Report to: Cabinet

Date of Meeting: 3 July 2023

Report Title: Treasury Management Outturn Report for 2022/23

Report By: Simon Jones (Deputy Chief Finance Officer)

Purpose of Report

This report provides the opportunity for the Cabinet, Audit Committee and Council to scrutinise the Treasury Management activities and performance of the last financial year.

Recommendation(s)

1. **To consider the report – no recommendations are being made to amend the current Treasury Management Strategy as a result of this review.**

Reasons for Recommendations

To ensure that Members are fully aware of the activities undertaken in the last financial year, that Codes of Practice have been complied with and that the Council's strategy has been effective in 2022/23.

Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be a further report forthcoming on Treasury Management covering a review of the current financial year i.e. the Mid-year review.

Key Strategic Points

- No additional borrowing has been undertaken during 2022/23. This will lead to Revenue savings in future years due to lower MRP and interest payments.
- The Council has £37.5m of funds deposited in long and short-term investment.
- The Council received over £1.14m in interest from its investments, exceeding the budget target by £638k.

Introduction

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 2022/23. 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).

2. The primary requirements of the Code are as follows:

    a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
    b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
    c. Receipt by the Full Council of an annual Treasury Management Strategy report - including the annual investment strategy report for the year ahead, a mid-year review report (as a minimum) and an annual review report of the previous year.
    d. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
    e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.

3. Treasury management in this context is defined as:

    "The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

4. During 2022/23 the minimum reporting requirements were that the Full Council should receive the following reports:

    - an annual treasury strategy in advance of the year (Council 16/02/2022)
    - a mid-year, (minimum), treasury update report (Cabinet 03/01/23, Audit Committee 12/01/2023, Council 08/02/2023)
    - an annual review following the end of the year describing the activity compared to the strategy, (this report)

5. 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.

6. Member training on treasury management issues was last undertaken on 15th May 2023, and prior to that on 11 January 2023 and 10 January 2022, to support members' scrutiny role.

7. The figures provided in this report for 2022/23 are as yet unaudited and still subject to change.

8. This annual Treasury report covers

   a. capital expenditure and financing 2022/23
   b. overall borrowing need (the Capital Financing Requirement)
   c. treasury position as at 31 March 2023
   d. performance for 2022/23
   e. the strategy for 2022/23
   f. the economy and interest rates in 2022/23
   g. borrowing rates in 2022/23
   h. the borrowing outturn for 2022/232
   i. debt rescheduling
   j. compliance with treasury limits and Prudential Indicators
   k. investment rates in 2022/23
   l. investment outturn for 2022/23

Capital Expenditure and Financing 2022/23

9. 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.

10. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	Outturn 2022/23	
	£'000's	£'000's
Expenditure:		**9,661**
Financed By:		
Borrowing		0
Grants:		
Disabled Facilities Grant	1,328	
Harbour Arm and New Groynes - Contribution from DEFRA	32	
Further Sea Defence works	36	
Conversion of 12/13 York Buildings	63	
Churchfields Business Centre	976	
Rough Sleeping Accommodation Programme	1,014	
Hastings Retail Park	33	
Private Sector Renewal Support - Regional Housing Board & LEP Funding	13	
Towns Fund	2,389	
		5,884
S106 Receipts		0
Reserves		0
Capital Receipts		3,777
		9,661

Overall Borrowing Need (Capital Financing Requirement (CFR)

11. 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 2022/23 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.

12. Part of the Council's treasury activities is to address the funding requirements for the Council's borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure enough 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), the money markets, or by using temporary cash resources from within the Council.

13. 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.

14. 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).

15. The Council's 2022/23 MRP Policy was approved as part of the Treasury Management Strategy Report for 2022/23 by Council in February 2022. The policy was then revised in January 2023 following a detailed review.

16. The revisions to the methods for calculating MRP have resulted in reduced charges to the General Fund revenue account in the short to medium term, helping to reduce costs and preserve vital local services at a time when budgets are under severe pressure. The in-year savings made have been taken to reduce the MRP charge, and hence pressure on the budget, and used to make Voluntary Revenue Provision (VRP) charges that can be used to offset MRP charges in future years to alleviate budget pressures.

