

TREASURY MANAGEMENT STRATEGY 2022/23**REPORT OF THE TREASURER****For Approval****1. PURPOSE OF REPORT**

- 1.1 To enable the Audit and Governance Committee to scrutinise the recommended Treasury Management Strategy for 2022/23, before it is referred to the full Fire Authority for approval.

2. RECOMMENDATIONS

It is recommended that Members consider the recommended 2022/23 Treasury Strategy and note that if Members are content the following recommendations will be referred to the Full Authority for approval:

- i) Approve the prudential indicators outline in Appendix B.
- ii) Borrowing Strategy 2022/23
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.
- iii) Investment Strategy 2022/23
Approve the Counterparty limits as set out in paragraph 7.

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 2017.
- 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.
- 3.5 This report covers the following areas:
- Economic background and outlook for interest rates
 - Treasury Management Strategy 2022/23
 - Minimum Revenue Provision and Interest Cost and Other Regulatory Information 2022/23.

4. ECONOMIC BACKGROUND AND OUTLOOK FOR INTEREST RATES

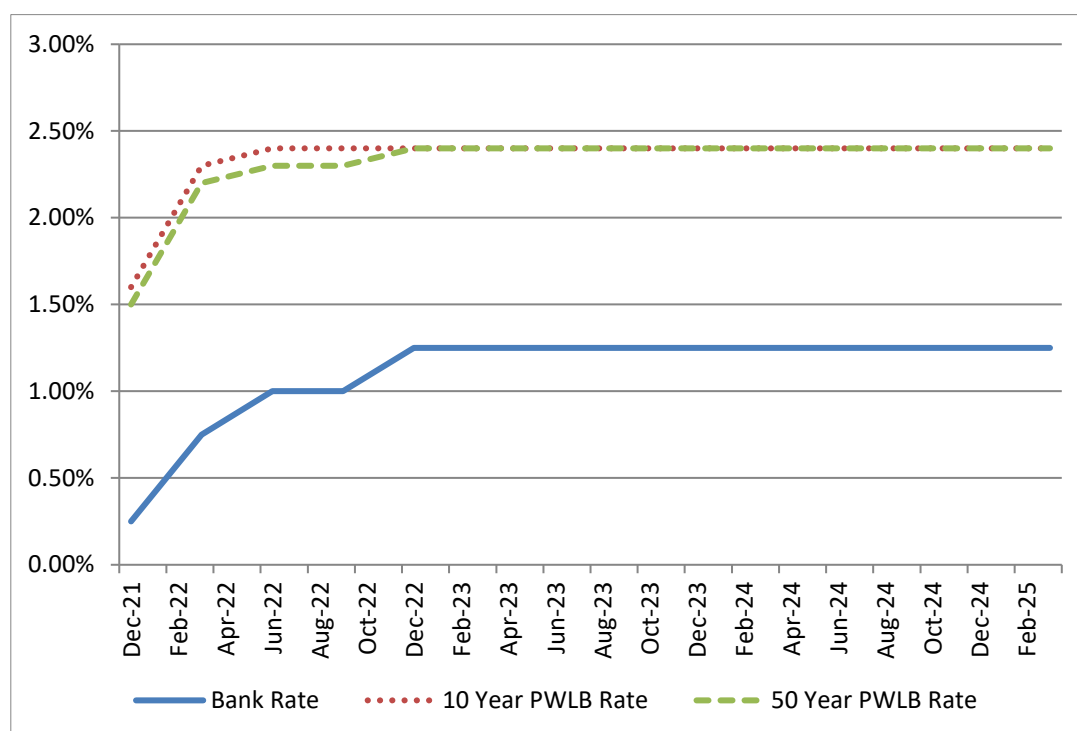
- 4.1 **UK** – The UK economy has faced an extended period of economic uncertainty due to the Covid-19 pandemic. At the 4th February 2022 meeting the Bank of England's Monetary Policy Committee (MPC) voted 5-4 to raise Bank Rate by 0.25% from 0.50% to 0.75%.
- 4.2 The fallout after the furlough scheme ended on 30th September 2021 was smaller and shorter than the Bank of England had expected. Data suggested that unemployment was falling by end of October.
- 4.3 Covid has continued to impact over the winter although the vaccine rollout has resulted in the Government's recent announcement to phased out existing restrictions. The greatest challenge now facing the economy and the Bank of England is the current high level of inflation, how long this will be sustained and the impact on interest rates.
- 4.4 The Office for Budget Responsibility's revised growth forecast up to 2024 are set out in the following table:

Year	March 2021 Growth Forecast	November 2021 Growth Forecast
2021	4.0%	6.5%
2022	7.3%	6.0%
2023	1.7%	2.1%
2024	1.6%	1.3%

- 4.5 European Union (EU) – The economy has faced similar challenges to the UK from the pandemic, the slow roll out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. The EU recovery is nearly complete although countries dependent on tourism are lagging.

- 4.6 **USA** – During the first part of 2021, the US Government implemented a \$1.9trn fiscal boost for the US economy as a recovery package from the covid pandemic which unsettled markets. Financial markets were alarmed that this stimulus was happening at a time when a fast vaccination programme had enabled a rapid opening of the economy and continued to grow strongly. These factors could cause an excess of demand in the economy which could cause strong inflationary pressures.
- 4.7 **Other Economies** – In China after a concerted effort to get on top of the virus outbreak in 2020, economic recovery was strong, however, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic. China is now struggling to contain the spread of the DELTA variant through sharp local lockdowns - which will also depress economic growth. Japan is struggling to stimulate consistent GDP growth and to get inflation up to its target of 2%, inflation was actually negative in July. The new prime minister has promised a large fiscal stimulus package.
- 4.8 **Interest Rate Forecasts**
- 4.9 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.
- 4.10 They are not expecting Bank Rate to go up fast after the initial rate rise; the current view is that inflation pressures are externally driven and whilst inflation will continue to increase over the coming months as significant increase in interest rates will not impact on these external issues. The position may change if current inflation feeds into wages increases and inflation then becomes more entrenched.
- 4.11 Rate rises should be viewed in the context of the Bank Rate being cut to 0.10% as an emergency measure to deal with the Covid crisis hitting the UK in March 2020. In December 2021 the MPC began to take away the emergency cut as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.
- 4.12 Economic and interest rate forecasting remains difficult with so many influences impacting on the economy. UK gilt yields (i.e. Government borrowing) and PWLB forecasts made by Link Asset Services, (and MPC decisions) may be liable to further amendment depending on how the political and economic developments transpire over the next year.

4.13 Interest Rate Forecast up to March 2025



- 4.14 Since the late 1990s Base Rate averaged 5% until 2009 when the Bank of England reduced it to the historically low levels. Over the same period PWLB rates have been significantly higher than they are at present.

5. TREASURY MANAGEMENT STRATEGY 2022/23

- 5.1 Prudential Indicators and other regulatory information in relation to the 2022/23 Treasury Management Strategy is set out in Appendix B.
- 5.2 The key elements of the Treasury Management Strategy which Members need to consider are the Borrowing and Investment Strategies, detailed in section 6 and 7.

6. BORROWING STRATEGY 2022/23

- 6.1 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.
- 6.2 The Authority can borrow for future planned increases in the CFR up to 3 years in advance, when this is deemed appropriate. The Authority's long term external borrowing as at 31st March, 2021 was £9.1m, which funds the CFR up to 2021/22.

- 6.3 These decisions ensured the borrowing costs associated with AMP are minimised in the long term.
- 6.4 Owing to the borrowing decisions in previous years to pre fund the borrowing requirement, no additional borrowing was needed in 2020/21. However in 2021/22 it is anticipated that approximately £1.5m 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.
- 6.5 **Impact of Capital Programme on the Revenue Budget**
- 6.6 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 reported considered by the full Authority on 11th 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, Prudential Borrowing and the reallocation of one of funding from the Budget Support Fund.
- 6.7 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.
- 6.8 The AMP covers fifteen-year and the detailed requirements cover the technical disciplines of Estates, Fleet, Equipment and ICT. This longer term planning period will underpin the development of the MTFS in future years.

7. INVESTMENT STRATEGY 2022/23

- 7.1 The Department for Levelling Up, Housing and Communities (DLUHC) (formally the Ministry for Housing, Communities and Local Government) 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.
- 7.2 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.

