Appendix A

Treasury Management Strategy 2023-24 to 2025-26 and Prudential Indicators

CIPFA Treasury Management Code and Prudential Code

CIPFA published the latest codes on 20th December 2021. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The Treasury Management code requires an authority to implement the following:

- adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.

- long term treasury investments, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

- pooled funds are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

- the knowledge and skills register for officers and members involved in the treasury management function is to be proportionate to the size and complexity of the treasury management conducted by each council;

- reporting of prudential indicators to members is to be done quarterly;

- environmental, social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices (TMP1). (*This area is under further development by CIPFA.)*

The main requirements of the Prudential Code relating to service and commercial investments are:

- The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

- An authority must not borrow to invest for the primary purpose of commercial return.

- It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

- An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.

- A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.

- Investment Management Practices to manage risks associated with non-treasury investments are required (similar to the current Treasury Management Practices).

The authority's capital strategy or investment strategy should include:

Investments for service or commercial purposes:

– the authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence

– an assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (ie whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services)

– details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed

– limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments)

– requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy)

– state compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals principally with treasury management investments, the categories of service delivery and commercial investments is dealt with primarily as part of the Capital Strategy report which is developed as part of the budget setting process.

Clauses to be Formally Adopted

CIPFA recommends that all public service organisations adopt the following four clauses.

1 This Council will create and maintain, as the cornerstones for effective treasury and investment management:
– a treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities
– suitable treasury management practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
– investment management practices (IMPs) for investments that are not for treasury management purposes.
The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the TM Code's key principles.

2 This Council will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs and IMPs.

3 This Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Governance and Audit Committee, and for the execution and administration of treasury management decisions to the Assistant Director Finance (Section 151 Officer), who will act in accordance with the organisation's policy statement, TMPs and IMPs, and CIPFA's Standard of Professional Practice on treasury management.

4 This Council nominates Governance and Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

In approving this Strategy, the Council formally adopts the above clauses.

The Capital Prudential Indicators 2023-24 to 2025-26

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans. Regulations require the Full Council to approve its 'Prudential Indicators' at least annually.

Prudential Indicator 1: Capital Expenditure and financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1

Capital Expenditure £	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Service Investments	6,530,133	9,043,389	5,673,931	3,691,566	1,857,849
Capital Loans	83,324	3,611,865	984,002	0	3,341,865
Commercial Investments *	0	0	0	0	0
Total	**6,613,457**	**12,655,254**	**6,657,933**	**3,691,566**	**5,199,714**

This table is in line with the budget setting report to Cabinet on 9th January 2023

*Capital expenditure on commercial investments, i.e. on projects undertaken primarily for yield, would mean that there would be no access to PWLB borrowing, and the revised Codes prohibit any other form of borrowing to make commercial investments.

Other long term liabilities: The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2

Capital Expenditure £'000	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Total	**6,613**	**12,655**	**6,658**	**3,692**	**5,200**
Financed by:					
Capital grants and S106 Funds	2,917	4,031	1,419	1,330	2,971
Capital receipts and reserves	1,590	906	6,075	513	536
Revenue and MRP	1,328	1,597	2,085	1,462	1,655
Capital Loans	83	-	-	3,721	719
Change in PFI Liability	270	(284)	(298)	(315)	(332)
Net financing need for the year i.e. borrowing req'd	**425**	**6,405**	**(2,623)**	**(3,019)**	**(349)**

This table is in line with Table 1 in Appendix 8 of the budget setting report to Cabinet on 9th January 2023. It includes capital loans to Breckland Bridge companies and their repayment. These loans will not exceed £5m at any one time.

