Report of	Meeting	Date
Director of Finance and Section 151 Officer	Governance Committee	Tuesday, 26 July 2022

TREASURY MANAGEMENT ANNUAL REPORT 2021/22 AND JUNE QUARTER MONITORING 2022/23

Is the report confidential ?	No
Is the decision key ?	No

Purpose of the Report

1. To present the outturn for Treasury Management activity in financial year 2021/22 and monitoring information in respect of the first quarter of 2022/23.

Recommendations to Governance Committee

2. Members are asked to note the report.

Reasons for recommendations

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

Other options considered and rejected

4. Not applicable.

Corporate priorities

5. The report relates to the following corporate priorities: (please bold all those applicable):

An exemplary council	Thriving communities
A fair local economy that works for everyone	**Good homes, green spaces, healthy places**

EXECUTIVE SUMMARY

6. The report summarises Treasury Management activity and performance against approved indicators over the financial year 2021/22 and in the first three months of 2022/23, across the following headings:

   - Capital Expenditure And Financing (paragraphs 11-13)
   - Overall Borrowing Need (paragraphs 14-26)
   - Treasury Position As At 31 March 2021 (paragraphs 27-31)
   - Investment Performance 2021/22 (paragraphs 32-39)
   - Monitoring June Quarter 2021/22 (paragraphs 40-42)
   - Advice of Link Asset Services (paragraphs 43-45)

7. Key points to note are:

   - The Council's actual capital expenditure for the year was fully financed (paragraph 13/Table 2).
   - The financing requirement for capital expenditure was £1.307 million.
   - 2021/22 has seen a number of rises in the Bank of England's Base Rate; originally 0.10%, this was raised to 0.25% (Dec 21); 0.50% (Feb 22) and finally 0.75% in March 2022.
   - In 2021/22, the Council had an average investment balance of £58.294m and earned interest on this of £86.8k (0.15%). This exceeded the target rate of 0.10% (paragraphs 32-39).
   - At the end of June 2022, the average investment balance over the first quarter of the financial year was £54.017m, on which interest of £72k (0.54%) had been earned, reflecting the continuing exceptionally low level of interest rates (paragraphs 40-42).

BACKGROUND TO THE REPORT

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

9. A mid-year review of Treasury Management activity was presented to Governance Committee on 24 November 2021.

10. The prudential and treasury indicators for 2021/22, approved as part of the Treasury Management Policy Statement for 2021/22 remained unchanged throughout the year and all comparisons made in this report are based on those same indicators.

THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

11. 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 insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

12. 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	**2021/22 Estimate £'000**	**2021/22 Revised £'000**	**2021/22 Actual £'000**	**2021/22 Variance £'000**
Good homes, green spaces and healthy places	10,338	8,894	5,107	(3,787)
A fair economy that works for everyone	2,200	2,191	588	(1,603)
Thriving Communities	350	298	296	(2)
An exemplary Council	2,926	1,942	1,818	(124)
TOTAL CAPITAL EXPENDITURE	**15,814**	**13,325**	**7,809**	**(5,516)**

Additional analysis of the schemes included in the 2021/22 Capital Programme was presented to Cabinet on 20 June 2022 in the report 'Revenue and Capital Budget Monitoring 21-22 Outturn'.

13. 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)	15,814	13,325	7,809	(5,516)
Capital Receipts	(0)	(70)	(185)	(115)
Grants & Contributions	(1,420)	(4,494)	(2,396)	2,098
Revenue & Reserves	(5,472)	(5,733)	(3,921)	1,812
NET FINANCING NEEDED FOR YEAR	**8,922**	**3,028**	**1,307**	**(1,721)**

THE COUNCIL'S OVERALL BORROWING NEED

14. 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 the current year, plus unfinanced capital expenditure from prior years which has not yet been paid for by revenue or other resources. The CFR includes any Other Long Term Liabilities, and in particular finance leases. Such leases increase the CFR, but incorporate a borrowing facility, provided by the lessor, so the Council is not required to borrow separately for these schemes.

15. Part of the Council's treasury activity is to address the funding requirement for its 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. **In 2021/22 it did not prove necessary to borrow for this purpose.**

16. 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 the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.

17. 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.

18. 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).

