TREASURY MANAGEMENT STRATEGY 2023/24

REPORT OF THE TREASURER

CLEVELAND FIRE AUTHORITY

For Approval

1. PURPOSE OF REPORT

1.1 To enable the Authority to approve the Treasury Management Strategy referred from the Audit and Governance Committee.

2. RECOMMENDATIONS

The Audit and Governance Committee considered the recommended 2023/24 Treasury Strategy and determined to refer the following recommendations to the Full Authority for approval:

i) Note the 2021/22 Treasury Management outturn detailed in Section 5 and Appendix A.

ii) Note the 2022/23 Treasury Management mid-year position detailed in section 6.

iii) Approve the prudential indicators outline in Appendix B.

iv) Borrowing Strategy 2023/24
To note that in the event of a change in economic circumstances that the Treasurer may take out additional borrowing in advance of need if this secures the lowest long term interest cost.

v) Investment Strategy 2023/24
Approve the Counterparty limits as set out in paragraph 9.8.

i) Minimum Revenue Provision (MRP) Statement
Approve the following MRP statement:

- For capital expenditure incurred before 1st April 2008 the Authority's MRP policy is to calculate MRP in accordance with former CLG Regulations. This is 4% of the Capital Financing Requirement except where the Authority makes Voluntary Revenue Payments which is in excess of the amount required by these regulations, based on asset life;
- From 1st April, 2008 the Authority calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments.
- The Treasurer may determine to make Voluntary Revenue Provision payments to reduce the Authority's overall CFR if it is in the best financial interests of the Authority.

3. BACKGROUND

3.1 The Treasury Management Strategy covers:

- The strategy for the Authority's borrowing requirement arising from historic capital expenditure and the element of the approved Asset Management Plan funded from Prudential borrowing; and
- The annual investment strategy relating to the Authority's cash flow.

3.2 The Local Government Act 2003 requires the Authority to 'have regard to' the CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential Code and to set prudential indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

3.3 The Act requires the Authority to set out a Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Secretary of State has issued Guidance on Local Government Investments which came into force on 1st April, 2004, and has subsequently been updated, most recently in 2021.

3.4 The Authority is required to nominate a body to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies, before making recommendations to the full Authority. This responsibility has been allocated to the Audit and Governance Committee and this report was considered by the Committee on 24th February 2023. The Audit and Governance Committee approved the recommendations detailed in section 2.

3.5 This report covers the following areas:

- Economic background and outlook for interest rates
- Treasury management outturn position for 2021/22
- Treasury Management Strategy 2022/23 mid-year review
- Treasury Management Strategy 2023/24
- Minimum Revenue Provision and Interest Cost and Other Regulatory Information 2023/24.

4. ECONOMIC BACKGROUND AND OUTLOOK FOR INTEREST RATES

4.1 **UK –** The UK economy has faced an extended and on-going period of economic uncertainty. Inflation continues to be an economic pressure and at the 2nd February 2023 meeting the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to raise Bank Rate by 0.5% to 4.0%. This is the tenth interest rate increase by the Bank of England which started its monetary policy tightening campaign in December 2021 in response increasing inflation. Inflation remains higher and the Bank of England is expected to raise interest rates further, with a forecast peak of 4.5%.

4.2 The Chancellor's Autumn Statement on 17th November succeeded in restoring the Government's fiscal credibility in the eyes of the financial markets. The package included net spending increases in 2023/24 and 2024/25, and fiscal tightening after 2024/25.

4.3 The Office for Budget Responsibility's revised growth forecasts up to 2025 are set out in the following table:

Year	March 2022 Growth Forecast	November 2022 Growth Forecast
2022	3.8%	4.2%
2023	1.8%	(1.4%)
2024	2.1%	1.3%
2025	1.8%	2.6%

4.4 **European Union (EU) –** As at November 2022, GDP had increased by 0.2% in quarter 3. The unemployment rate fell to a record low in October. Whilst this resilience is not expected to last, the recession which is thought to be underway may not be as bad as initially expected. The energy crisis, though severe, has eased a little and national governments have announced generous levels of fiscal support.

