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TREASURY MANAGEMENT STRATEGY 2022/23

Date: 23rd February 2022

Report of: Chief Officer Financial Services

Report to: Full Council

Will the decision be open for call in? Except recommendations 2.2 to 2.4 ☒Yes ☐No

Does the report contain confidential or exempt information? ☐Yes ☒No

What is this report about?

1.1 This report sets out for Members' approval the Treasury Management Strategy for 2022/23 and provides an update on the implementation of the 2021/22 strategy.

1.2 The Council's level of net external debt is anticipated to be £2,366m by 31/03/2022, £83m below expectations in November 2021. This is as a result of £28m forecast slippage in the capital programme 2021/22, £54m of increased internal balances which reduce the requirement for external borrowing, and £1m higher MRP for 2021/22 than was forecast in the 2020/21 capital borrowing requirement.

1.3 The low-rate funding environment is expected to continue with rises in the base rate expected to be introduced cautiously. The first rise in base rate occurred on 16th December 2021 when the base rate was increased from 0.10% to 0.25%. The likelihood of further small rises in base rates during 2022/23 has been factored into the proposed debt budget. The cost of debt is forecast to increase by £32.8m in 2022/23. This is principally due the cessation of the use of capital receipts to reduce the level MRP by repaying debt, which has resulted in an increase of £29.5m in the debt budget. The remaining increase relates to an increase in MRP and in the external cost of debt due to the increasing borrowing requirement to fund the capital programme.

1.4 The Authorised Limits for both External Debt and Other Long-Term Liabilities have been reviewed and it is proposed to change them as detailed in Section 8.6.4. The Operational Boundaries have also been reviewed and likewise are proposed to be changed as detailed in Section 8.6.5. The Council's Authorised Limit is set above the Capital Financing Requirement to provide for short term cash flow needs.

1.5 The strategy is to take longer term fixed rate funding as market opportunities arise. The Council will continue to utilise shorter borrowing pending locking into longer term borrowing. Against this the Council has a stable long term loan portfolio of £2.293bn that has an average maturity of just under 36 years and is funded at 3.27%. An increase in the short-term funding costs of 0.25% over the base assumptions (Table 5) would add £0.6m to the interest costs in 2022/23.

Recommendations

That full Council note that the Executive Board have:

2.1 Approved the treasury strategy for 2022/23 as set out in Section 8.5 and note the review of the 2021/22 strategy and operations set out in Sections 8.3 and 8.4.

That full Council agree that:

2.2 The borrowing limits for 2021/22, 2022/23, 2023/24 and 2024/25 be set as detailed in Section 8.6 and note the changes to both the Operational Boundary and the Authorised limits.

2.3 The treasury management indicators for 2021/22, 2022/23, 2023/24 and 2024/25 be set as detailed in Section 8.7.

2.4 The investment limits for, 2021/22, 2022/23, 2023/24 and 2024/25 be set as detailed in Section 8.8.

Why is the proposal being put forward?

3.1 This report sets out for approval by Members the Treasury Management Strategy for 2022/23 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2021/22.

What impact will this proposal have?

Wards Affected:
Have ward members been consulted? ☐Yes ☒No

4.1 Borrowing Limits for 2021/22, 2022/23 and 2023/24

4.1.1 The Council is required to set various limits for 2021/22, 2022/23 and 2023/24 in accordance with the Local Government Act 2003, having regard for CIPFA's prudential code. These limits including prudential indicators are detailed in Appendix A.

4.1.2 It is anticipated that the Council will continue to remain within the existing Authorised Limit for 2021/22. Both the Authorised Limit and Operational Boundary are made up of a limit for borrowing and a limit for other long-term liabilities.

4.1.3 The Chief Officer Financial Services has delegated authority to adjust between the two separate limits for borrowing and other long-term liabilities, provided that the overall limit remains unchanged. No adjustments between the limits have been made, and any such adjustments would be reported to the next available Council meeting following the change.

4.1.4 Borrowing limits for 2021/22 were approved by Council on 10th February 2021 and remain unchanged.

What consultation and engagement has taken place?

5.1 This report sets the treasury management strategy and as such there is no need to consult the public. In establishing this strategy, consultation with the Council's treasury advisors has taken place.

5.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the capital programme report elsewhere on this agenda.

What are the resource implications?

6.1 This treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the general fund and HRA.

6.2 The updated strategy 2021/22 is forecast to deliver a saving of £2.4m at period 9.

What are the legal implications?

7.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury Management Policy Statement are approved by Council. As such, recommendations 2.2 to 2.4 are not subject to call in.

7.2 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. In particular:

- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential Indicators.
- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least two times a year.

7.3 Updated versions of both the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice were published in December 2021. However, the guidance notes for practitioners which accompany and support the codes are not expected to be published until the end of January. Although the new Codes apply immediately, the Prudential Code states that the changes to reporting requirements that they introduce can be deferred until the 2023/24 financial year. These new reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. Given the timing of the publication of the updated Codes it has not been possible to implement the new reporting requirements in the 2022/23 Treasury Management and Capital and Investment strategy documents, however work is underway to evaluate the new requirements with the aim of introducing them during 2022/23. Full adoption and compliance with the new Codes is therefore expected to be in place for the 2023/24 Financial year.

What are the key risks and how are they being managed?

8.1 This report sets out the framework for the treasury strategy for the year ahead. The execution of strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group.
- Quarterly strategy meetings with the Chief Officer Financial Services and the Council's treasury advisors and
- Regular market, economic and financial instrument updates, and access to real time market information.

8.2 The above monitoring mitigates the directorate level risk of "Failure to recover money invested in other financial institutions" and in addition the Treasury Management Strategy is linked to the corporate risk on 'Financial Forecasting'.