7.3 Counterparty Selection Criteria

- 7.4 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.
- 7.5 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.
- 7.6 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.
- 7.7 There are no proposed changes to existing counter parties and the table below shows the proposed limits in 2022/23 for the Authority:

Category	Fitch	Moody's	Standard & Poor's	Proposed Counterparty Limit	Proposed Time Limit
A	F1+/AA-	P-1/Aa3	A-1+/AA-	£5m	1 year
B	F1/A-	P-1/A3	A-1/A-	£3m	1 year
C	Debt Management Office/Treasury Bills/Gilts			£14m	1 year
D	Nationalised Banks and Banks covered by UK Government Guarantee			£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)

7.9 Specified and Non-Specified Investments

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

- 7.11 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.
- 7.12 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.
- 7.13 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).

8. MINIMUM REVENUE PROVISION AND INTEREST COSTS AND OTHER REGULATORY INFORMATION 2022/23

- 8.1 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).
- 8.2 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.

8.3 The budget strategy is based on the following MRP statement and the Authority approved the following statement at Full Authority on 15th October 2021:

- 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.
- 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.

8.4 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. At present no VRP payments have been made. Any future VRP payments will be reported as part of future Treasury Management reports.

8.5 **CIPFA Treasury Management Code of Practice**

8.6 The Authority has adopted the CIPFA Treasury Management Code of Practice, effective from 2012. CIPFA had consulted on both codes and issued the revised in late December 2021.

8.7 CIPFA have announced that they are soft launching the new codes, which in practice means that full adoption is not required until 1st April 2023, however they are encouraging Authorities to early adopt elements of the new code if at all possible, depending on local circumstances. We are currently assessing the requirements of the new codes to determine if any changes are needed to our local strategy. As the majority of changes relate to commercial investments, which the council has not adopted owing to the high risk, it is not expected that any significant changes will need to be made to our existing arrangements.

8.8 **Treasury Management Advisors**

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

8.10 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.

8.11 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.

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

8.13 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.

9. CONCLUSION

9.1 The report details the borrowing strategy for funding the Asset Management Plan, which set Prudential Borrowing limits for 2021/22 to 2024/25. As detailed in the Medium Term Financial Strategy it is anticipated that these borrowing limits can be reduced from £7.399m to £4.569m by using one of resources released from the Budget Support Fund of £2.830m.

9.2 Until the financial outlook for 2023/24 and future years is certain the fall-back Prudential Borrowing limits to fund the AMP of £7.399m provide financial flexibility. These limits will only be used if the revenue budget deficits increase and the Budget Support Fund needs to be reinstated to support the budget and protect services whilst a plan to address a higher budget deficit is determined

9.3 In relation to the investment strategy the Authority has adopted an extremely prudent approach over the last few years and this it is recommended this approach continues for 2022/23.

CHRIS LITTLE
TREASURER TO THE AUTHORITY

APPENDIX B**TREASURY MANAGEMENT STRATEGY 2022/23 REGULATORY INFORMATION AND PRUDENTIAL INDICATORS****1. INTRODUCTION**

- 1.1 The regulatory information and prudential indicators for the 2022/23 Treasury Management Strategy are set out below.

2. PRUDENTIAL INDICATORS

- 2.1 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and set prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity.
- 2.2 The first prudential indicator is confirmation that the Authority has adopted the CIPFA Treasury Management Code of Practice, which the Treasury Management Strategy report confirms.
- 2.3 Details of the proposed prudential limits are set out in the following sections.

3. CAPITAL EXPENDITURE AND FINANCING REQUIREMENT

- 3.1 The Authority's Borrowing Strategy is driven by the Capital Financing Requirement (CFR) and the Authority's view of interest rates. The CFR is the total outstanding capital expenditure which has not yet been paid for from revenue budgets or other capital resources. It is essentially a measure of the Authority's underlying borrowing need based on capital programmes approved by the Authority in previous years.
- 3.2 The Government no longer issues supported borrowing allocations. Consequently all borrowing is now made under the Prudential Borrowing Code. Capital spending decisions need to have regard to the following:
- Service objectives (e.g. strategic planning);
 - Stewardship of assets (e.g. asset management planning);
 - Value for money (e.g. option appraisal);
 - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
 - Affordability (e.g. implications for the Council Tax);
 - Practicality (e.g. the achievability of the forward plan).
- 3.4 The Authority ultimately needs to fund the CFR by borrowing money from the Public Works Loan Board (PWLB) or banks. The CFR is then repaid over a number of years reflecting the long term benefits of capital expenditure. In simple terms the CFR represents the Authority's outstanding mortgage, although the legislation and accounting requirements are significantly more complex.