17. The changes also align the Council's MRP policy to what is considered best practice by CIPFA and is determined as more prudent. It is also considered fairer to Taxpayers as it results in the debt liability being repaid earlier and doesn't leave future generations to foot the bill for assets that were purchased many years ago where the economic benefits have been fully consumed.

18. The Council's CFR for the year is shown below and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need (albeit no borrowing of cash is required).

Table 2 CFR: General Fund	**2021/22 Actual £000's**	**2022/23 Forecast Outturn £000's**	**2022/23 Actual £000's**
Opening balance	72,683	71,970	71,970
Add unfinanced capital expenditure	955	1,846	0
Less MRP	(1,668)	(920)	(870)
Closing balance	**71,970**	**72,896**	**71,100**

19. The Council was able to fully fund its capital programme in 2022/23 via capital receipts and grants, avoiding the need for any further borrowing.

20. Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

21. The Council's long-term borrowing 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 2022/23 plus the expected changes to the CFR over 2023/24 and 2024/25 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

22. The table below highlights the Council's gross borrowing position (External Borrowing) against the CFR, which provides an indication of affordability for the Council. The Council has complied with this prudential indicator.

Table 3 CFR vs Borrowing Level	**2021/22 Actual £000's**	**2022/23 Forecast Outturn £000's**	**2022/23 Actual £000's**
Capital Financing Requirement	71,970	72,896	71,100
External Borrowing	66,063	65,421	65,421
Net Internal/(External) Borrowing	**5,907**	**7,475**	**5,679**

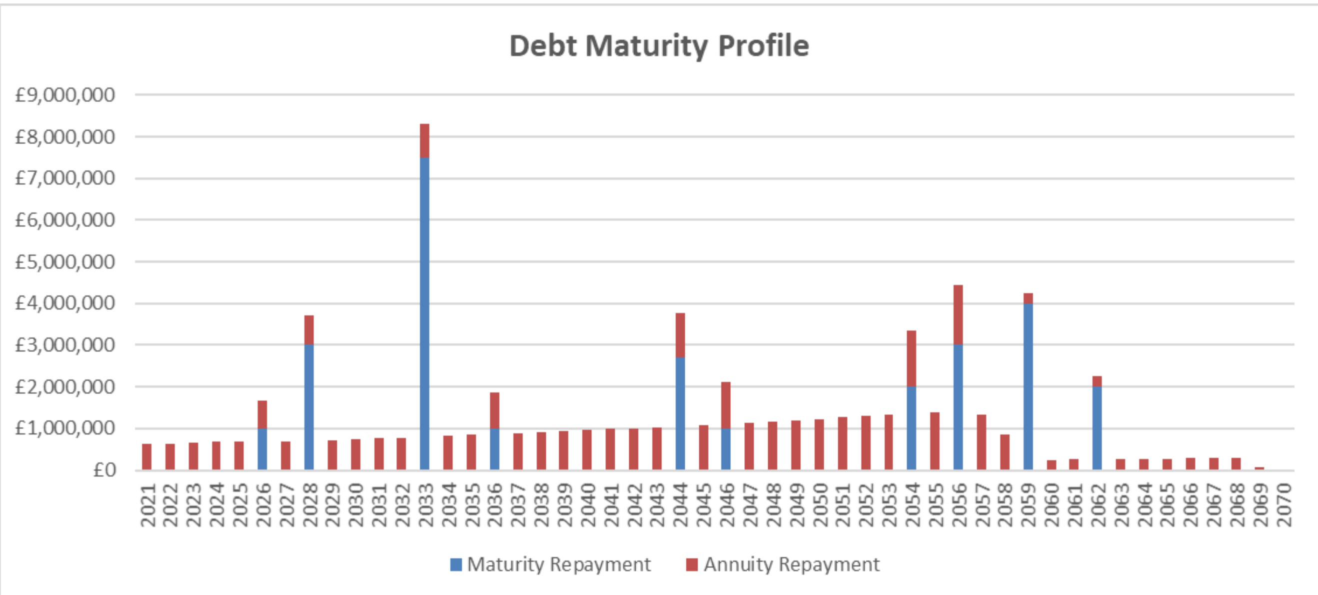
Treasury Position as at 31 March 2023

23. The Council's investment and debt position at the beginning and the end of the year is shown in the tables that follow:

Table 4 Investments	**31 March 2022 Principal £m**	**31 March 2023 Principal £m**
Managed In-House	26.240	32.882
CCLA Managed Externally	5.219	4.585
Total Investments	**31.459**	**37.467**

Table 5 Debt	1 April 2022 Principal	Start Date	Maturity Date	31 March 2023 Principal	Rate
PWLB	£7,500,000	25/05/2007	01/02/2033	£7,500,000	4.80%
PWLB	£909,027	04/09/2014	02/09/2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	04/09/2014	02/09/2044	£1,788,235	3.78%
PWLB (FT) (Annuity)	£125,981	21/03/2016	20/03/2026	£95,262	1.66%
PWLB	£1,000,000	11/05/2016	11/05/2056	£1,000,000	2.92%
PWLB	£1,000,000	11/05/2016	11/05/2046	£1,000,000	3.08%
PWLB	£1,000,000	11/05/2016	11/05/2036	£1,000,000	3.01%
PWLB	£1,000,000	11/05/2016	11/05/2026	£1,000,000	2.30%
PWLB	£2,000,000	24/06/2016	24/06/2054	£2,000,000	2.80%
PWLB	£1,000,000	24/06/2016	24/06/2028	£1,000,000	2.42%
PWLB	£2,000,000	21/03/2017	21/03/2057	£2,000,000	2.53%
PWLB	£2,000,000	21/03/2017	19/09/2059	£2,000,000	2.50%
PWLB	£2,000,000	23/03/2017	23/03/2060	£2,000,000	2.48%
PWLB (Annuity)	£6,772,356	01/06/2017	01/06/2057	£6,652,722	2.53%
PWLB (Annuity)	£7,860,481	22/11/2017	22/11/2057	£7,729,610	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,820,026	13/12/2018	13/12/2058	£3,756,930	2.55%
PWLB (Annuity)	£2,387,758	31/01/2019	31/01/2059	£2,348,400	2.56%
PWLB (Annuity)	£4,273,795	31/01/2019	31/01/2069	£4,226,034	2.56%
PWLB (Annuity)	£8,976,150	20/03/2019	20/03/2059	£8,827,583	2.54%
PWLB (Annuity)	£4,649,533	02/09/2019	02/09/2069	£4,587,401	1.83%
PWLB	£2,000,000	13/01/2022	13/01/2062	£2,000,000	1.89%
Total Debt	**£66,063,342**			**£65,421,204**	**2.81%**

The maturity structure of the debt portfolio is as shown in the chart below:



Performance Measurement (2022/223)

24. Table 6 below compares the Estimated Interest Payable and Received and associated fees for the year 2022/23.

Table 6 Interest	2021/22 Actual Outturn £000's	2022/23 Original Budget £000's	2022/23 Actual Outturn £000's	2022/23 Variance to Budget £000's
Gross Interest Payable	1,831	2,137	1,862	(275)
Gross Interest Received	(559)	(503)	(1,141)	(638)
Fees	10	10	10	0
Other (e.g. PWLB Discount)	0	0	0	0
Net Cost	**1,282**	**1,644**	**731**	**(913)**

25. As can be seen from Table 6 above the gross interest payable is under budget by £275,000. This is due to lower than budgeted spend on the capital programme, which in turn has led to a reduced need to borrow and hence lower interest payable charges.

26. Conversely, the interest receivable is greater than the budget. At the time of setting the 2022/23 budget interest rates were low and forecast investment returns were minimal. Since the budget was set in February 2022 the Bank of England base rate has increased from 0.5% to 4.5% (as at 12th May 2023) and further increases are forecast. These increases in rates, and hence investment returns, have led to an additional £638,000 in income.