8.3 <u>Review of Strategy and Borrowing Limits 2021/22</u>

8.3.1 The Council's level of net external debt is anticipated to be £2,366m by 31/03/2022, £83m below expectations in November 2021. This is as a result of £28m forecast slippage in the capital programme 2021/22, £54m of increased internal balances which reduce the requirement for external borrowing, and £1m higher MRP for 2021/22 than was forecast in the 2020/21 capital borrowing requirement.

Table 1

ANALYSIS OF BORROWING 2021/22		2021/22 Feb 21 Report £m	2021/22 Nov 21 Report £m	2021/22 This Report £m
Net Borrowing at 1 April		2,283	2,252	**2,252**
New Borrowing for the Capital Programme – General Fund		135	159	**153**
New Borrowing for the Capital Programme – HRA		53	51	**29**
Debt redemption costs charged to Revenue (Incl HRA)		(54)	(56)	**(57)**
Reduced/(Increased) level of Revenue Balances		39	43	**(11)**
Net Borrowing at 31 March*		2,456	2,449	**2,366**
Capital Financing Requirement				**2,708**
* Comprised as follows				
Long term borrowing	Fixed	2,172	2,239	2,283
	Variable (less than 1 Year)	35	10	10
New Borrowing		173	197	113
Short term Borrowing		116	43	0
Total External Borrowing		2,496	2,489	2,406
Less Investments		40	40	40
Net External Borrowing		**2,456**	**2,449**	**2,366**
% gross borrowing exposed to interest rate risk		13%	10%	5%

Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

8.3.2 The Bank of England's Monetary Policy Committee (MPC) at its meeting on 16th December 2021 increased its bank rate from 0.10% to 0.25% where it had been since 19th March 2020 in response to the emerging COVID pandemic. Further increases are expected over the next few years, but the timing and pace of these base rate increases will be driven by global and domestic factors as these emerge.

8.3.3 The combined impacts of Brexit and COVID continues to be a source of uncertainty to markets in forecasting GDP growth and inflation. Vaccines were an initial game changer as life started to return to some normality however the new Omicron variant and restrictions that have followed will have a yet unquantified impact. UK GDP Growth was just 0.1% month on month in the latest publication for October 2021, and the economy remains 0.5% below its pre-pandemic levels (Feb 2020). In the labour market the 3-month figure to October shows unemployment increased by 75k to 4.2% suggesting that the impact of the end of the Furlough scheme in September may not have been as bad as initially feared. CPI Inflation for November spiked up to 5.1% and it is thought it will peak around 6% in April before falling back towards 2% in the second half of 2022. As experienced by other western economies, the main driver of this increase is energy prices which are expected to fall back after winter. Also driving inflation are supply shortages and shipping costs both of which are expected to be transitory. The MPC remains concerned about inflation and particularly signs of greater persistence in domestic costs and price pressures. After the base rate rise in December the next rise could be as early as February 2022 however the MPC will carefully weigh the impact of restrictions in response to the Omicron variant. Also, the MPC has stated that once the base rate is back to 0.50% it will consider unwinding its stock of QE purchases by not reinvesting maturing gilts, or at 1% by actively selling its stock of £875bn of QE.

8.3.4 In the Eurozone, a slow start to the vaccination programme delayed economic recovery initially, with Q1 growth at -0.3% This was reversed during 2021 with Q2 posting 2% growth and Q3 2.2%. However, with the arrival of the Omicron variant it is expected that overall weak growth could turn negative again. Headline inflation reached 4.9% in November mainly due to high energy costs and supply imbalances, but service sector inflation was also a factor. The ECB are watching wage growth figures which could lead to persistently higher service inflation. It is thought that inflation being over the ECB 2% target may not result in base rate increases from its current negative level of (-0.5%) in the short term, as the current inflation rate is expected to fall during the latter part of 2022. In terms of QE the ECB is to begin tapering its purchases during 2022 to half of its current monthly level by October 2022.

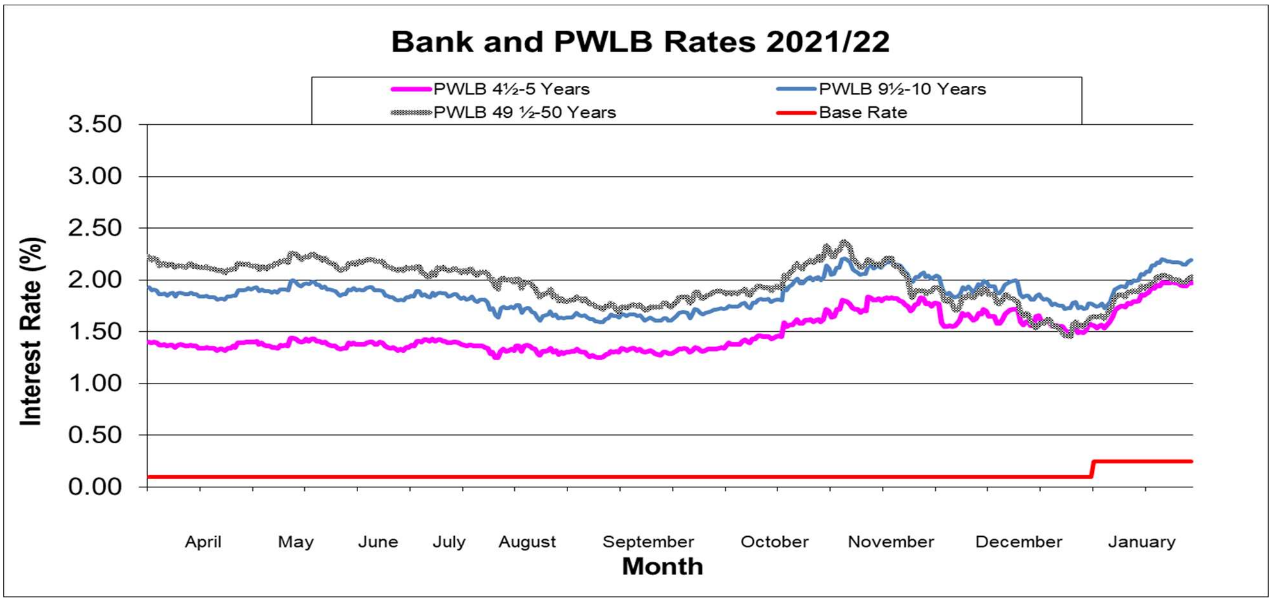
8.3.5 In the United States CPI inflation has hit a 40-year peak of 6.8% but recent falls in energy prices suggest this may be the peak and that inflation will fall back during 2022. It is also noted that labour shortages are driving up wage rates which will be of concern to the FOMC due to the potential for second round inflation effects that this may bring. The QE programme in the US has been tapering and is expected to finish completely in February 2022. Currently the FOMC is thought to be considering three rises in the base rate from near 0% during 2022 with possibly another three in 2023 and two more in 2024. GDP growth is therefore expected to be around 2% to 3% during 2022 and 2023.