Prudential Indicator 2: The Council's borrowing need (the Capital Financing Requirement)
The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. Whilst the CFR is negative, no borrowing is required.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes and finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI or Lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £7,227k of such schemes within the CFR. The Council is asked to approve the CFR projections below:

Table 3:

£'000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Opening CFR	(223)	202	6,607	3,984	965
Movement in CFR	425	6,405	(2,623)	(3,019)	(349)
Closing CFR	**202**	**6,607**	**3,984**	**965**	**616**
Movement in CFR represented by					
Net financing need for the year	695	7,971	(1,005)	(1,361)	1,349
Less MRP and other financing movements (PFI)	(270)	(1,566)	(1,618)	(1,658)	(1,698)
Movement in CFR	**425**	**6,405**	**(2,623)**	**(3,019)**	**(349)**

This table indicates that the Council has a borrowing need within this reporting period. This position will be kept under review during 2023-24 to ensure internal balances are sufficient to cover these amounts from internal borrowing. The CFR and available cash will need to be monitored closely to ensure future capital expenditure remains affordable. As per the Capital Strategy, any Government funding available for specific initiatives will be sought to enable projects to be self-financing.

The Council will support the principle of lending on to Breckland Bridge or a separate entity which will create a funding need by the Council to ensure funding for projects is delivered in the most cost-effective way and will consider any requests on an individual basis. Table 3 includes capital loans to Breckland Bridge and repayment of those loans within the 10-year capital programme. Table 4 below shows the CFR position excluding these loans and this indicates that the CFR will be negative in 2023/24 and for all but one year subsequently. As it is fully anticipated that these capital loans will be repaid, it is therefore not considered necessary to set aside further MRP beyond that already set aside for the PFI and the waste contract. Should monitoring indicate that the loans will not be repaid as expected, then this approach will be reviewed.

Table 4

Capital Financing requirement excluding Capital Loans	**22/23** £000's	**23/24** £000's	**24/25** £000's	**25/26** £000's	**26/27** £000's	**27/28** £000's	**28/29** £000's	**29/30** £000's	**30/31** £000's	**31/32** £000's	**32/33** £000's
Capital resources available @ beginning of year	605	3,398	(209)	493	(2,479)	(3,145)	(5,100)	(764)	(1,884)	(3,115)	(4,434)
Movement (Spend less funding & receipts) Excluding Capital Loans	2,793	(3,607)	702	(2,972)	(665)	(1,955)	4,336	(1,120)	(1,232)	(1,319)	(1,331)
CFR excluding Capital Loans to Breckland Bridge (Out and In)	**3,398**	**(209)**	**493**	**(2,479)**	**(3,145)**	**(5,100)**	**(764)**	**(1,884)**	**(3,115)**	**(4,434)**	**(5,766)**

Any decision to borrow externally for capital projects will only be supported if the business case for the projects does not place additional cost pressure on the taxpayer through the council tax charge. The council would not undertake any unsupported borrowing whilst it still has reasonable capital receipt resources available.

Through the use of cash balances, the Council is currently expecting to avoid the need to borrow externally and the forecast for external borrowing is nil as shown in the table below.

Table 5

External borrowing £m	**2021/22 Actual**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Service spend	0	0	0	0	0
Housing	0	0	0	0	0
Regeneration	0	0	0	0	0
Preventative action	0	0	0	0	0
Treasury Management	0	0	0	0	0
Projects for yield	0	0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**0**

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 6

Year End Resources £'000	**2021-22 Actual**	**2022-23 Estimate**	**2023-24 Estimate**	**2024-25 Estimate**	**2025-26 Estimate**
General Fund	2,822	2,500	2,676	3,464	2,676
Earmarked reserves	18,812	8,376	7,468	7,345	7,322
Provisions	2,272	2,318	1,545	515	-
S106/Commuted Sums	2,754	2,294	1,998	1,702	1,405
Rent Deposits	927	927	927	927	927
Creditors	5,428	3,327	3,016	3,882	3,200
Total core funds	**33,015**	**19,742**	**17,630**	**17,835**	**15,530**
Working capital*	7,933	5,000	5,000	5,000	5,000
Expected investments	**25,082**	**14,742**	**12,630**	**12,835**	**10,530**

*Working capital balances are estimated year end; may be higher or lower during the year.