27. The net position is that an underspend of £913,000 has been achieved.

The Strategy for 2022/23

28. The general aim of the 2022/23 treasury management strategy was to minimise the costs of borrowing in both the short and longer term. In the short term it would consider avoiding new borrowing and using cash balances to finance new borrowing. However, to minimise longer term costs the Council needs to borrow when rates are at historically low levels. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

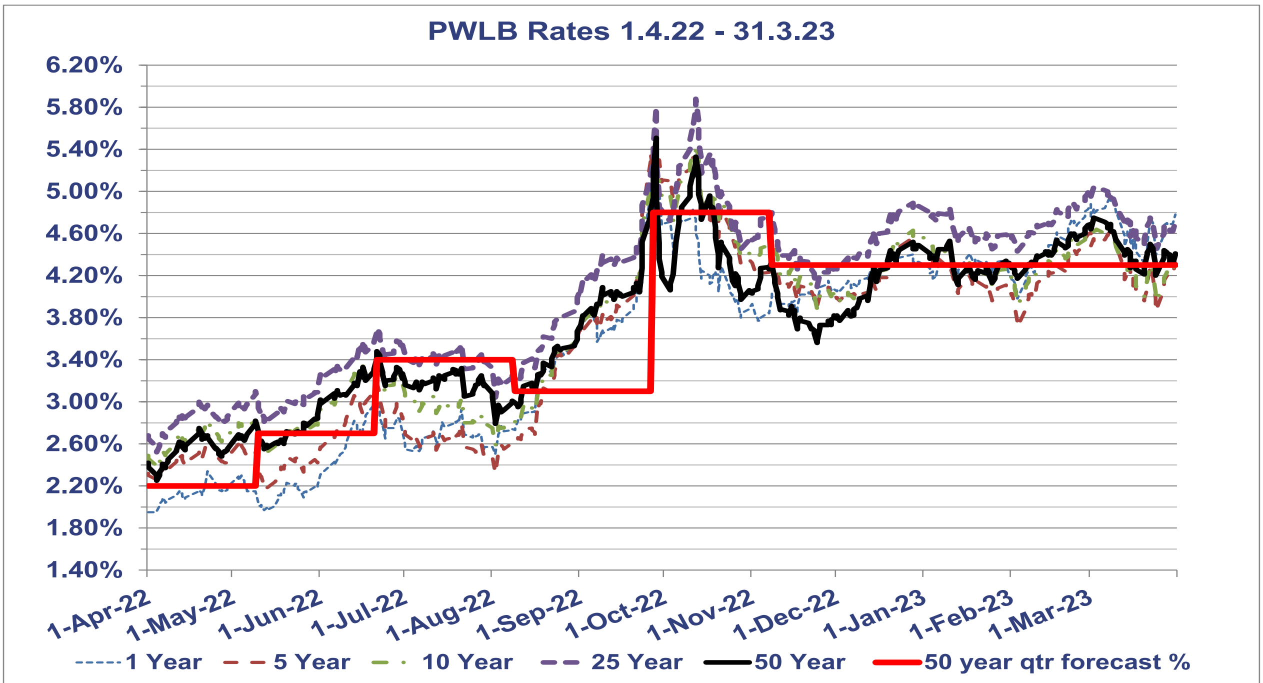
29. Given that rates did not look set to increase it was recommended that new borrowing was only taken when necessary and internal balances were used to temporarily finance long life assets. As it happened rates increased rapidly throughout the year, however the Council has avoided any need to undertake further external borrowing in 2022/23. If rates had decreased, then opportunities to borrow would have been taken. Given that the Council is increasingly using its reserves these need to be readily available and not subjected to unnecessary risk or exposure.

30. The strategy proved very effective for 2020/21 and 2021/22 in that the Council had borrowed successfully in past years and had cash backed reserves in place with little internal borrowing as at March 2020 when the Covid-19 pandemic

struck. This enabled the Council to avoid having to borrow at higher rates of interest to cover day to day expenses and avoided any cash flow difficulties. It also enabled the Council to avoid external borrowing for the whole of 2020/21, undertake minimal borrowing in 2021/22 and again no borrowing in 2022/23. The Council cannot avoid borrowing for long and will need to undertake some external borrowing in 2023/24. The era of historically very low interest rates has come to an abrupt end and advice on the timing, length and type of borrowing to be undertaken will be discussed with our external advisors during our regular review meetings.

Borrowing Rates in 2022/23

31. PWLB borrowing rates - the graph for PWLB maturity rates below shows, for a selection of maturity periods, the fluctuations in rates during the last financial year.



	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%

32. PWLB rates are based on gilt (UK Government bonds) yields and the additional margin HM Treasury adds to those yields to ensure the PWLB does not lend at a loss. 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.

33. 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.

34. 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%.

35. 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. .