8.3.6 In Asia, China recovered quickly from the initial COVID outbreak in 2020 and GDP recovered within the year to pre-crisis levels. This was achieved through a programme of monetary and fiscal support that stimulated short term growth. During 2021 this pace has slowed and long-standing economic issues regarding house building and infrastructure remain. the global issues around shipping have also impacted China as a major supplier of goods. Japan has had a patchy year combatting COVID however the economy is expected to have rebounded strongly during 2021 as vaccinations have been rolled out.

8.3.7 Generally, world growth was in recession in 2020 due to the pandemic, supply shortages, shipping costs and core inflation, however this has reversed to a certain degree in 2021. Growth is expected to be around 6% for 2021 and forecast at 4-5% in 2022. An emerging trend is the reversal of globalisation and a decoupling of the Western economies from China, and this is likely to reduce global growth looking forward.

8.3.8 The Council's treasury advisors' latest forecasts for Quarter 1, 2022 are that PWLB rates for 50-year borrowing will be around 1.50%, 10 year borrowing around 1.60% and 5 Year at 1.40%. Yields are expected to rise moderately over the forecast period although the path and timing remain very uncertain. Please see table 3 in paragraph 8.4.3 below for the latest rates and forecasts.

Chart 1



8.3.9 During 2021/22 the Council continued the strategy of funding the borrowing requirement from low short term interest rates, balances and reserves whilst taking advantage of longer-term funding opportunities when they arise. The debt budget outturn is projected to deliver a saving of £2.4m. The ability to take longer term funding is discussed in the strategy for 2022/23 however table 2 below details the new borrowing and repayment of long-term external debt so far during 2021/22.

8.3.10 The strategy for managing and acquiring long term debt for spend to save schemes ensures that funding is secured when the business case is approved. This is to negate any interest rate risk to delivering the business case assumption.

Table 2

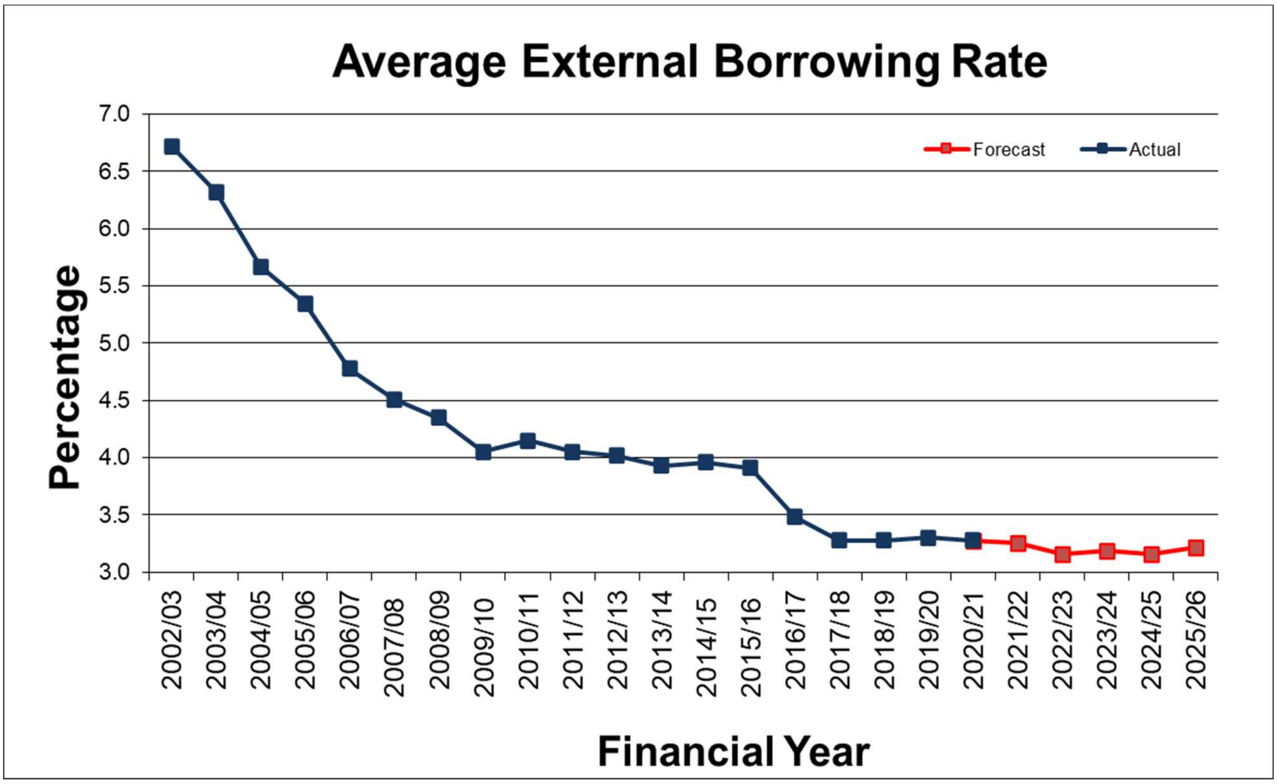
Loan repayments and borrowing 2021/22							
Loan Repayments				New Borrowing			
Date	Amount (£m)	Original Rate (%)	Notes	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans				PWLB			
12/06/2021	26.436	3.97	n/a	23/07/2021	20.000	49½	1.67
				09/08/2021	20.000	50	1.52
				03/12/2021	40.000	50	1.46
Sub Total	**26.436**				**80.000**		
Non PWLB Loans				Non PWLB Loans			
15/09/2021	0.024	0.0	Salix WLL	23/08/2021	5.959	8	0.0
01/10/2021	0.315	0.0	Salix PH1	22/12/2021	1.776	8	0.0
01/03/2022	0.024	0.0	Salix WLL	22/03/2022	2.161	8	0.0
Sub Total	**0.363**				**9.896**		
Total	**26.799**			**Total**	**89.896**		