Minimum Revenue Provision (MRP) policy statement
The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

DLUHC regulations have been issued which require the Full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Governance and Audit Committee is requested to recommend to Full Council to approve the following MRP Statement:
Breckland has fully financed its capital expenditure incurred before 1st April 2008, therefore there is no MRP requirement anticipated, other than for the PFI schemes and for the waste contract.

From 1st April 2008 for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or Finance Leases are applied as MRP.

As it is fully anticipated that the capital loans to Breckland Bridge will be repaid, it is not considered necessary to set aside further MRP beyond that already set aside for the PFI and the waste contract. Should monitoring indicate that the loans will not be repaid as expected, then this approach will be reviewed.

Affordability prudential indicators
The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital

investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Governance and Audit Committee is requested to recommend to Full Council to approve the following indicators:

Prudential Indicator 3: *Ratio of financing costs to 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. Where financing costs to net revenue stream are negative, this is because the Council is earning interest on its balances as opposed to paying interest on its borrowing.

Table 7

%	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Non-HRA	**-3.27**	**-6.04**	**-3.85**	**-2.57**

The estimates of financing costs include current commitments and the proposals in the budget that went to Cabinet on January 9th 2023.

The Treasury Management Strategy 2023-24 to 2025-26

Borrowing
The capital expenditure plans set out in the prudential indicators (above) provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

The Council's treasury portfolio position as at 31 December 2022, is summarised below.

Table 8

INVESTMENT PORTFOLIO	31.3.22 Actual £000	31.3.22 Actual %	31.12.22 Actual £000	31.12.22 Actual %
Treasury investments				
Banks	23,562	58.09%	27,993	81.70%
Building Societies - rated	15,000	36.98%	0	0%
Local authorities	0		0	
DMADF (H M Treasury)	2,000	4.93%	6,269	18.30%
Total managed in house	40,562	100%	34,262	100%
Bond funds	0		0	
Property funds	0		0	
Cash fund managers	0		0	
Total managed externally	0		0	
TOTAL TREASURY INVESTMENTS	40,562	100%	34,262	100%

Prudential Indicator 4: Actual external debt

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 9

External Debt £'000	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Actual gross debt at 31 March	-	-	-	-
The Capital Financing Requirement	6,607	3,984	965	616

Prudential Indicator 5: *Gross debt against CFR*
Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt 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 2023-24 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.

The Assistant Director Finance (S151 Officer) reports that the Council complied with this prudential indicator in 2021/22 and expects to comply with it in 2022/23 and 2023/24. However, as detailed in Table 3, the CFR will need to be monitored closely to ensure that future capital expenditure remains affordable. This view takes into account current commitments, existing plans, and the capital budget.

Non-Financial Investments
The value of the non-financial investments held by the Council and the yield are as follows:

Table 10

	31/3/2020	31/3/2021	31/3/2022
Value of Investment Property *	£32,013,000	£31,701,000	£34,099,000
Finance Leases	£9,786,000	£10,103,000	£10,028,000
Yield	6.1%	6.1%	6.7%
Average return on cash investments	0.892%	0.473%	0.288%

* NB yield figures are taken from indicator BSCPIND010 on the performance system, including finance leases. Some properties that for financial reporting purposes are categorised as Property Plant & Equipment/Surplus are part of the yield calculation.

The S151 officer confirms that the fair value of the non-financial investments is sufficient to provide security against loss. The investment properties are fully financed so no debt liability applies to these assets.

As the Council has an underlying need to borrow, it has reviewed options to exit its commercial investments to avoid having to borrow. The negative impact on the revenue budget of exiting commercial properties would be expected to exceed the interest costs of borrowing. It is therefore considered that exiting existing commercial investments would not be prudent at this time, even more so as only internal borrowing is anticipated in the planning period. This will be reviewed annually.

Borrowing in respect of non-financial investments
The Prudential Code states that borrowing should not take place in advance of need purely to profit from the investment of the extra sum borrowed.