4.5 **USA –** Growth has slowed and forecasters expect a mild recession in 2023. However, core inflation is likely to fall sharply, which analysts think will convince the Federal Reserve to begin cutting interest rates again by the end of 2023.

4.6 **Other Economies –** In China, gross domestic product (GDP) rose by 3% in 2022, the second slowest rate in almost half a century. The sudden relaxation of its strict zero-Covid rules, have led to a rapid rise in Covid cases that will likely drag on growth in the early part of 2023. In Japan, headline inflation increased to 3.7% in October, the strongest since December 1990. The Government's supplementary budget aimed at dampening inflation should bring inflation back below the Bank's 2% target by Q2 2023.

4.7 **Interest Rate Forecasts**

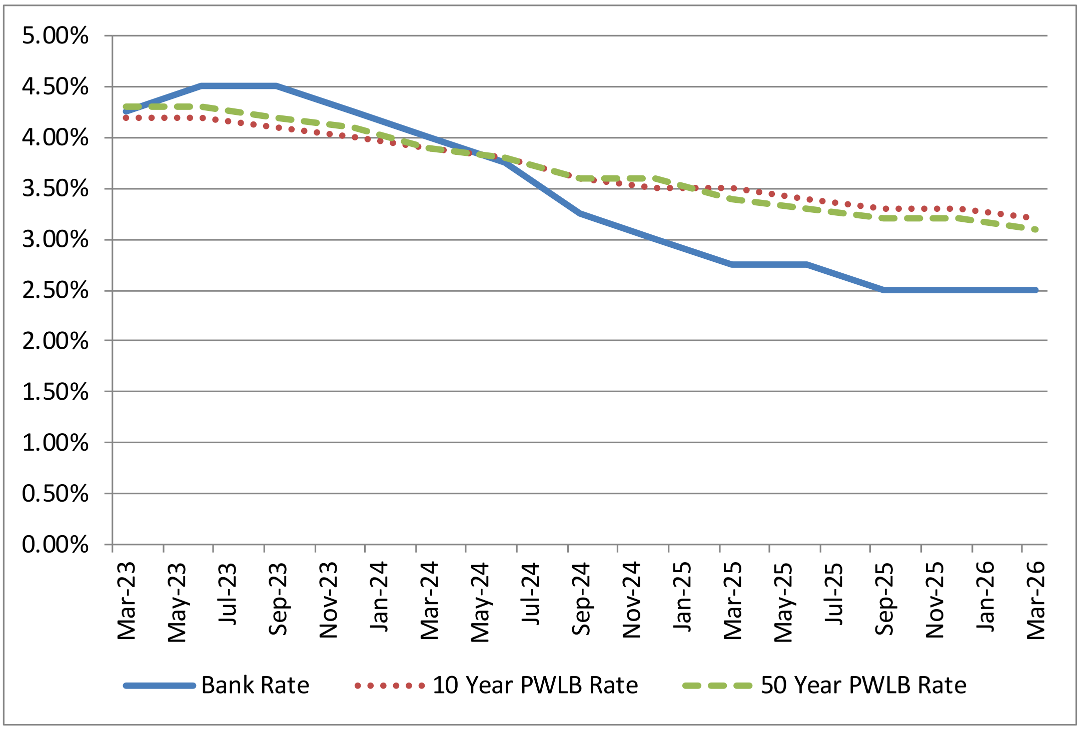
4.8 Link Asset Services (the Authority's Treasury Management advisors) continue to update their interest rate forecasts to reflect statements made by the Governor of the Bank of England and changes in the economy.

4.9 Expectations remain for Bank Rate to peak at 4.5% which reflects a view that the Bank of England is keen to further demonstrate its anti-inflation credentials, before reducing interest rates. However, there are several challenges ahead that could see the Bank leave rates at an elevated level for longer, once the peak is reached by mid-2023. The major challenges are the tight labour market, the war in Ukraine and the implications for further energy subsidies for UK households and businesses.

4.10 Link anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgement; cut too soon, and inflationary pressure may well build up further; cut too late and any downturn or recession may be prolonged.