*** Loans are on an Equal Instalment of Principal (EIP) repayment profile

8.4 Interest Rate Review

8.4.1 The average rate of interest paid on the Council's external debt for 2020/21 was 3.28% as reported in the Annual Treasury Management report 2020/21 to Executive Board on 21st June 2021. This rate is forecast to fall slightly to 3.27% for 2021/22 mainly due to running the borrowing need on short term or from internal funding sources. Chart 2 shows how the average, external borrowing rate has fallen from 6.72% in 2002/03. The longer-term expectation is that the Council's average cost of borrowing will begin to rise as the cost of borrowing increases and short-term funding is switched to more expensive longer-term funding. Taking longer term fixed rate borrowing will however reduce the Councils future exposure to potential interest rate increases at the point of switching and as such continues the prudent and sustainable management of the Council's borrowing need. The average rate may fall further if the rates currently available continue to persist.

Chart 2



8.4.2 The projections for the next increase in the bank rate are now Q2 2022 with further increases in Q1 2023 and Q1 2024. This is earlier than previously forecast mainly due to the impact of inflation on the UK economy.

8.4.3 The current strategy is to take longer term fixed rate funding at the most opportune time to lock out interest rate exposure. At the point of acquiring longer term funding consideration will be given to:

- Whether the forecast capital borrowing requirement has reduced or slipped into the following year
- The forecast changes to levels of reserves/balances, including whether the Council has received funding in advance of spending for capital schemes.

Table 3

	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)			
		5 year	10 Year	25 year	50 year
Now	0.25	1.40	1.60	1.80	1.50
March 2022	0.25	1.50	1.70	1.90	1.70
June 2022	0.50	1.50	1.80	2.00	1.80
Sept 2022	0.50	1.60	1.80	2.10	1.90
Dec 2022	0.50	1.60	1.90	2.10	1.90
Mar 2023	0.75	1.70	1.90	2.20	2.00
June 2023	0.75	1.80	2.00	2.20	2.00
Sept 2023	0.75	1.80	2.00	2.20	2.00
Dec 2023	0.75	1.80	2.00	2.30	2.10
Mar 2024	1.00	1.90	2.10	2.30	2.10
June 2024	1.00	1.90	2.10	2.40	2.20
Sept 2024	1.00	1.90	2.10	2.40	2.20
Dec 2024	1.00	2.00	2.20	2.50	2.30
Mar 2025	1.25	2.00	2.30	2.50	2.30

8.5 Strategy for 2022/23

8.5.1 Table 4 below shows that net borrowing is expected to rise by £229m to £2,595m during 2022/23. This is a result of new borrowing to fund the capital programme net of MRP and an anticipated fall in internal resources available to fund the capital programme. The Capital Programme report is presented elsewhere on this agenda.

Table 4

ANALYSIS OF BORROWING 2021/22 – 2024/25		2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Net Borrowing at 1 April		2,252	2,366	2,595	2,667
New Borrowing for the Capital Programme – GF		153	178	95	61
New Borrowing for the Capital Programme - HRA		29	46	29	29
Debt redemption costs charged to Revenue (Incl HRA)		(57)	(63)	(67)	(68)
Reduced/(Increased) level of Revenue Balances		(11)	68	15	16
Net Borrowing at 31 March		2,366	2,595	2,667	2,705
* Comprised as follows					
Long term borrowing	Existing Fixed	2,283	2,209	2,116	2,159
	Existing Variable (Less than 1yr)	10	45	95	25
	Net New Borrowing	113	229	72	38
Short term Borrowing		0	152	424	523
Total External Borrowing		2,406	2,635	2,707	2,745
Less Investments		40	40	40	40
Net External Borrowing		2,366	2,595	2,667	2,705
% Exposure after planned LT Borrowing		5%	16%	22%	21%

Note: Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

8.5.2 Table 4 above shows that over the 4-year time horizon the proportion of the Council's borrowing portfolio which is exposed to interest rate risk is expected to rise to a maximum of 22% in 2023/24. The Variable Interest Rate Exposure Indicator has been set in relation to the net external borrowing position. This limit has been set at 40% and is recommended to be maintained at this level in section 8.7.4 below. Included within the net external borrowing are two elements that are variable, these are short term loans and Lenders Option Borrowers Option (LOBO) loans with an option which falls within 12 months. No LOBO options are expected to be exercised during 2022/23.

