

-REPORT TO:	AUDIT COMMITTEE		
DATE:	18 September 2023		
TITLE:	ANNUAL TREASURY OUTTURN REPORT 2022/2023		
TYPE OF REPORT:	Recommendation		
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OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

Date of meeting: 18 September 2023

ANNUAL TREASURY OUTTURN REPORT 2022/2023

Summary

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2017) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2022/2023 and covers:

1. The 2022/2023 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

- Appendix 1 – Economic Outlook
- Appendix 2 - Investments as at 31 March 2023
- Appendix 3 - Borrowing as at 31 March 2023
- Appendix 4 - Prudential Indicators

The Council's Treasury Policy Statement 2023/2024 and annual Treasury Strategy Statement 2023/2024 were approved by Council on the 23 February 2023.

Recommendations

The Audit Committee is asked to note the annual treasury outturn position for 2022/2023.

Reason for the Decision

The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The Annual Treasury Management Review 2022/2023

- 1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/2023. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
- 1.2 During 2022/2023 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year (Council 23 February 2022)
 - a mid-year, (minimum), treasury update report (Audit Committee 20 February 2023)
 - an annual review following the end of the year describing the activity compared to the strategy, (this report)
- 1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was last undertaken in January 2020 and will be provided in 2023. This training was provided by Link, the council's external treasury management advisors, in order to support members' scrutiny role.

2. Executive Summary

- 2.1 During 2022/2023, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	2021/2022 Actual £'000	2022/2023 Actual £'000
Capital expenditure	23,448	25,347
Capital Financing Requirement	42,779	50,391
Gross borrowing	10,000	10,000
External debt *	10,094	10,094
Investments *	34,647	27,113
Net borrowing/(investments)	(24,553)	(17,019)

* Both the External debt and Investments figures shown in the table above include interest accruals. Whereas elsewhere in the report the amounts shown are the principal amounts only.

- 2.2 Other prudential and treasury indicators follow below in the main body of this report. The Assistant Director Resources confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

3. Introduction and Background

- 3.1 This report covers the following:-
- Capital activity during the year i.e. capital expenditure and financing (section 4 below);
 - Impact of this activity on the Council's underlying indebtedness, i.e. the Capital Financing Requirement (section 5 below);
 - The actual prudential and treasury indicators;
 - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (section 6 below);
 - Summary of interest rate movements in the year;
 - Detailed debt activity; and
 - Detailed investment activity

4. The Council's Capital Expenditure and Financing

- 4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2021/2022 Actual £'000	2022/2023 Actual £'000
Capital expenditure	23,448	25,347
Financed in year	19,579	16,074
Unfinanced capital expenditure	3,869	9,273

5. The Council's Overall borrowing Need

- 5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/2023 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

- 5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.
- 5.3 Reducing the CFR – the Council's underlying borrowing need (CFR) 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 also be borrowed or repaid at any time, but this does not change the CFR.
- 5.4 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).
- 5.5 The Council's 2022/2023 MRP Policy, (as required by Department for Levelling Up, Housing and Communities Guidance), was approved as part of the Treasury Management Strategy Report for 2022/2023 on 23 February 2022.
- 5.6 The Council's CFR for the year is shown below and represents a key prudential indicator. It includes leasing schemes that are on the balance sheet, as these increase the Council's borrowing need.

CFR (£m): General Fund	31 March 2021/2022 Actual £'000	31 March 2022/2023 Actual £'000
Opening Balance	40,770	42,779
Add unfinanced capital expenditure (as above 4.2)	3,869	9,273
Less MPR/VRP	(1,860)	(1,661)
Closing Balance	42,779	50,391

- 5.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.
- 5.7.1 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2022 Actual £'000	31 March 2023 Actual £'000
Gross borrowing position	10,000	10,000
CFR	42,779	50,391
(Under) / over funding of CFR	32,779	40,391

- 5.8 **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2022/2023 the Council has maintained gross borrowing within its authorised limit.
- 5.9 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.
- 5.10 **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 net revenue stream.