- 3.5 The estimated Capital Finance & Borrowing Requirement is shown in the following table:

Capital Financing & Borrowing Requirement	2021/22 Revised £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
CFR at 1st April	9,315	10,621	11,779	12,234
Capital Expenditure Financed by Borrowing	1,800	1,781	1,055	2,763
Less Repayment of CFR	(494)	(623)	(600)	(586)
CFR at 31st March	10,621	11,779	12,234	14,411

- 3.6 As part of the Medium Term Financial Strategy the Authority is required to approve the 2022/23 capital programme summarised as follows:

Capital Expenditure	2021/22 Revised £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Expenditure	2,246	2,160	1,731	3,094
Financed by:				
Capital Financing Reserve	446	379	676	331
Prudential Borrowing	1,800	1,781	1,055	2,763
Total Funding	2,246	2,160	1,731	3,094

- 3.7 As detailed above the total proposed Prudential Borrowing for the period 2021/22 to 2025/25 is £7.399m. As detailed in the MTFs this is the maximum approved limit and it is anticipated this level of borrowing will be reduced by £2.830m to reflect one off resources released from the Budget Support Fund to support the AMP. Until the financial outlook for 2023/24 and future years is certain the higher limits provide a fall-back position. These limits will only be used if the revenue budget deficit increase and the Budget Support Fund needs to be reinstated to support the budget and protect services whilst a plan to address a higher budget deficit is determined.

4. AFFORDABILITY PRUDENTIAL INDICATORS

- 4.1 The affordability of the approved Capital Investment Programme was assessed when the Asset Management Plan was approved and revenue costs are built into the Medium Term Financial Strategy. The 'Affordability Prudential Indicators' are detailed below and are intended to give an indication of the affordability of the planned capital expenditure financed by borrowing in terms of the impact on Council Tax and the Net Revenue Stream.

4.3 Ratio of Financing Costs to Net Revenue Stream

- 4.4 This shows the net cost of capital borrowing as a percentage of the net budget and the forecast annual increases reflect the phasing of borrowing to partly fund the Asset Management Plan.

%	2021/22 Revised	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio	2.97%	3.34%	3.16%	3.03%

5. BORROWING PRUDENTIAL INDICATORS

5.1 Debt Projections 2021/22 – 2024/25

5.2 The table below sets out the Authority's projected Capital Financing Requirement (CFR) and level of debt:

Debt and Investment Projections	2021/22 Revised £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
Long Term Borrowing 1 April	9,112	10,492	11,746	12,197
Expected change in Long Term Debt	1,380	1,254	451	2,098
Debt at 31 March	10,492	11,746	12,197	14,295
CFR	10,621	11,779	12,234	14,411
Advance/(Under) Borrowing	(129)	(33)	(37)	(116)

5.4 Limits to Borrowing Activity

5.5 Within the prudential indicators there are a number of key indicators to ensure the Authority operates its activities within well defined limits.

5.6 The Authority needs to ensure that total borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/2022 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

External Debt	2021/22 Revised £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
Gross Borrowing	10,492	11,746	12,197	14,295
Capital Financing Requirement	10,621	11,779	12,234	14,411

5.7 The following table shows two key limits for the monitoring of debt. The Operational Limit is the likely limit the Authority will require and is aligned closely with the actual CFR on the assumption that cash flow is broadly neutral. The Authorised Limit for External Debt is a further key prudential indicator to control 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 the Authority. In practice it needs to take account of the range of cash flows that might occur for the Authority in addition to the CFR. This also includes the flexibility to enable advance refinancing of existing loans.

Borrowing Limits	2021/22 Estimated £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
Operational Limit	12,000	13,000	13,000	15,000
Authorised limit	14,000	15,000	15,000	17,000

6. INVESTMENT PRUDENTIAL INDICATORS AND OTHER LIMITS ON TREASURY ACTIVITY

6.1 Investment Projections 2021/22 – 2024/25

6.2 The following table sets out the estimates for the expected level of resource for investment or use to defer long term borrowing.