8.5.3 Alongside the prudential code structure, the Council's current policy of using its balance sheet strength, reserves, provisions etc. to defray external borrowing presents an exposure to a potential increase in external borrowing should the use of internal balances reduce unexpectedly. The strategy of acquiring long-term borrowing as outlined in 8.4.3 above will mitigate against this risk. The Council has a forecast need to borrow. Its borrowing Capital Financing Requirement (CFR) at 31/03/2022 is expected to be £2,708m of which net external funding is expected to be £2,366m, and the difference of £342m is the use of internal balance sheet strength to finance this need. The long-term funding element of the external debt is forecast to be £2,293m and therefore, accepting that in current conditions LOBO options are unlikely to be exercised, the Council's gross exposure to this risk is the difference between its CFR and its current stock of long-term external funding or £415m.

8.5.4 This potential exposure will be managed by the strategy outlined in 8.4.3 above of taking longer term borrowing when opportunities arise. This exposure should also be viewed against the historical capital programme slippage, the continued strength of the Council's balance sheet and the market for supplying short term funds remaining strong.

8.5.5 If the Council continued to fund its borrowing need from short term and internal sources only then this exposure is forecast to be £823m in 2024/25. This would present several risks around continued balance sheet strength, the capacity to continue to supply the market with low-cost borrowing at relatively low rates, sharper than anticipated increases in rates and improved economic outlook.

8.5.6 The strategy outlined in 8.4.3 is to take longer term fixed rate borrowing when opportunities arise in combination with the temporary use of short-term borrowing as required. This strategy is considered prudent as base rate rises are expected to be measured and small during the forecast period (to Q1 2025).

8.5.7 The current economic outlook and the structure of market interest rates and government debt yields have several key treasury management implications:

- It is possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain an ongoing concern.
- The effects of any change in US economic direction and performance.
- The impact in the UK of Brexit and its implications for trade, growth and inflation.
- The continuing impact of the COVID pandemic
- Investment returns are likely to remain relatively low during 2022/23 and beyond as base rate rises are expected to be slow and gradual.
- Borrowing interest rates continue to be relatively cheap historically; and

- If longer term borrowing is acquired before it is needed the result could be an increase in investments resulting in a revenue loss between borrowing costs and investment returns.

8.5.8 The Council's current long-term debt of £2.293bn has an average maturity of 35.6 years if all of its debt runs to maturity. Approximately 10% of the Council's long term debt portfolio has options for repayment. In the unlikely event that all of these options were exercised at the next option date then the average maturity would be lowered to a little over 31 years. This compares favourably with the average maturity of the UK Government gross debt portfolio of 14.80 years. The existing profile of the Council's debt provides considerable certainty of funding costs. Prudential indicator 16 in Appendix A shows the maturity profile of the Council's long term fixed debt and highlights that 79.5% or £1,785m matures in periods greater than 10 years.

8.5.9 The cost of debt is forecast to increase by £32.8m in 2022/23 principally due to an increase in MRP and the external cost of debt arising from the increase in the net borrowing requirement, and the cessation of using capital receipts to reduce the required level of MRP. Forecasts for the debt budget beyond 2022/23 are dependent upon the interest rate assumptions, the likely level of capital spend, and the Council's cash balances. The debt budget is currently forecast to increase by a further £7.6m in 2023/24 with no net increase in 2024/25 including MRP costs, based upon the assumptions on funding rates in Table 5. The interest rate assumptions and the borrowing requirement arising from the capital programme will be kept under review throughout 2022/23, before establishing the 2023/24 debt budget.

Table 5

Assumed average funding rates	
Year	**Average Interest Rate**
2022/23	2.25%
2023/24	2.50%
2024/25	2.75%

8.5.10 These assumptions on borrowing rates have associated risks. For example, in 2022/23, if the cost of borrowing was 0.25% higher than assumed, full year debt costs would increase by circa £0.6m. As funding levels have reduced the debt budget now contains sufficient scope to fully switch from short term to long term.

8.6 Borrowing Limits for 2021/22, 2022/23, 2023/24 and 2024/25

8.6.1 The authorised limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be a management tool for on-going monitoring of external debt and may be breached temporarily due to unusual cash flow movements.

8.6.2 Appendix B shows that the Council has kept within the operational boundary and authorised limit in 2021/22.

8.6.3 The Chief Officer - Financial Services has delegated responsibility to adjust between the two separate limits for borrowing and other long-term liabilities, provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change. It is recommended that Council approve the following authorised limits for its gross external debt and other long-term liabilities for the next three years.

8.6.4 After reviewing the forecast debt and borrowing position together with the forecast for revenue balances and MRP, the Limit for borrowing is recommended to remain the same for 2021/22, 2022/23 and 2023/24 as detailed below. For 2024/25 a new limit should be set at £3,200m. The limit for Other Long-Term Liabilities is recommended to remain the same for the years 2021/22 to 2023/24 to accommodate new lease accounting arrangements which have been delayed but are now anticipated to apply from 2022/23. It is further recommended that a new limit be set for the year 2024/25 of £570m to reflect the forecast amortisation of PFI liabilities and finance leases.

Recommended: Authorised Limits as follows

Authorised Limit	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Borrowing	3,000	3,150	3,200	3,200
Other Long-Term Liabilities	670	630	600	570
Total	**3,670**	**3,780**	**3,800**	**3,770**

8.6.5 In line with the review of the authorised limits above it is proposed to amend the Operational Boundaries as detailed below. This limit will retain sufficient headroom to accommodate anticipated cash flow variances. The limit for borrowing is recommended to remain the same for the years 2021/22, 2022/23 and 2023/24. For 2024/25, a new limit should be set at £2,900m. The limit for Other Long-Term Liabilities is recommended to remain the same for the years 2021/22 to 2023/24 to accommodate further inclusions as a result of anticipated lease accounting changes. It is further recommended that a new limit be set for the year 2024/25 of £550m to reflect the forecast amortisation of PFI liabilities and finance leases.