	2022/2023 £'000
Authorised limit	71,000
Maximum gross borrowing position during the year	10,000
Operational boundary	66,000
Average gross borrowing position	10,000
Financing costs as a proportion of net revenue stream	0.78%

6 Treasury Position as at 31 March 2023

- 6.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2022/2023 the Council's treasury, (excluding borrowing by finance leases), position was as follows:

DEBT PORTFOLIO	31 March 2022 Principal £'000	Rate/ Return	31 March 2023 Principal £'000	Rate/ Return
Fixed rate funding:				
- Market (Maturity Loan)	10,000	3.81%	10,000	3.81%
- Local Authorities (Maturity Loans)	-	-	-	-
Total debt	10,000	3.81%	10,000	3.81%
CFR	42,779		50,391	
Over / (under) borrowing	(32,779)		(40,391)	
Total investments	34,615	0.43%	27,000	3.44%
Net of debt and investments	24,615		17,000	

6.2 The maturity structure of the debt portfolio was as follows:

	31 March 2022 Actual £'000	31 March 2023 Actual £'000
Under 12 months	-	-
12 months and within 24 months	-	-
2 years and within 50 years	-	-
Over 50 years	10,000	10,000

6.3 As at the 31 March 2023 the council did not have any temporary loans. There are two market loans with Barclays of £5m each and these mature in 2077.

6.4 The £27,000,000 investments at the year-end comprised of; £4,000,000 Call Accounts / Instant Access Accounts, £11,000,000 Money Market Funds, £8,000,000 Local Authorities and £4,000,000 other short-term investments.

6.5 Full details for both the borrowing and the investments can be found in Appendices 1 and 2.

INVESTMENT PORTFOLIO	Actual 31 March 2022 £000	Actual 31 March 2022 %	Actual 31 March 2023 £000	Actual 31 March 2023 %
Treasury investments				
Call Accounts / Instant Access Accounts	8,000	23%	4,000	15%
Money Market Funds	10,615	31%	11,000	41%
Local authorities	4,000	12%	8,000	30%
Other Short Term Fixed Investments	12,000	35%	4,000	15%
TOTAL TREASURY INVESTMENTS	34,615	100%	27,000	100%

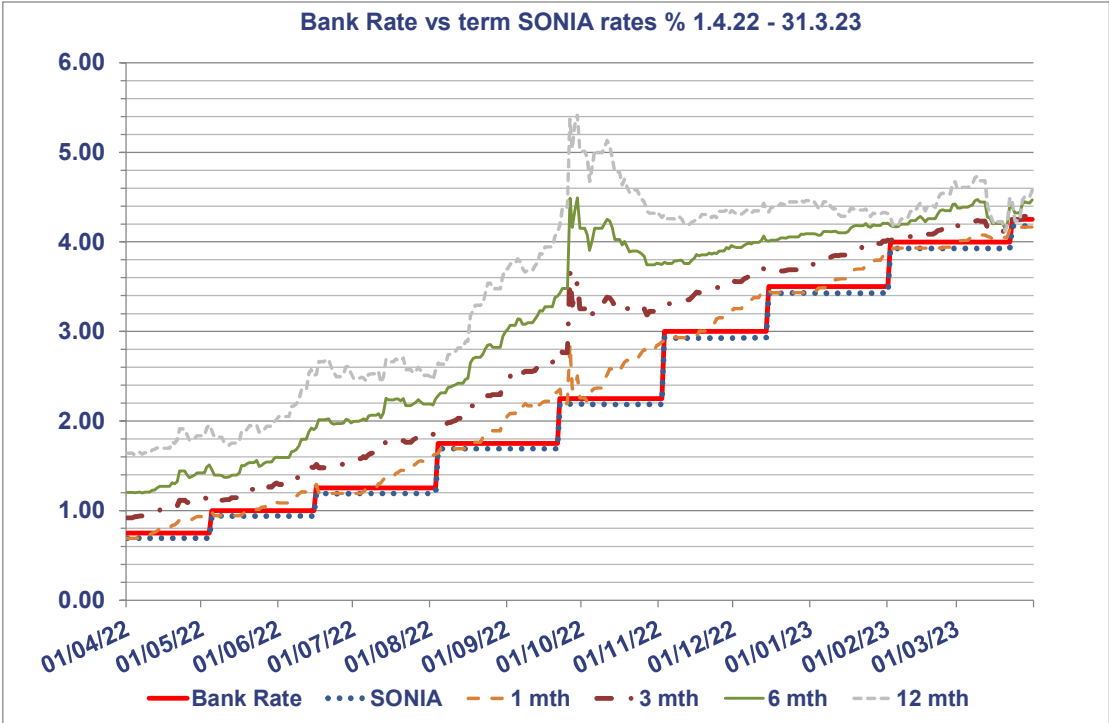
6.6 The maturity structure of the treasury investment portfolio was as follows:

	31 March 2022 Actual £000	31 March 2023 Actual £000
Treasury Investments:		
Longer than 1 year	0	0
Up to 1 year	34,615	27,000
Total	34,615	27,000

7 The Strategy for 2022/2023

7.1 Investment strategy and control of interest rate risk

Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2022/23



FINANCIAL YEAR TO QUARTER ENDED 31/3/2023						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	4.25	4.18	4.17	4.30	4.49	5.41
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	2.30	2.24	2.41	2.72	3.11	3.53
Spread	3.50	3.49	3.48	3.38	3.29	3.79

- 7.2 Investment returns picked up throughout the course of 2022/2023 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/2024.

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

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

The Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/2009. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

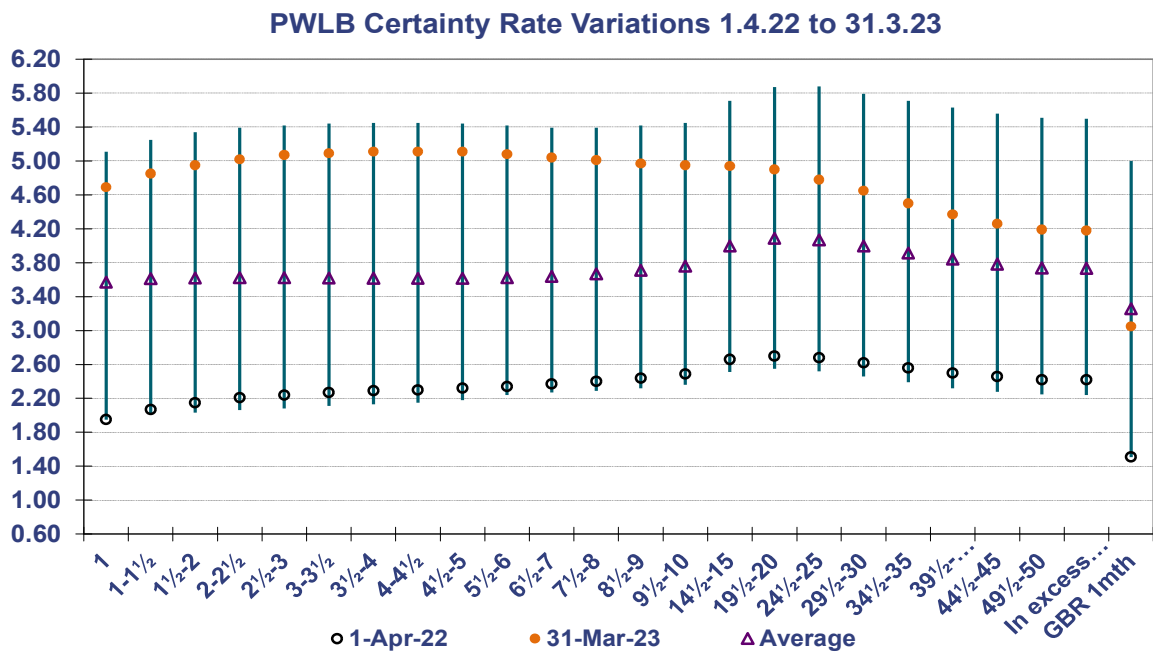
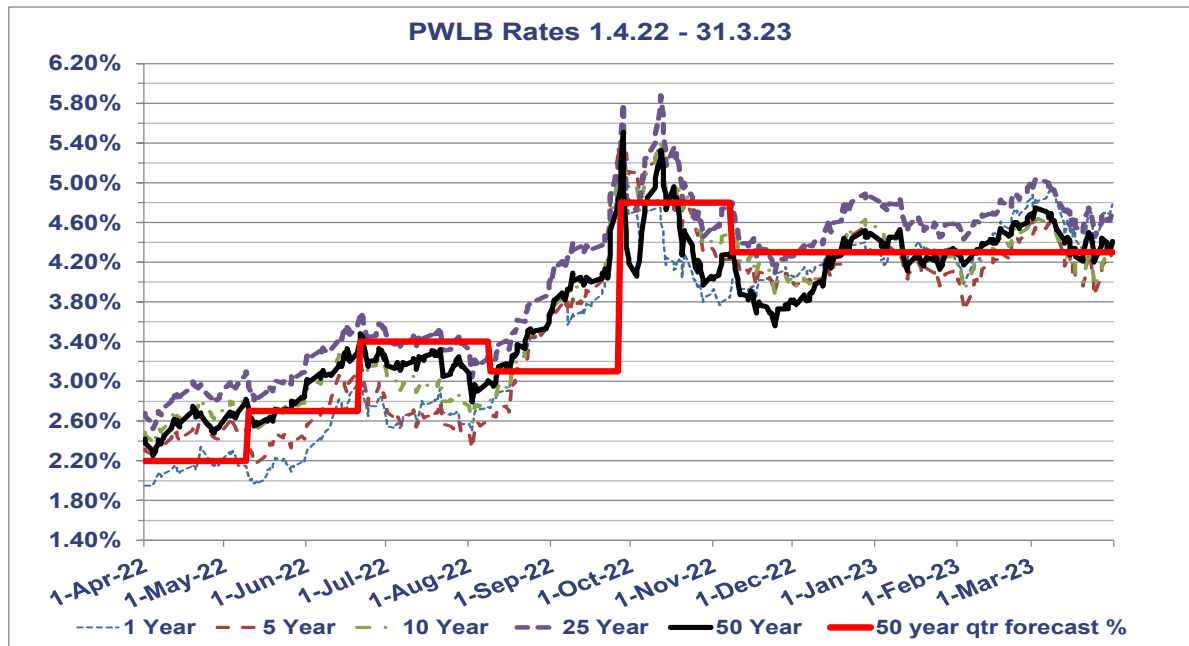
7.3 **Borrowing strategy and control of interest rate risk**