36. 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 60 basis points (G+60bps)

37. 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.

38. 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.

39. 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.

Borrowing Outturn for 2022/23

40. Due to investment concerns, both counterparty risk and comparatively low investment returns, no external borrowing was undertaken during the 2022/23 financial year.

41. The Council has effectively used its reserves and balances to fund the Capital programme in 2022/23 but will need to borrow in the near future. The policy of "internal borrowing" has saved the Council considerable monies in 2022/23 (every 1% difference on £1m is worth £10,000).

42. During 2022/23 there were debt repayments of £642,138 resulting in a total balance outstanding with the PWLB of £65,421,204 as at 31 March 2023.

Borrowing strategy and control of interest rate risk

43. During 2022/23, 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 initially low and minimising counterparty risk on placing investments also needed to be considered.

44. 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 borrowing.

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

46. Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then the current strategy of running down cash balances and using internal borrowing would have been maintained, with a view to undertaking borrowing when rates has reached their lowest forecast level.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

47. Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 8% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

Borrowing in advance of need

48. 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.

49. The Council had a lower level of borrowing than its Capital Financing Requirement (CFR) at the 31 March 2023.

Debt Rescheduling

50. The Council has examined in the past the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances.

51. No debt rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Compliance with Treasury Limits

52. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (Appendix 1).

Investment Rates in 2022/23

53. Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

54. 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 increases in 2023/24.

55. 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.

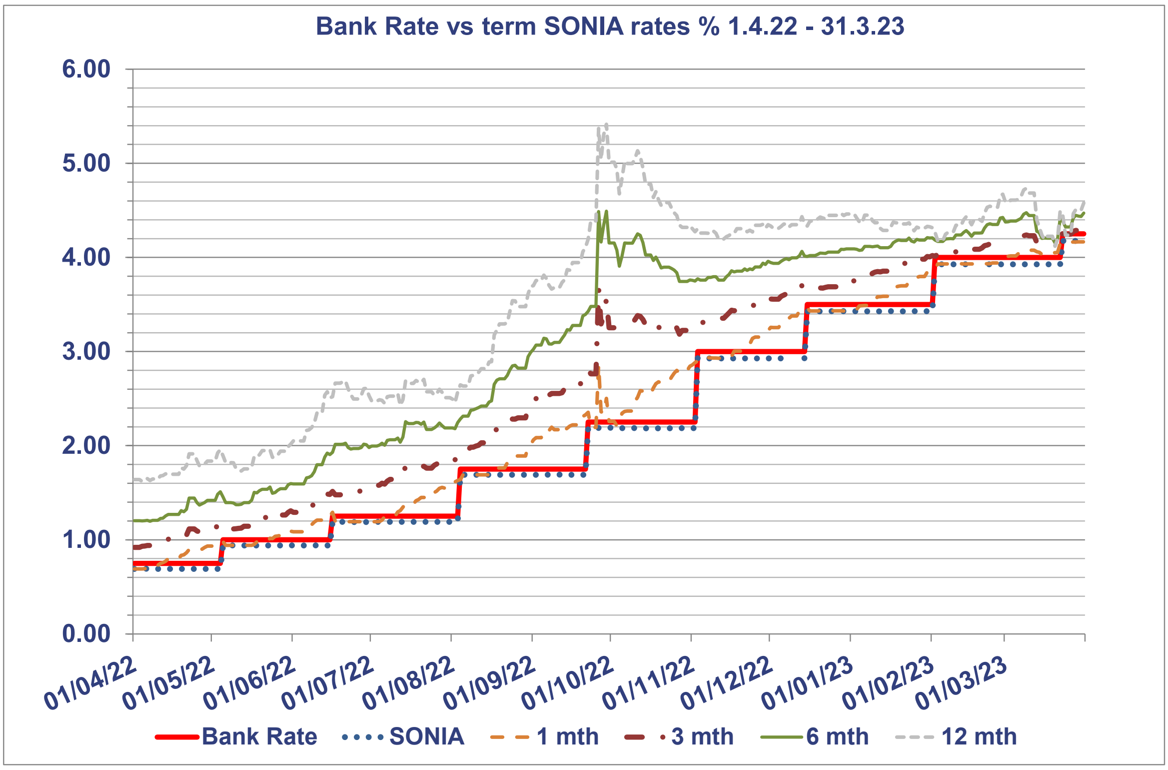
56. With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.