Recommended: Operational Boundaries as follows

Operational Boundary	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Borrowing	2,850	2,850	2,850	2,900
Other Long-Term Liabilities	650	610	580	550
Total	**3,500**	**3,460**	**3,430**	**3,450**

8.6.6 Table 7 details separately the borrowing and Other Long Term Liabilities element of the Authorised limit and compares this to the projected CFR. The revised Authorised limit and the Operational boundary remain in line with the projected CFR. The CFR is the Councils actual need to borrow based on its historic capital programme and forecast future capital programme. The limits reflect the significant level of balances being used internally to fund the borrowing need. These limits therefore leave headroom for future injections into the programme or external investment of Council balances.

TABLE 7

year	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	
External Borrowing					
CFR Projection.	2,720	2,896	2,967	3,029	
Authorised Limit					
Current	3,000	3,150	3,200	-	
Proposed	3,000	3,150	3,200	3,200	
Increase / (Decrease)	-	-	-	3,200	a
Operational boundary					
Current	2,850	2,850	2,850	0	
Proposed	2,850	2,850	2,850	2,900	
Increase / (Decrease)	-	-	-	2,900	a
Other Long Term Liabilities					
CFR Projection.	550	519	486	450	
Authorised Limit					
Current	670	630	600	-	
Proposed	670	630	600	570	
Increase / (Decrease)	-	-	-	570	a
Operational boundary					
Current	650	610	580	0	
Proposed	650	610	580	550	
Increase / (Decrease)	-	-	-	550	a

a) Note 2024/25 has not been set previously as these limits are only set for the current +3 year time horizon

8.7 Treasury Management Indicators

8.7.1 Appendix A details the borrowing limits and other prudential indicators

8.7.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services 2017. An updated version of this Code was published in December 2021, but the accompanying guidance notes are not yet available. Given the timing of the publication of the updated Codes it has not yet been possible to implement changes to the treasury management prudential indicators, however work will be undertaken with the aim of introducing them during 2022/23.

8.7.3 The Council is required to set appropriate indicators to manage interest rate risk and therefore sets an upper limit on its fixed interest rate exposures that represents the maximum proportion of its net borrowing (i.e. measured as a percentage of its total borrowing less investments) which the Council will have at any given time during the period at fixed interest rates. The purpose of the limit is to ensure that the Council has the flexibility to take advantage of falling interest rates by ensuring a minimum level of variable rate debt. However, setting a limit less than 100% can restrict the Council's ability to borrow in advance of need when long term fixed interest rates are at their low point. (This is the case since in general amounts borrowed in advance are invested, meaning that the net borrowing figure on which the limit is based will be lower than the total fixed borrowing outstanding) Therefore, to provide the Council with maximum flexibility it is recommended that the limit of 115% remains unchanged and is rolled forward into 2024/25

Recommended: Upper limit on fixed interest rate exposures for 2021/22, 2022/23, 2023/24 and 2024/25 of 115% (no change)

8.7.4 Additionally, the Council will set an upper limit on its variable interest rate exposures that represents the maximum proportion of debt the Council will have at any given time during the period at variable interest rates and exposed to interest rate rises. In evaluating this figure, LOBOs are treated as being variable in the year in which an option occurs and fixed in other years. The limit should be set in order to maintain a balance between managing the risk of rate rises and allowing sufficient flexibility to take advantage of any fall in rates. It is therefore recommended that the limit of 40% of debt remains unchanged and is rolled forward into 2024/25.

Recommended: Upper limit on variable interest rate exposures for 2021/22, 2022/23, 2023/24 and 2024/25 of 40% (no change)

8.7.5 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. It is proposed that these limits remain unchanged.

Maturity structure of fixed rate borrowing	Lower Limit	Upper Limit
under 12 months	0%	15%
12 months and within 24 months	0%	20%
24 months and within 5 years	0%	35%
5 years and within 10 years	0%	40%
10 years and within 20 years	25%	90%
20 years and within 30 years		
30 years and within 40 years		
40 years and within 50 years		
50 years and above		

Recommended: Upper and Lower limits on fixed rate maturity structure remains unchanged as above.

8.8 Treasury Management Investment Strategy and Limits

8.8.1 The CIPFA codes and Guidance require Local authorities to report on and monitor Non treasury Investments, service loans, guarantees and commercial investments. These are outside the scope of the Treasury Management function due to the differing risk profile and complexity of these transactions. Strategic considerations and reporting requirements for non-treasury investments are therefore included within the Capital and Investment Strategy, which is attached as an appendix to the Capital Programme Update Report.

8.8.2 The Council's actual external borrowing need is reduced by the availability of revenue balances. The Treasury policy allows for the external investment of these balances at advantageous rates but with due regard for security of capital invested. Investment of surplus balances in general will be limited to cash flow and liquidity management although the interest rate outlook will be kept under review to identify any opportunities for longer term investment.

8.8.3 The approved lending list is based upon the assessment of the financial standing of counterparties as determined by international credit rating agencies and further refined and updated by the Council's advisors on a continual basis. The lending list is often further restricted based upon the Council's own view of the credit worthiness of counterparties.

8.8.4 The investment strategy allows for the Council to invest in the most highly rated financial institutions around the world. The Council will only lend up to a maximum of £15m to financial institutions that are rated as excellent. There is also a limit of £5m for financial institutions that are rated as very good.