This authority has not undertaken borrowing in advance of need and the following table sets out any borrowing that has taken place in respect of non-financial investments and measures the impact of such activity:

Table 11

£'000	**2022-23 Estimate**	**2023-24 Estimate**	**2024-25 Estimate**	**2025-26 Estimate**
Value of borrowing	-	-	-	-
Debt to net service ratio	-	-	-	-
Commercial income to net service ratio	-	-	-	-
Investment cover ratio	-	-	-	-
Loan to value ratio	-	-	-	-

As no borrowing has occurred, there are no opportunities and risks to report on over the repayment period.

Should the Council undertake any external borrowing, the maximum exposure to borrowing costs (i.e. interest repayments and MRP) will not exceed £500,000 per year in aggregate at any one time over all areas.

Prudential Indicator 6: Ratio of net income from commercial and service investments to net revenue stream

This indicator shows the proportion of net income from commercial and service investments compared to the net revenue stream from taxation and government grants. For this Council, the net income figure consists of the surplus generated by commercial property. This indicator is intended to show the financial exposure of the authority to the loss of income.

Table 12

%	**2021-22 Actual**	**2022-23 Estimate**	**2023-24 Estimate**	**2024-25 Estimate**	**2025-26 Estimate**
Commercial investments	**13.34**	**19.20**	**14.57**	**15.59**	**18.59**

Treasury Indicators: limits to borrowing activity

Prudential Indicator 7: The operational boundary. This is the limit which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Table 13

Operational boundary £'000	**2021-22 Actual**	**2022-23 Estimate**	**2023-24 Estimate**	**2024-25 Estimate**	**2025-26 Estimate**
Debt	-	-	-	-	-
Other long term liabilities (PFI)	7,511	7,227	6,929	6,614	6,282
Total	**7,511**	**7,227**	**6,929**	**6,614**	**6,282**

Prudential Indicator 8: The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Governance and Audit Committee is requested to recommend to Full Council to approve the following authorised limit:

Table 14

Authorised limit £'000	**2021-22 Actual**	**2022-23 Estimate**	**2023-24 Estimate**	**2024-25 Estimate**	**2025-26 Estimate**
Debt (Bank overdraft)*	2,000	2,000	2,000	2,000	2,000
Other long term liabilities	7,511	7,227	6,929	6,614	6,282
Total	**9,511**	**9,227**	**8,929**	**8,614**	**8,282**

An authorised overdraft of up to £2m is recommended in order to accommodate any short term cashflow issues arising from internal borrowing. However, while the Council has the option of an overdraft of £250k, the introduction of automatic sweeping from accounts means that it may not need an overdraft facility at all in 2023/24. It will only action the upper limit should the need arise.

Borrowing strategy

Forecasts show there is an underlying need to borrow from 2021-22. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Borrowing will only take place after full consideration of the need for and the implications of borrowing. Short term use of cash balances will be required to fund the capital programme (internal borrowing). The Council's borrowing strategy will need to be monitored closely. Should a more detailed borrowing strategy be required, this will be prepared and put forward for approval prior to any external borrowing taking place.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Table 15

£'000	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Interest Rate Exposures				
	Upper	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	0	0	0	0
Limits on variable interest rates based on net debt	0	0	0	0

Policy on borrowing in advance of need
The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

It is not anticipated that the Council will undertake external or long term borrowing during the next three years. However, this will need to be monitored closely. Should a more detailed borrowing strategy be required, this will be prepared and put forward for approval prior to any borrowing taking place. Should the Council make a decision to borrow, it will consider loans offered from all available lenders.

The main source of borrowing for local government is the Public Works Loans Board (PWLB). However, consideration will still need to be given to sourcing funding from the following sources, among others, for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – can be cheaper than the PWLB).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).
- The Municipal Bonds Agency
- The UK Infrastructure Bank

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Prospects for interest rates (as at January 2023) – See Commentary from Link Asset Services in Appendix C

A comparison of the Link forecast with one from Capital Economics, an independent forecaster, is shown below.