57. Meantime, 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.

58. Nonetheless, while 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 2008/9. 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.

59. The funds invested during the year were often available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

60. The chart below shows the bank rate against the Sterling Overnight Index Average (SONIA) over the course of 2022/23. Previously the London Interbank Bid Rate (LIBID) data has been reported but LIBID has been phased out and replaced with SONIA.



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

Investment Strategy

61. The strategy for 2022/23 was agreed at the Council meeting in February 2022. The Investment strategy did not change during the year given the already low interest rates, other than investing money for shorter periods to ensure there was sufficient monies available for cash flow purposes.

62. 2022/23 saw the Council start to use Money Market Funds (MMF). Money market funds invest in high quality, short-term debt securities and a return that generally reflect short-term interest rates. The use of MMFs has always been allowed for within our Treasury Management Strategy, however it was only in 2022/23 that the Council signed up to a platform that allowed us to access MMFs. The use of MMFs has allowed us to access superior yields whilst still maintaining high liquidity and low risk.

63. The budget for 2022/23 forecast investment returns of £503,000 whilst the actual outturn was £1,141,000. The substantial additional income received is a result of the increased interest rates leading to higher returns which could not have been foreseen at the time of setting the budget. The Council has also benefited from the use of MMFs which have delivered high returns whilst maintaining liquidity.

64. **Investments: Property Fund & Diversified Income Fund (DIF)**

65. The return on the Property Fund investment (£2m with CCLA) was negative 13.27% net of fees to the end of March 2023 i.e. capital loses offset investment income. This compares to positive returns of 21.8% in the previous year. The net dividends received amounted to £79,995 in the financial year. The table below highlights the overall performance compared to previous years.

Discrete year total return performance

12 months to 31 March	2023	2022	2021	2020	2019
The Local Authorities' Property Fund	-13.27%	+21.78%	+3.75%	+0.66%	+5.99%
Comparator Benchmark	-14.11%	+22.52%	+2.46%	+0.12%	+5.69%

Annualised total return performance

Performance to 31 March 2023	1 year	3 years	5 years
The Local Authorities' Property Fund	-13.27%	+3.10%	+3.18%
Comparator Benchmark	-14.11%	+2.54%	+2.67%

Net performance shown after management fees and other expenses. Comparator Benchmark – MSCI/AREF UK Other Balanced Open-Ended Quarterly Property Fund Index. Past performance is not a reliable indicator of future results. Source: CCLA

66. In addition to the £2m invested in the CCLA Property Fund the Council invested £3m in the CCLA Diversified Income Fund (DIF) during 2019/20. The net dividends received amounted to £81,843 in 2022/23.

67. At the 31st March 2023 the Property Fund had a capital value (Mid-Market price) of £1.877m and the DIF £2.708m. The yields have continued to be high, with the DIF yielding some 3.02% (March 2023) and the Property Fund 4.26% (March 2023).

68. The Property Fund and DIF are both longer term investments (5 years plus) and it has always been well understood that the capital values can go up down as well as up. The impact of Covid-19 on the values and the subsequent recovery has been reported previously. There has been a further fall in the capital value of the investments over the last year due to the Ukraine War, high inflation, and rising interest rates. The capital value of both funds are starting to stabilise grow and moderate growth will make back the losses from the recent falls. The Property Fund capital value is now just 0.17% below the initial investment having spent most of the 2022/23 financial year in positive territory. The DIF now sits 9.7% below the original investment amount.

Investment Outturn for 2022/23

69. Cash balances fluctuated widely during the year. The Council's cashflow requirements were reviewed daily and surplus fund were invested for longer durations to attract higher yields when possible.

70. During the latter half of the year the Council started using Money Market Funds to generate superior returns. One advantage of these investments is that while yields are higher than instant access rates from the Council's bank, liquidity is maintained as funds can be called back at very short notice.