4.11 Economic and interest rate forecasting remains difficult with so many influences impacting on the economy. UK gilt yields (i.e. Government borrowing) and Public Works Loan Board (PWLB) interest forecasts may be liable to further amendment depending on how the political and economic developments transpire over the next year, including Bank of England decisions.

4.12 Interest Rate Forecast up to March 2026



5. TREASURY MANAGEMENT OUTTURN POSITION 2021/22

5.1 **Capital Expenditure and Financing 2021/22**

5.2 The Authority's approved capital programme was funded from a combination of borrowing, the Capital Investment Programme Reserve and Capital Receipts.

5.3 Actual capital expenditure forms one of the required prudential indicators. As shown at Appendix A, the total amount of capital expenditure for the year was £0.929m, funded by a mix of the Capital Investment Programme Reserve, Revenue Contributions and Borrowing.

5.4 The Authority's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is the accumulated value of capital expenditure which is not funded from revenue or capital resources. Each year the Authority is required to apply revenue resources to reduce this outstanding balance (termed the Minimum Revenue Provision).

5.5 Whilst the Authority's CFR sets a limit on the level of borrowing, the Authority can manage the actual borrowing position by either:

- borrowing externally to the level of the CFR; or
- choosing to use temporary internal cash flow funds instead of borrowing; or
- a combination of the two.

5.6 The Authority's CFR for the year was £9.124m as shown at Appendix A.

5.7 The Authority can also borrow for future planned increases in the CFR up to 3 years in advance, when this is deemed to be appropriate. As previously reported, in line with the approved Treasury Management Strategy, long term borrowing secured low interest rates to fund the business case for the Asset Management Plan.

5.8 The Authority's total long term external borrowing as at 31st March, 2022 was £9.0m, which funds the CFR up to 2022/23.

5.9 **Prudential Indicators and Compliance Issues 2021/2022**

5.10 Details of each Prudential Indicator are shown at Appendix A. Some of the prudential indicators provide either an overview or specific limits on treasury activity. The key Prudential Indicators to report at outturn are described below

5.11 The **Authorised Limit** is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. The Authority does not have the power to borrow above this level. Appendix A demonstrates that during 2021/2022 the Authority has maintained gross borrowing within the Authorised Limit.

5.12 **Gross Borrowing and the CFR** – In order to ensure that borrowing levels are prudent, over the medium term the Authority's external borrowing, must only be for a capital purpose. Gross borrowing should not exceed the CFR for 2021/22 plus the expected changes to the CFR over 2022/23 and 2023/24. The Authority has complied with this Prudential Indicator.

5.13 **The Treasury position at 31st March 2022**

5.14 The table below shows the treasury position for the Authority as at the 31st March, 2022 compared with the previous year:

Treasury position	31st March 2021		31st March 2022	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt				
- PWLB	£7.1m	2.91%	£7.0m	2.92%
- Market Loans (LOBOs)	£2.0m	3.95%	£2.0m	3.95%
Total Long Term Debt	**£9.1m**	**3.14%**	**£9.0m**	**3.15%**
Total Investments	**(£6.3m)**	**0.19%**	**(£8.2m)**	**0.17%**
Net Debt Position	**£2.8m**		**£0.8m**	

A LOBO (Lender Option, Borrower Option) loan was taken out in March 2007 at which time interest rates for comparative PWLB loans were 4.3%.

5.15 A key performance indicator shown in the above table is the low average interest rate for external debt of 3.15% for debt held as at 31st March, 2022.

5.16 The Authority's investment policy is governed by Department for Levelling Up, Communities and Housing (DLUCH) guidance, which has been implemented in the annual investment strategy approved by Authority.

5.17 The Authority does not rely solely on credit ratings and takes a more pragmatic and broad-based view of the factors that impact on counterparty risk. As part of the approach to maximising investment security the Authority has also kept investment periods short (i.e. in most cases up to 6 months but to a maximum of 1 year).