8.8.5 Any changes in the investment environment are being monitored closely as is the effect on the credit list supplied by the Council's treasury advisors. Other factors are also used in determining potential counterparties for the investment of funds over and above credit ratings

8.8.6 The Council under its existing Treasury Management Policy Statement has the authorisation to use Money Market Funds, although it has not utilised these to date. The rates offered on notice accounts by both the Council's bankers and by other banks offering similar products continues to be at low levels. This is thought to reflect the cost of carrying such cash on the balance sheet of these organisations under Basel III rules. As a result, the levels on offer are at or below rates available from Money Market Funds which carry a higher credit worthiness rating. A review of the utility of these funds is being undertaken for depositing short term cash balances and any decision to utilise these accounts will be made under delegations already in place to the Chief Officer Financial Services.

8.8.7 The Prudential code requires that Councils set limits on investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below and roll the limit forward into 2024/25

Recommended: Upper limit on sums invested for periods longer than 364 days (no change):

Total principal sum invested for a period longer than 364 days	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Upper limit	150	150	150	150

Does this proposal support the council's 3 Key Pillars?

☒Inclusive Growth ☒Health and Wellbeing ☒Climate Emergency

9.1 Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council capital programme and is consistent with the Best Council Plan and 3 key pillars.

9.2 Equality, diversity, cohesion and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality, diversity, cohesion and integration issues.

9.3 Treasury management strategy secures funding for the council's capital programme that supports the authority's policies and priorities as set out in the Best Council Plan. These include our Best Council ambition to be an efficient and enterprising organisation.

Options, timescales and measuring success

a) What other options were considered?

This report provides an update to the 2021/22 strategy and outlines the proposed strategy for 2022/23 including setting or amending prudential indicators where appropriate. This update and strategy is provided to Executive Board and full Council regarding Treasury Management operation and activity. As such other options are not considered in this report.

b) How will success be measured?

Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2017 and revised CIPFA guidance notes issued in 2018. All borrowing and investments undertaken have been compliant with the governance framework. The updated CIPFA Codes published in December 2021 are being reviewed to identify any changes which are necessary for the Council to continue to comply with them. Success will therefore be the continued optimal performance of the Treasury Management function within this framework.

Benchmarking of Treasury Management activity is only undertaken on an ad-hoc basis as the structure of debt portfolios and balance sheets of similar authorities often reflect the timing of past spending and financing decisions and therefore can lead to anomalies. The CIPFA Prudential Code makes it clear that prudential indicators should not be used for benchmarking purposes for this reason. The latest benchmarking exercise was undertaken in January 2021 as at the balance sheet date of 31/03/2020 for a comparison of external debt in relation to fixed assets for the core cities and significant variations in the resultant metrics were noted.

c) What is the timetable for implementation?

This report is to confirm the successful operation of the Treasury Management strategy within the established legal and operational framework and is a continuous and on-going process.

Appendices

1. Appendix A — Prudential indicators 2021/22 to 2024/25
2. Appendix B — Prudential Code Monitoring 2021/22 - Debt

Background papers

None

Leeds City Council - Prudential Indicators 2021/22 to 2024/25 **Appendix A**

No.	PRUDENTIAL INDICATOR	2021/22	2022/23	2023/24	2024/25
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
	Ratio of Financing Costs to Net Revenue Stream				
1a	General Fund (Borrowing Only)	20.75%	22.00%	21.64%	20.57%
1b	General Fund (Borrowing and Other Long Term Liabilities)	30.42%	31.28%	30.25%	28.58%
2a	HRA (Borrowing Only)	11.40%	11.68%	12.04%	12.25%
2b	HRA (Borrowing and Other Long Term Liabilities)	18.12%	18.23%	18.37%	18.37%
		£'000	**£'000**	**£'000**	**£'000**
5	**Gross external borrowing requirement (Gross Debt and CFR)**	2,406,949	2,635,948	2,707,949	2,745,948
	The Net Borrowing Requirement should not exceed the capital financing requirement **(Note 3)**	OK	OK	OK	OK
	Estimate of total capital expenditure	**£'000**	**£'000**	**£'000**	**£'000**
6	General Fund	414,366	341,419	174,562	112,792
7	HRA	138,321	173,808	132,607	131,588
	TOTAL	552,687	515,227	307,169	244,380
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**	**£'000**
8	General Fund	2,418,248	2,528,385	2,552,136	2,541,654
9	HRA	839,989	878,035	896,955	915,109
	TOTAL	3,258,237	3,406,420	3,449,091	3,456,763

No.	PRUDENTIAL INDICATOR	2021/22	2022/23	2023/24	2024/25
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt**				
	borrowing	3,000,000	3,150,000	3,200,000	3,200,000
	other long term liabilities	670,000	630,000	600,000	570,000
	TOTAL	3,670,000	3,780,000	3,800,000	3,770,000
11	**Operational boundary -**				
	borrowing	2,850,000	2,850,000	2,850,000	2,950,000
	other long term liabilities	650,000	610,000	580,000	550,000
	TOTAL	3,500,000	3,460,000	3,430,000	3,500,000
14	**Upper limit for fixed interest rate exposure (note 5)**				
	expressed as either:-				
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%	115%
	Net interest re fixed rate borrowing / investments				
15	**Upper limit for variable rate exposure (note 5)**				
	expressed as either:-				
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%	40%
	Net interest re variable rate borrowing / investments				
		£'000	**£'000**	**£'000**	**£'000**
17	**Upper limit for total principal sums invested for over 364 days (Note 6)**	150,000	150,000	150,000	150,000
18	**Net Debt as a percentage of Gross debt**	98.34%	98.48%	98.52%	98.54%

16	**Maturity structure of fixed rate borrowing 2021/22**	**Lower Limit**	**Upper Limit**	**Projected 31/03/2022**	
	under 12 months	0%	15%	2%	
	12 months and within 24 months	0%	20%	6%	
	24 months and within 5 years	0%	35%	6%	
	5 years and within 10 years	0%	40%	7%	
	10 years and within 20 years			5%	
	20 years and within 30 years			1%	
	30 years and within 40 years	25%	90%	35%	80%
	40 years and within 50 years			33%	
	More Than 50 Years			6%	
				100%	

Notes.