19. The 2021/22 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Strategy 2020/21 to 2023/24 on 24 February 2021.

20. The Council's CFR for the year is shown in Table 3 below and represents a key prudential indicator.

Table 3 – Capital Financing Requirement 2021/22	2021/22 Estimate £'000	2021/22 Revised £'000	2021/22 Actual £'000	2021/22 Variance £'000
Opening CFR	2,380	2,500	2,500	0
Net financing need for the year (Table 2)	8,922	3,028	1,307	(1,721)
Less MRP / VRP	(299)	(298)	(298)	0
Closing CFR	**11,003**	**5,230**	**3,509**	**(1,721)**

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

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

22. **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 the 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, but **this facility was not required in 2021/22.**

Table 4 – Portfolio Position	2021/22 Estimate £'000	2021/22 Revised £'000	2021/22 Actual £'000	2021/22 Variance £'000
Debt at 1 April	0	0	0	0
Other Long Term Liabilities (OLTL)	0	0	0	0
Total Gross Debt 1 April	0	0	0	0
Change in Debt	4,461	0	0	0
Change in OLTL	0	0	0	0
Change in Gross Debt	4,461	0	0	0
Gross Debt 31 March	4,461	0	0	0
Capital Financing Requirement (Table 3)	11,003	5,230	3,509	(1,721)
Under / (Over) Borrowing	**6,542**	**5,230**	**3,509**	**(1,721)**

23. **The authorised limit**. This is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The original limit set by Council on 24 February 2021 was £7.500m. 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:

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

24. The Council has maintained gross borrowing within its authorised limit.

25. **The operational boundary.** This is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary are acceptable subject to the authorised limit not being breached. The operational boundary set for 2021/22 was £4.500m.

26. **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	3.43	0.71	1.48	0.77

The increase compared to the revised estimate is attributable to the fall in investment income (which is netted off against MRP/VRP to produce the figure for net financing costs).

TREASURY POSITION AS AT 31 MARCH 2022

27. 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	(43,378)	(52,259)	(59,663)	(7,404)
Under / (over) borrowing (Table 4)	6,542	5,230	3,509	(1,721)
Investments	(36,836)	(47,029)	(56,154)	(9,125)

28. A detailed analysis of Short Term Investments and Cash and Cash Equivalents is presented as Appendix A. Term Deposits by counterparty are shown in Table 7.

Table 7 – Summary of Term Deposits by Counterparty 31 March 2022	**Type**	**Amount 31 March 22 £'000**	**Limit £'000**
Eastleigh BC	Term	4,000	6,000
Goldman Sachs	Term	4,000	6,000
Helaba	Term	4,000	6,000
Plymouth City Council	Term	5,000	6,000
Blackpool BC	Term	5,000	6,000
DMADF (Debt Management Office)	Term	4,000	4,000
Fixed term Deposits Sub-Total		**26,000**	

29. All counterparty limits were adhered to throughout 2021/22.

30. Appendix B presents the approved limits for 2021/22.

31. Council approved that a maximum of £6m should be invested with any single UK local authorities for more than 365 days and up to two years. No sums were invested for more than 365 days.

Table 8 – Maximum Principal Sums Invested >365 Days 2021/22	**2021/22 Estimate £'000**	**2021/22 Revised £'000**	**2021/22 Actual £'000**
UK Government	0	0	0
UK Local Authorities	6,000	6,000	0
UK Banks & Building Societies	0	0	0
Non-UK Banks	0	0	0
Total	**6,000**	**6,000**	**6,000**

INVESTMENT PERFORMANCE 2021/22

32. 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 0.15% being achieved.

33. 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.

34. **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. From time to time, suggested durations reduce after a term deposit has been placed, for instance from twelve to six months, but this did not occur during 2021/22.

35. Investment performance for 2021/22 is presented in Table 9.

Table 9 – Investment Performance 2021/22	**Average Daily Investment £'000**	**Interest £**	**Average Rate %**
Debt Management office	10,640	5,249	0.05
Other Fixed Term Deposits	17,090	31,029	0.18
Notice Accounts	12,000	39,649	0.33
Call Accounts	3,600	924	0.03
Money Market Funds	14,964	9,907	0.07
TOTAL	**58,294**	**86,758**	**0.15**

36. The average return of 0.15% in 2021/22 compares to the 0.36% achieved in 2020/21, and reflects both the generally exceptionally low level of returns and the specific difficulties experienced in placing fixed term deposits with other local authorities. This in turn reflects the unusual patterns of local authority cash flows in 2021/22, resulting from Government measures to address the impacts of the pandemic. In general terms, this has meant that most authorities have had higher cash balances than would usually have been the case, so fewer have had short-term borrowing needs.

37. The Council has itself felt the effect of this, with the average daily balance of £58.294m shown above being 16% higher than the 2020/21 figure of £50.089m. This has slightly mitigated the loss in interest earned, with the total of £87k being down by 51% compared to the £177k earned in 2020/21, whereas the average interest rate (see above) was down by 58%.

38. The Council would usually only rarely place money with the Debt Management Office, and them only for very short periods (typically just one or two days), because the interest rates offered would be significantly lower than those available elsewhere. However, throughout 2021/22, the need to keep funds available at short notice to deal with the

unusual pattern of major cash flows, together with the lack of alternative investment opportunities, has led to more extensive use being made of this facility, with a daily average investment with the DMO of £10.640m. The effect of this on investment returns has, however, not been especially marked, because the generally low levels of interest rates available elsewhere has reduced the differential between these and DMO rates.