5.18 A prudent approach will continue to be adopted in order to safeguard the Authority's resources.

5.19 **Regulatory Framework, Risk and Performance 2021/22**

5.20 The Authority's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Authority or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made since this power was introduced);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act, and requires the Authority to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Authority to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act the MHCLG has issued Investment Guidance to structure and regulate the Authority's investment activities;
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November, 2007.

5.21 The Authority has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with Treasury Management activities.

6. TREASURY MANAGEMENT STRATEGY 2022/23 MID-YEAR REVIEW

6.1 The 2022/23 Treasury Management Strategy was approved on the 25th, March 2022. The Authority's borrowing and investment position as at 30th September 2022 is summarised as follows:

	£m	**Average Rate**
LOBO Loan #	2.0	3.95%
PWLB Loans	6.9	2.92%
Gross Debt	**8.9**	**3.15%**
Investments	15.3	1.63%
Net Investment	**6.4**	

A LOBO (Lender Option, Borrower Option) loan was taken out in March 2007 at which time interest rates for comparative PWLB loans were 4.3%.

6.2 As part of the Treasury Strategy for 2022/23 the Authority set a number of prudential indicators. Compliance against these indicators is monitored on a regular basis and there are no breaches to report.

6.3 The CFR and Capital Expenditure Financed by Borrowing will vary from the original estimate approved by the Fire Authority in March 2022 owing to planned capital expenditure being re-phased between financial years.

6.4 The increase in interest rates in late 2022 presented the Authority with an opportunity to maximise investment returns over the short to medium term. Detailed cash flow modelling has allowed investments to be placed for a longer time period (up to a year) with a number of institutions, so as to achieve the higher rates of investment interest now available. This pro-active approach will enable the Authority to generate £0.5m of investment income, which has been earmarked to support the 2024/25 revenue budget.

6.5 In maximising these returns, the Authority has reviewed its list of counter parties and increased both category A and category B as set out in paragraph 9.8.

7. TREASURY MANAGEMENT STRATEGY 2023/24

7.1 Prudential Indicators and other regulatory information in relation to the 2023/24 Treasury Management Strategy is set out in Appendix B.

7.2 The key elements of the Treasury Management Strategy which Members need to consider are the Borrowing and Investment Strategies, detailed in section 8 and 9.

8. BORROWING STRATEGY 2022/23

8.1 Following the development and implementation of the Asset Management Plan (AMP) the Authority's CFR has risen and is forecast to continue to rise. Therefore it was recognised that a proactive borrowing strategy would need to be adopted to finance the borrowing element of the AMP and to secure historically low interest rates.

8.2 As outlined in paragraph 5.7, decisions to borrow to the forecast CFR up to 2021/22 have already been made.

8.3 These decisions ensured the borrowing costs associated with AMP are minimised in the long term and can be sustained within the existing revenue budget of £1.1m (including using the recommended Capital Funding Phasing Reserve) over the period of the current Medium Term Financial Strategy and Integrated Risk Management Plan.

8.4 Owing to the borrowing decisions in previous years to pre fund the borrowing requirement, no additional borrowing was needed in 2021/22. However in 2022/23 it is anticipated that approximately £0.3m of additional funding will be necessary to fund the current approved AMP. A decision to borrow in advance of need may be taken by the Treasurer if it is in the best interests of the Authority to do so.

8.5 **Impact of Capital Programme on the Revenue Budget**

8.6 As previously reported detailed financial modelling has been undertaken to assess the impact of the capital programme on the revenue budget. As detailed in the Medium Term Financial Strategy report approved by the full Authority on 10th February the capital programme and Asset Management Plan (AMP) cover operational properties, including vehicles (mainly Water Tenders). The AMP is underpinned by a funding strategy which will finance capital costs through a combination of using the earmarked Capital Investment Programme Reserve and Prudential Borrowing.

8.7 The revenue budget includes provision to meet the interest and principal repayment costs of using Prudential Borrowing. The phasing of these costs is supported from the Capital Phasing Reserve.

8.8 The AMP covers fifteen-year and the detailed requirements cover the technical disciplines of Estates, Fleet, Equipment and ICT. The longer term planning period will underpin the development of the MTFS in future years.