2020/21 Outturn £'000	Year End Resources	2021/22 Revised £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
12,059	Balances and Reserves	9,002	7,671	6,228	4,064
296	Provisions	296	296	296	296
1,255	Collection fund Adjustment Account	0	0	0	0
13,610	Total Core Funds	9,298	7,967	6,524	4,360
(1,791)	Working Capital*	(1,568)	(1,568)	(1,568)	(1,568)
11,819	Resources Available for Investment	7,730	6,399	4,956	2,792
(203)	(Under)/Advance borrowing	(129)	(33)	(37)	(116)
11,616	Expected Investments	7,601	6,366	4,919	2,676

6.3 Sensitivity to Interest Rate Movements

- 6.4 Sensitivity to Interest Rate Movements is a prudential indicator that the Authority is required to disclose. The following table highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. These forecasts are based on a prudent view of a +/- 1% change in interest rates. As borrowing has already been undertaken to fund the majority of the CFR there is limited risk in relation to the impact of borrowing on revenue budgets for 2021/22. For investments they are based on a prudent view of the total amount invested.

Impact on Revenue Budgets	2020/21 Estimated 1% £'000	2020/21 Estimated -1% £'000
Interest on Borrowing	0	0
Investment income	(121)	121
Net General Fund Borrowing Cost	(121)	121

- 6.5 There are four further treasury activity limits and the purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

6.6 The limits are:

- i) Upper limits on variable interest rate exposure – This identifies a maximum limit for the Authority's borrowing and investments that are held with variable interest rates. The proposed limits are detailed in the following table.

Limits on Variable Interest Rates	2022/23 Upper £'000	2023/24 Upper £'000	2024/25 Upper £'000
Borrowing	75%	75%	75%
Investments	100%	100%	100%

- ii) Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit for the Authority's borrowing and investments that are held with fixed interest rates.

Limits on Fixed Interest Rates	2022/23 Upper £'000	2023/24 Upper £'000	2024/25 Upper £'000
Borrowing	100%	100%	100%
Investments	100%	100%	100%

- iii) Maturity structure of borrowing – Limits for the ‘Maturity Structure of Borrowing’ are intended to reduce exposure to large fixed rate sums falling due for refinancing. In the opinion of the Treasurer limits on fixed and variable rates for **borrowing** are unhelpful and could lead to higher costs of borrowing. Previous experience has shown that it is possible to move from a position of predominantly fixed rate borrowing to variable rate borrowing and then back to fixed rate borrowing over a period of two years. In the Treasurer’s professional opinion this proactive management of investments and borrowing continues to provide the most cost effective strategy for the Authority, whilst not exposing the Authority to unnecessary risk. The Authority should ensure maximum flexibility to minimise costs to the revenue budget in the medium term. These limits are detailed in the following table:

Maturity Structure of fixed interest rate borrowing				
	2021/22 £000	2021/22 £000	2022/23 £000	2022/23 £000
	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Under 12 months	0	90%	0	90%
12 months to 2 years	0	100%	0	100%
2 years to 5 years	0	100%	0	100%
5 years to 10 years	0	100%	0	100%
10 years to 20 years	0	100%	0	100%
20 years to 30 years	0	100%	0	100%
30 years to 40 years	0	100%	0	100%
40 years to 50 years	0	100%	0	100%
50 years to 60 years	0	100%	0	100%
60 years to 70 years	0	100%	0	100%

The limits allow for borrowing up to the Capital Financing Requirement at either variable or fixed rates. The intention is to move to fixed rate borrowing when rates are at an appropriate level and may require the temporary use of variable rate borrowing in the interim.

- iv) Maximum principal sums invested – Total principal funds invested for greater than 364 days – These limits are set with regard to the Authority’s liquidity requirements and reflect the current recommended advice that investments are limited to short term investments i.e. up to 1 year.

Limit for Maximum Principal Sums Invested > 364 days			
	1 year £000	2 years £000	3 years £000
Maximum	5,000	0	0

6.7 Performance Indicators

- 6.8 The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The Authority will produce the following performance indicators for information and explanation of previous treasury activity:
- Debt - Average rate movement year on year.