- 7.4 During 2022/2023, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

- 7.5 A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<3 years) as appropriate.

- 7.6 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

PWLB Rates 2022/2023



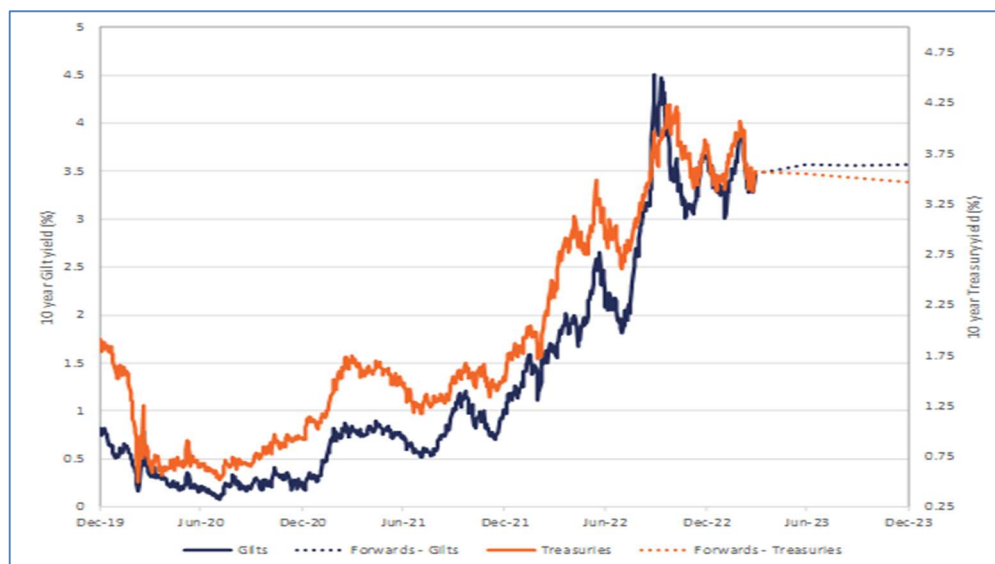
High/low/average PWLB rates for 2022/2023

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

7.9 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

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

Graph of UK gilt yields v. US treasury yields



7.10 Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

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

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

- 7.12 There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

8 Borrowing Outturn

- 8.1 No borrowing was undertaken during the year.