9. INVESTMENT STRATEGY 2023/24

9.1 The Department of Levelling Up, Housing and Communities (DLUHC) issued investment guidance in 2010, updated in 2017, and this forms the structure of the Authority's policy. The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently and that priority is given to security and liquidity before interest return. The Authority has adopted the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and applies its principles to all investment activity. In accordance with the Code, the Treasurer has produced Treasury Management Practices covering investment counterparty policy which requires approval each year.

9.2 The primary objectives of the Authority's investment strategy in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time;
- ensuring adequate liquidity;
- investment return.

9.3 Counterparty Selection Criteria

9.4 The Authority's criteria for providing a pool of high quality investment counterparties uses the credit rating information produced by the three major ratings agencies (Fitch, Moody's and Standard & Poor's) and is supplied by our treasury consultants. All active counterparties are checked against criteria outlined below to ensure that they comply with the criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered on a daily basis before investments are made. For instance a negative rating watch applying to a counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions.

9.5 The **lowest common denominator** method of selecting counterparties and applying limits is used. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside the lending criteria.

9.6 The Treasurer will continue to adopt a vigilant approach resulting in what is effectively a 'named' list. This consists of a select number of counterparties that are considered to be the lowest risk.

9.7 The increase during 2022/23 in interest rates presented the Authority with an opportunity to maximise investment returns over the short to medium term. Detailed cashflow modelling has allowed investments to be placed for a longer time period (up to a year) with a number of institutions, so as to achieve the higher rates of investment interest now available.

9.8 In maximising these returns, the Authority has reviewed its list of counter parties and increased both Category A and Category B by £2m each. This is still deemed to be prudent and remains low in comparisons to other Authorities. Risk is spread amongst a number of institutions. The principals and hierarchy of security / liquidity / rate of return continue to be closely adhered to.

Category	Fitch	Moody's	Standard & Poor's	Proposed Counterparty Limit	Proposed Time Limit
A	F1+/AA-	P-1/Aa3	A-1+/AA-	£7m	1 year
B	F1/A-	P-1/A3	A-1/A-	£5m	1 year
C	Debt Management Office/Treasury Bills/Gilts			£14m	1 year
D	Nationalised Banks			£5m	1 year
E	Other Local Authorities Individual Limits per Authority: - £3m County, Metropolitan or Unitary Councils - £1.5 District Councils, Police or Fire Authorities			£15m	1 year
F	Three Money Market Funds (AAA) with maximum investment of £1.5m per fund			£4.5m	Liquid (instant access)

9.9 **Specified and Non-Specified Investments**

9.10 DLUHC regulations classify investments as either Specified or Non-Specified. Specified Investment is any investment not meeting the Specified definition.

9.11 The investment criteria outlined above is different to that used to define Specified and Non-Specified investments. This is because it is intended to create a pool of high quality counterparties for the Authority to use rather than defining what its investments are.

9.12 Specified Investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within twelve months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
- Other Local Authorities.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating (AAA) by a credit rating agency.
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society). This covers bodies with a minimum rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies.

9.13 Non-specified Investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any investments with:

- Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.
- Any bank or building society that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

10. <u>MINIMUM REVENUE PROVISION AND INTEREST COSTS AND OTHER REGULATORY INFORMATION 2023/24</u>

10.1 There are two elements to the Authority annual loan repayment costs – the statutory Minimum Revenue Provision (MRP) and interest costs. The Authority is required to pay off an element of the Capital Financing Requirement (CFR) each year through a revenue charge called the Minimum Revenue Provision (MRP).

10.2 DLUCH Regulations require the Authority to approve **an MRP Statement** in advance of each year. This will determine the annual loan repayment charge to the revenue budget.

10.3 The budget strategy is based on the following MRP statement and the Authority is recommended to formally approve the existing statement:

- For capital expenditure incurred before 1st April, 2008 the Authority's MRP policy is to calculate MRP in accordance with former CLG Regulations. This is 4% of the Capital Financing Requirement except where the Authority makes Voluntary Revenue Payments which is in excess of the amount required by these regulations, based on asset life;

- From 1st April, 2008 the Authority calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments.