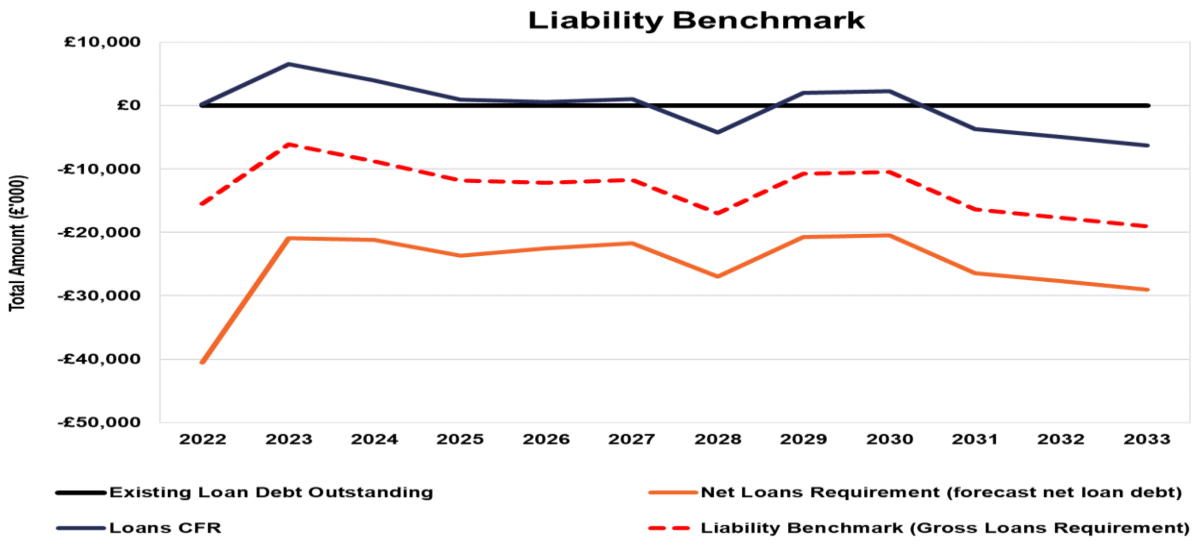
Please see Appendix C for a longer term forecast from Link.

Interest Rate Forecasts								
Bank Rate	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Link	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%
Cap Econ	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%
5Y PWLB RATE								
Link	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%
Cap Econ	4.00%	3.80%	3.70%	3.50%	3.50%	3.40%	3.30%	3.30%
10Y PWLB RATE								
Link	4.40%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%	3.60%
Cap Econ	4.00%	3.80%	3.70%	3.60%	3.50%	3.40%	3.40%	3.30%
25Y PWLB RATE								
Link	4.60%	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%	3.90%
Cap Econ	4.40%	4.20%	4.00%	3.80%	3.80%	3.70%	3.60%	3.60%
50Y PWLB RATE								
Link	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%
Cap Econ	4.10%	4.00%	3.90%	3.80%	3.80%	3.70%	3.60%	3.60%

The Council will be mindful of Link's comments when formulating its borrowing strategy.

Liability Benchmark

Based on the estimates in this report and the 10-year capital programme, a liability benchmark has been developed to cover the next 10 years. This is shown in the form of a graph as below:



The lines on the graph have the following meanings and implications:

Existing Loan Debt Outstanding: This is the gross external debt outstanding for the Council, which is expected to be Zero over the 10-year timeframe, as internal borrowing will be used instead.

Loans CFR: This is the Council's Capital Financing Requirement, where it is above the 0 line then there is an underlying need to borrow and where it is below the 0 line, the capital programme is fully funded without any borrowing required.

Net Loans Requirement: This is the external debt outstanding for the Council, net of investments for treasury management purposes. This is a negative figure throughout the 10-year timeframe, as the Council's investment are expected to exceed its borrowing in all years.

Liability Benchmark: This is a forecast of the level of gross loan debt the authority will require in accordance with its budget plans. It takes the Net Loans Requirement and adds a liquidity allowance for short term cash management requirements. The benchmark is a negative figure over the 10-year timeframe, as internal borrowing is being used and the level of investments is expected to exceed borrowing in all years.