8.2 Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.3 Rescheduling

There was no rescheduling during the year.

9 Investment Outturn

- 9.1 Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 7 February 2023. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

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

9.3 **Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources	31 March 2022 £'000	31 March 2023 £'000
Balances	9,386	* 7,507
Earmarked reserves	36,221	36,894
Provisions	727	*1,201
Usable capital receipts	4,947	4,870
Total	51,281	50,472

*The figures are provisional until the Council produces and publishes its draft Statement of Accounts for 2022/2023.

9.4 **Investments held by the Council**

- The average balance of investments for the year was £29.625m (2021/2022 £38.345).
- The average rate of return for the year on investments was 2.317% (2021/2022 0.180%).
- Total investment income was £781,512 (2021/2022 £226,320) compared to an original budget of £278,790 (2021/2022 £164,780).

10 **Background Information**

- Monthly budget monitoring reports
- Treasury Policy Statement 2023/2024 and Annual Treasury Strategy (Council 7 February 2023)

Appendix 1 – Economic Outlook

The Following is provided by the Council's Treasury Advisers, The Link Group, April 2023.

The Economy and Interest Rates

UK Economy

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

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

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force

shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

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

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE

is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

APPENDIX 2 - Investments as at 31 March 2023:

Treasury Investments	Principal	Start Date	End Date	Rate %
Aberdeen Liquidity – Money Market Fund	£3,000,000	N/A	N/A	4.109
HSBC Sterling – Money Market Fund	£4,000,000	N/A	N/A	4.109
LGIM Sterling – Money Market Fund	£4,000,000	N/A	N/A	4.138
Handelsbanken	£4,000,000	N/A	N/A	3.800
Total Liquid Accounts	£15,000,000			
Lancashire County Council	£4,000,000	31/08/2022	30/08/2023	2.100
North Lanarkshire Council	£4,000,000	06/09/2022	12/04/2023	1.97
SMBC Bank International	£4,000,000	16/02/2023	17/0/2023	4.060
Total Fixed Term Investments	£12,000,000			
Total Treasury Investments	£27,000,000			

APPENDIX 3 - Borrowing as at 31 March 2023:

Start Date	End Date	Loan No	Value £	Institution	Rate %	Term
Total Short Term			£0			
22.03.07	21.03.77	5888	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
12.04.07	11.04.77	5887	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
Total Long Term			£10,000,000			
Total Borrowing			£10,000,000			

APPENDIX 4: Prudential Indicators

PRUDENTIAL INDICATOR	2021/2022 Actual £000's	2022/2023 Actual £000's
Capital Expenditure	23,448	25,347
Ratio of financing costs to net revenue stream	3.13%	0.78%
Net borrowing		
brought forward 1 April	10,000	10,000
carried forward 31 March	10,000	10,000
Change in year - increase/(decrease)	-	-
Net Investment		
brought forward 1 April	(27,240)	(34,615)
carried forward 31 March	(34,615)	(27,000)
Change in year - increase/(decrease)	7,375	(7,615)

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2022/2023 unfinanced capital expenditure, and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

CFR (£m): General Fund	31 March 2021/2022 Actual £'000	31 March 2022/2023 Actual £'000
Opening Balance	40,770	42,779
Add unfinanced capital expenditure (as above 4.2)	3,869	9,273
Less MPR/VRP	(1,860)	(1,661)
Closing Balance	42,779	50,391

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2022/2023. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2022 Actual £'000	31 March 2023 Actual £'000
Borrowing	10,000	10,000
Investments	(34,615)	(27,000)
Net Position	(24,615)	(17,000)
Closing CFR	42,779	50,391

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 net revenue stream (Council Tax and Government Grant).

	2022/2023 £'000
Authorised limit	71,000
Maximum gross borrowing position during the year	10,000
Operational boundary	66,000
Average gross borrowing position	10,000
Financing costs as a proportion of net revenue stream	0.78%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2021/2022 £'000	2022/2023 £'000
Authorised limit for external debt -		
Borrowing	77,000	71,000
Operational boundary for external debt -		
Borrowing	72,000	66,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	77,000	71,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	30,800	28,400

Maturity structure of fixed rate borrowing during 2022/2023	upper limit	lower limit	Actual
under 12 months	100%	0%	0%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	100%