- Continue to authorise the Treasurer to make VRP payments to reduce the Authority's overall CFR if it is in the best interests of the Authority to do so. Such VRP payments can then be potentially offset against future MRP charges if this is in the Authority's interests.

10.4 The flexible use of VRP will ensure the CFR is repaid within the original timescale, whilst providing the potential opportunity to either effectively take a MRP holiday - whilst repaying the CFR within the approved timeframe, or repay the CFR early to achieve a permanent saving. This flexibility will support managing the budget and services over a period of financial uncertainty.

10.5 In 2021/22 there was a £300,000 VRP payment. .

10.6 Any future VRP payments will be reported as part of future Treasury Management reports.

10.7 **CIPFA Treasury Management Code of Practice**

10.8 The Authority will adopt the updated CIPFA Treasury Management Code of Practice published 20th December 2021.

10.9 CIPFA requires full adoption from 1st April 2023. The main objective of the 2021 code was to respond to the major expansion of local authority investment into the purchase of non-financial investments, particularly property. The Authority has not adopted these owing to the high risk, so no significant changes will need to be made to our existing arrangements.

10.10 The revised Treasury Management Code requires the implementation of the following:
1. Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement, with material differences between the liability benchmark and actual loans explained, this is detailed Appendix *
2. A **knowledge and skills register** for officers and members involved in the treasury function;
3. Reporting to members on a quarterly basis;
4. Have consideration for **Environmental, social and governance (ESG)** issues.

10.11 **Treasury Management Advisors**

10.12 The Authority uses Link Asset Services – Treasury Solutions as its external treasury management advisors.

10.13 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

10.15 **Markets in Financial Instruments Directive (MIFID II)**

10.16 On 3rd January 2018 an updated version of the European Union's Markets in Financial Instruments Directive (known as MIFID II) came into effect. It is designed to offer greater protection for investors and inject more transparency into financial markets. Under MIFID II all local authorities are classified as "retail" counterparties and had to consider whether to opt up to "professional" status and for which type of investments. The Fire Authority opted up to professional status in order to maintain the Authority's ability to operate effectively under the new regime.

11. CONCLUSION

11.1 For over a decade UK and international interest rates were at a historically and unprecedented low level and this included the Bank of England base rating being 0.5% or less since 2009. It was always anticipated that this position would not be sustained, although the change to slightly higher rates was expected to be gradual and the new 'normal' interest rates would still remain low by historic standards.

11.2 During this period the Authority's treasury management strategy secured long term borrowing at low interest rates. This has secured the financing of the Asset Management Plan and has protected the authority against increases in longer term interest rates.

11.3 The significant economic turmoil of the last year, which is driven by the invasion of Ukraine by Russia, has resulted in an unprecedented spike in inflation. This has resulted in central banks across the world increasing interest rates. The political uncertainty over the summer resulted in an additional temporary spike in interest rates which lasted for a few weeks.

11.4 During this period the Authority acted to secure average interest rates of 5.32% - compared to current and forecast investments rates for the next 12 months of 4.57%. This has been done whilst maintaining the primary Treasury Management objective of security or the Authority's money, whilst securing significant interest income to support the 2023/24 revenue budget.

11.5 The report sets out how the Authority will comply with the regulatory framework to ensure the Authority achieves the lowest borrowing costs and security for any temporary cash investments made by the Authority. Within this framework and the more uncertain / volatile financial environment officers will continue to actively manage borrowing and investments to support the overall financial position of the Authority.

CHRIS LITTLE
TREASURER

Appendix A

Prudential Indicators 2021/22 Outturn

1. Ratio of Financing Costs to Net Revenue Stream

This indicator shows the proportion of the total annual revenue budget that is funded by the local taxpayer and Central Government, which is spent on servicing debt. This is slightly lower than the estimate owing to a change in the profile of funding sources compared to what was originally forecast.

2021/22 Estimate £'000		2021/22 Outturn £'000
2.97%	Ratio of Financing costs to net revenue stream	2.49%

2. Capital Expenditure

This indicator shows the total capital expenditure for the year and the outturn reflects the actual phasing of capital expenditure.