39. 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. Despite the challenges of sourcing investment opportunities, **the target has been exceeded in 2021/22**.

MONITORING QUARTER 1 2022/23 – 3 months to 30th June 2022

40. **Borrowing**. No borrowing was entered into in the first quarter of 2022/23.

41. **Investments as at 30 June 2022** are presented in Appendix D. Cash balances available to invest fluctuate throughout the year, depending on the timing of receipts and payments. The balance of £55.382m was £3m (5.4%) lower than the £58.533m at 30 June 2021. This is principally because of the impact of measures introduced in response to the pandemic, which have resulted in some major cash flows both in and out. The average daily balance was £54.017m, earning interest of £72k (0.54%).

42. **Prudential and Treasury Indicators and Investment Counterparty Limits** remain unchanged from those approved by Council on 23 February 2022 and there are no current proposals for any changes. Appendix E presents the counterparty limits for 2022/23.

ADVICE OF LINK ASSET SERVICES

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

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

45. Appendix G 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 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: Investments as at 31 March 2022

Appendix B: Investment Counterparties 2021/22

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

Appendix D: Investments as at 30 June 2022

Appendix E: Investment Counterparties 2022/23

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

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

Appendix H: Glossary of Terms

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APPENDIX A

List of Investments as at 31/03/22

Counterparty	Type	Amount £'000	Rate %	Date	Maturity
Eastleigh BC	Term	4,000	0.04%	29-Nov-21	30-May-22
Goldman Sachs	Term	4,000	0.82%	01-Feb-22	01-Aug-22
Helaba	Term	4,000	0.64%	02-Feb-22	02-Aug-22
Plymouth City Council	Term	5,000	0.08%	09-Sep-21	25-Aug-22
Blackpool BC	Term	5,000	0.08%	28-Oct-21	20-Sep-22
Fixed Term Deposit sub total		**22,000**	**Listed in Order of Maturity**		
DMADF	Term	4,000	0.55%	30-Mar-22	06-Apr-22
Debt Management Office sub total		**4,000**			
Santander UK PLC	180 Day Notice	6,000	0.40%	15-Mar-16	n/a
Bank of Scotland	175 Day Notice	6,000	0.06%	30-Nov-17	n/a
Notice Accounts sub total		**12,000**			
Barclays Fibca Deposit Account	Call	3,154	0.01%	On Call	
Call Accounts sub total		**3,154**			
Federated	MMF	5,000	0.51%	On Call	
Aberdeen Standard	MMF	5,000	0.51%	On Call	
Blackrock	MMF	5,000	0.53%	On Call	
Money Market Funds sub total		**15,000**			
Total		**56,154**			

Notes

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

APPENDIX B

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	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited £6m per LA
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£6m per group (or independent institution)
Non-UK Banks	Non-UK banks of high credit quality	Orange Red Green	1 year 6 months 3 months	£4m per group (or independent institution); £8m in total for this category
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

APPENDIX C

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.

APPENDIX D

List of Investments as at 30/06/22

Counterparty	Type	Amount £'000	Rate %	Date	Maturity
Goldman Sachs	Term	4,000	0.82%	01-Feb-22	01-Aug-22
Helaba	Term	4,000	0.64%	02-Feb-22	02-Aug-22
Plymouth City Council	Term	5,000	0.08%	09-Sep-21	25-Aug-22
Blackpool BC	Term	5,000	0.08%	28-Oct-21	20-Sep-22
Fixed Term Deposit sub total		**18,000**	**Listed in Order of Maturity**		
DMADF	Term	4,000	0.97%	31-May-22	01-Jul-22
DMADF	Term	4,000	1.03%	30-Jun-22	04-Jul-22
Debt Management Office sub total		**8,000**			
Santander UK PLC	180 Day Notice	6,000	0.40%	15-Mar-16	n/a
Bank of Scotland	175 Day Notice	6,000	1.01%	30-Nov-17	28-Dec-22
Notice Accounts sub total		**12,000**			
Barclays Fibca Deposit Account	Call	2,432	0.20%	On Call	
Call Accounts sub total		**2,432**			
Federated	MMF	4,950	1.12%	On Call	
Aberdeen Standard	MMF	5,000	1.08%	On Call	
Blackrock	MMF	5,000	1.07%	On Call	
Money Market Funds sub total		**14,950**			
Total		**55,382**			

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

APPENDIX E

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	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited £6m per LA
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£6m per group (or independent institution)
Non-UK Banks	Non-UK banks of high credit quality	Orange Red Green	1 year 6 months 3 months	£4m per group (or independent institution); £8m in total for this category
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

APPENDIX F

Economics Update 2022/23 - The balance of risks to the UK economy: -

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 G

Link Group - Updated Interest Rate Forecasts (21/6/22)

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

APPENDIX H

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.