1 **The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the External Borrowing costs only and Borrowing and Other long term Liabilities (PFI and leasing)**

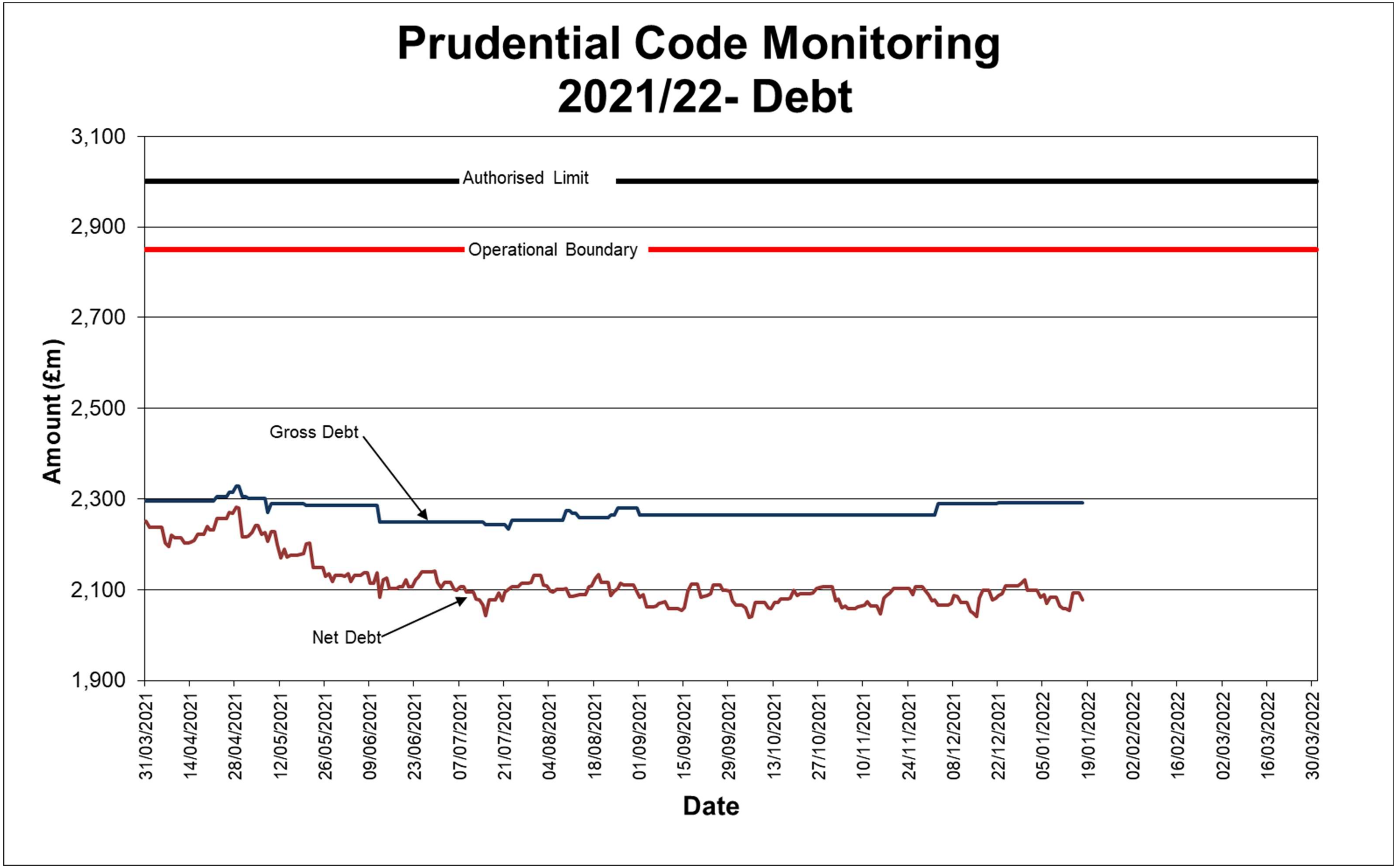
2 **The Changes to the Prudential Code 2017 retired the Indicator 3 and 4 on the incremental impact of New Capital decision on HRA and GF as well as Indicator 13 the need to explicitly adopt the Code of Practice. In addtion Indicator 9 the relating to the MHCLG imposed HRA borrowing debt ceiling has been recinded and is therefore no longer reported**

3 **In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence and was changed from Net Borrowing to gross borrowing under the update to the Codes in 2017.**

4 **Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.**

5 **Indicators 14 and 15 are no longer explicit within the updated codes however these have been but have been retained pending further review**

6 **Indicator 17 relates solely to Treasury Management investments made under Section 12 of the Local Govenement act 2003**



Prudential Code Monitoring
2021/22- Debt
3,100
2,900
2,700
2,500
2,300
2,100
1,900
Amount (£m)
Authorised Limit
Operational Boundary
Gross Debt
Net Debt
31/03/2021
14/04/2021
28/04/2021
12/05/2021
26/05/2021
09/06/2021
23/06/2021
07/07/2021
21/07/2021
04/08/2021
18/08/2021
01/09/2021
15/09/2021
29/09/2021
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24/11/2021
08/12/2021
22/12/2021
05/01/2022
19/01/2022
02/02/2022
16/02/2022
02/03/2022
16/03/2022
30/03/2022
Date