P-1	SB	A-	A-2	R - 6 mths
	Santander UK PLC	SB	A+	F1	a	WD	NO	A1	P-1	SB	A	A-1	R - 6 mths
	SMBC Bank International PLC	SB	A-	F1		WD	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Standard Chartered Bank	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
Building Societies	Coventry Building Society	SB	A-	F1	a-	WD	SB	A2	P-1				R - 6 mths
	Leeds Building Society	SB	A-	F1	a-	WD	SB	A3	P-2				G - 100 days
	Nationwide Building Society	SB	A	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Principality Building Society	SB	BBB+	F2	bbb+	WD	SB	Baa2	P-2				N/C - O mths
	Skipton Building Society	SB	A-	F1	a-	WD	SB	A2	P-1				R - 6 mths
	West Bromwich Building Society						SB	Ba3	NP				N/C - O mths
	Yorkshire Building Society	SB	A-	F1	a-	WD	SB	A3	P-2				G - 100 days
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A	A-1	B - 12 mths

Key

Watches and Outlooks		Duration	
SB	Stable Outlook	Yellow - Y	60 Months
NO	Negative Outlook	Blue - B	12 Months
NW	Negative Watch	Orange - O	12 Months
PO	Positive Outlook	Red - R	6 Months
PW	Positive Watch	Green - G	100 Days
EO	Evolving Outlook		
EW	Evolving Watch		

APPENDIX B

PRUDENTIAL AND TREASURY INDICATORS 2022/23

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure and Financing

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.

The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure and how this was financed.

Capital Expenditure	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000
General Fund services	1,103	*3,945	*2,032
TOTAL	**1,103**	**3,945**	**2,032**

*This estimate included a housing redevelopment project. These estimates were prepared in January 2022.

**The main projects included in the actual for 2022/23 were Private Sector Renewal Grants, Disabled Facilities Grants and Green Homes Grants.

Capital Expenditure and Financing	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000
Capital Expenditure	1,103	3,945	2,032
Financed by:			
External sources	(607)	(2,288)	(1,774)
Own resources	(334)	(1,165)	(258)
Unfinanced capital expenditure	(162)	*492	0

*The 2022/23 estimates were prepared in January 2022. See the Capital Expenditure table above for an explanation of the differences in value between the estimates for capital schemes and the actual expenditure in 2022/23.

The Council's Overall Borrowing Need (the Capital Financing Requirement)

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 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position 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.

CFR	**2021/22 Actual £000**	**2022/23 Estimate £000**	**2022/23 Actual £000**
Opening balance	25,361	24,738	24,900
Add unfinanced capital expenditure (as above)	162	*492	0
Less MRP/VRP	(623)	(636)	(647)
Closing balance	**24,900**	**24,594**	**24,253**

*The 2022/23 estimates were prepared in January 2022. See the Capital Expenditure table above for an explanation of the differences in value between the estimates for capital schemes and the actual expenditure in 2022/23.

The Council's Gross Debt and the Capital Financing Requirement

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £3.47m in 2022/23. This is only a short term position as this will finance future capital expenditure which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

	2021/22 Actual £000	**2022/23 Estimate £000**	**2022/23 Actual £000**
Debt	28,341	27,726	27,726
Capital Financing Requirement	24,900	24,594	24,253
Over/(under) funding of CFR	3,441	3,132	3,473

AFFORDABILITY PRUDENTIAL INDICATORS

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

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2021/22 Actual	**2022/23 Estimate**	**2022/23 Actual**
Financing costs (£)	1,333,593	1,343,363	*778,880
Proportion of net revenue stream	18.3%	17.3%	10.0%

*The estimates were prepared in January 2022. During the year income from investments was £600,571 which was £575,250 higher than the budget of £25,321. This was due to successive increases in the bank base rate. As at March 2023 the Council was achieving 4.19% return from its treasury management investments. In addition to this the Council took out no external borrowing in 2022/23 and therefore financing costs were lower than estimated.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

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.

Operational Boundary	**2021/22**	**2022/23**
	£	**£**
Borrowing	47,500,000	35,000,000
Other long term liabilities	-	-
Total	47,500,000	35,000,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by 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.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

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 no control has yet been exercised.

Authorised limit	**2021/22**	**2022/23**
	£	**£**
Borrowing	50,000,000	50,000,000
Other long term liabilities	-	-
Total	50,000,000	50,000,000

West Devon Borough Council's current level of borrowing as at 31 March 2023 was £27.726 million.

The maturity analysis of fixed rate borrowing is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

Refinancing rate risk indicator	**Approved minimum limits**	**Approved maximum limits**	**Actual 31 March 2022**		**Actual 31 March 2023**	
	%	**%**	**£million**	**%**	**£million**	**%**
Less than 1 year	0%	10%	0.615	2.2	0.713	2.6
Between 1 and 2 years	0%	10%	0.713	2.5	0.642	2.3
Between 2 and 5 years	0%	30%	2.057	7.3	1.869	6.7
Between 5 and 10 years	0%	30%	2.185	7.7	2.135	7.7
Between 10 and 20 years	0%	50%	5.018	17.7	5.037	18.2
20 years and above	0%	100%	17.753	62.6	17.330	62.5
Total			**28.341**	**100**	**27.726**	**100**