2021/22 Estimate £'000		2021/22 Outturn £'000
2,246	Capital Expenditure	929

3. Capital Expenditure Financed from Borrowing

This shows the borrowing required to finance the capital expenditure programme.

2021/22 Estimate £'000		2021/22 Outturn £'000
1,800	Capital Expenditure Financed by Borrowing	603

The actual is lower than estimated owing to the phasing of capital expenditure between years.

4. Capital Financing Requirement (CFR)

CFR is used to determine the minimum annual revenue charge for capital expenditure repayments (net of interest). It is calculated from the Authority's Balance Sheet and is shown below. Forecasts for future years are directly influenced by the capital expenditure decisions taken and the actual amount of revenue that is set aside to repay debt.

2021/22 Estimate £'000		2021/22 Outturn £'000
10,621	Capital Financing Requirement	9,124

The capital financing requirement is lower than estimated owing to the phasing of capital expenditure.

5. Authorised Limit for External Debt

The authorised limit determines the maximum amount the Authority may borrow at any one time. The authorised limit covers both long term borrowing for capital purposes and borrowing for short term cash flow requirements. The authorised limit is set above the operational boundary to provide sufficient headroom for operational management and unusual cash movements. In line with the Prudential Code, the level has been set to give the authority flexibility to borrow up to three years in advance of need if more favourable interest rates can be obtained.

2021/22 Limit £'000		2021/22 Peak £'000
14,000	Authorised limit for external debt	9,112

6. Operational Boundary for External Debt

The operational boundary is the most likely prudent, but not worst case scenario, level of borrowing without the additional headroom included within the authorised limit. The level is set so that any sustained breaches serve as an early warning that the Authority is in danger of overspending or failing to achieve income targets and gives sufficient time to take appropriate corrective action.

2021/22 Limit £'000		2021/22 Peak £'000
12,000	Operational boundary for external debt	9,112

7. Interest Rate Exposures

This indicator is designed to reflect the risk associated with both fixed and variable rates of interest, but must be flexible enough to allow the Authority to make best use of any borrowing opportunities.

2021/22 Limit £'000	Upper limits on fixed and variable interest rate exposure	2021/22 Peak £'000
100%	Fixed Rates	78%
75%	Variable Rates	22%

8. Maturity Structure of Borrowing

This indicator is designed to reflect and minimise the situation whereby the Authority has a large repayment of debt needing to be replaced at a time of uncertainty over interest rates, but as with the indicator above, it must also be flexible enough to allow the Authority to take advantage of any borrowing opportunities.

	Upper Limit £'000	Lower Limit £'000	Actual by Maturity Date £'000	Actual by soonest call date £'000
Under 12 months	8,000	0	96	96
12 month to 2 years	10,000	0	99	99
2 years to 5 years	10,000	0	315	2,315
5 years to 10 years	10,000	0	590	590
10 years to 20 years	10,000	0	1,471	1,471
20 years to 30 years	10,000	0	1,967	1,967
30 years to 40 years	10,000	0	2,453	2,453
40 years to 50 years	10,000	0	0	0
50 years to 60 years	10,000	0	0	0
60 years to 70 years	10,000	0	2,000	0

The Authority's current outstanding borrowing includes a LOBO (Lender Option Buyer Option) loan which provide fixed interest rates for defined periods and also defined dates for reviewing interest rates, known as 'call dates'. A change to the Prudential Code requires that the call date is reflected in the Maturity Structure indicator above rather than maturity date. However the likelihood of a LOBO being 'called' at present is very low and both methods are presented above for completeness.

9. Investments over Maturing over One Year

This sets an upper limit for amounts invested for periods longer than 364 days. The limit was not exceeded as a prudent approach to investment has been taken owing to uncertainties in the economy. This is in line with the Treasury Management Strategy. Consequently, all investments made during the year were limited to a maximum of one year.

	1 year £000	2 year £000	3 year £000
Maximum Limit	5,000	0	0
Actual	0	0	0