71. Although interest rates started off low, by the end of the year yields of over 4% were being achieved. The total interest earned for the year was £1,140,660. This income can be categorised as follows:

Interest Received	**2022/23 £000's**
Bank and Money Market investments	646
Loans to Other Organisations	333
CCLA Property Fund	80
CCLA Diversified income Fund	82
TOTAL	**1,141**

72. The table below provides a snapshot of the investments/deposits held at 31 March 2023 (excluding those with CCLA).

Counterparty	**Yield (%)**	**Start Date**	**End Date**	**Principal (£)**	**Term**
Goldman Sachs	3.82	04/01/2023	04/04/2023	5,000,000	Fixed
Clydesdale Bank	3.95	13/02/2023	15/05/2023	5,000,000	Fixed
Luton Borough Council	4.2	01/03/2023	01/06/2023	5,000,000	Fixed
Rushmoor Borough Council	4.2	01/03/2023	01/06/2023	5,000,000	Fixed
L B of Waltham Forest	4.2	02/03/2023	02/06/2023	5,000,000	Fixed
Wirral Metropolitan Borough	4.4	24/03/2023	24/05/2023	3,000,000	Fixed
Morgan Stanley	4.12	-	-	4,500,000	Call
NatWest	1.00	-	-	6,147	Call
Barclays	1.00	-	-	23	Call
Lloyds Gen	1.31	-	-	376,327	Call
			Total	**32,882,497**	

73. In addition to the investments the Council has several non-treasury management loans to third parties in place, namely as at 31 March 2023: -

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal O/S * (£)	Type
Amicus/Optivo	3.78	04/09/2014	02/09/2044	1,788,235	Maturity
The Source	2.43	17/12/2015	17/12/2025	8,144	Annuity
Foreshore Trust	1.66	21/03/2016	20/03/2026	95,262	Annuity
			Total	**1,891,641**	

*Note: these are the balances outstanding – assuming all repayments are made

Loans to Hastings Housing Company Ltd

74. Hastings Housing Company, wholly owned by the Council, has a number of loans from the Council.

75. The Capital loan rate is based on the rate prevailing at the time of the advance and is fixed for the period of the loan. Three separate loans have been made as per the table below.

Counterparty	Interest Rate	Start Date	End Date	Principal O/S 31/03/2022	Term		Annual Interest
HHC Ltd - Loan 1	4.48%	28/02/2018	28/02/2058	£784,676	Fixed	Maturity Loan	£35,153
HHC Ltd - Loan 2	4.84%	12/02/2019	12/02/2059	£344,810	Fixed	Maturity Loan	£16,689
HHC Ltd - Loan 3	4.84%	13/06/2019	13/06/2059	£4,359,912	Fixed	Maturity Loan	£211,020
				£5,489,398			**£262,862**

76. The value of the capital loans was £5,489,398 at the end of March 2023 and as the loans are maturity loans the principal outstanding will not reduce annually but be repaid or refinanced in one lump upon maturity 40 years after the loan was

issued. The interest rates are fixed and were determined in accordance with EU rules.

77. The debt costs (principal and interest) incurred by the Council in making advances to the housing company are covered by the interest repayments from the housing company. The interest receivable by the Council amounted to £262,862 in 2022/23.

78. It should be noted that due to cashflow difficulties related to the Covid-19 pandemic the Housing Company is a year behind on its interest repayments to the Council. The overdue amount owed is £262,862. The late payment of interest from the Housing Company will attract additional interest charges.

Other Issues

The Economy and Interest Rates

79. 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.

80. 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)

81. 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.

82. 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%.

83. 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.

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

85. 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.

86. 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.

87. Link Group's 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.

88. 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.

89. 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.

90. **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%.

91. 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.

92. 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.

93. **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.

IFRS 9 fair value of investments

94. Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

IFRS 16 Leases

95. The implementation of IFRS 16 bringing currently off-balance sheet leased assets onto the balance sheet has again been delayed until 2024/25. The Council has work to do on implementing this change and is putting in place a cross-departmental working group to identify the leases the council has and the impact on the Council.

Financial Implications

96. The security of the Council's monies remains the top priority within the strategy, along with liquidity – being able to access sufficient money as and when required. Investment rates available in the market have improved significantly during the last year, meaning the impact that effective investment of surplus funds can make on the Council's finances is material.

97. No new external borrowing was undertaken in the year, albeit that the capital expenditure incurred and future capital programme plans will necessitate further borrowing shortly. The use of the Council's reserves and balances to temporarily fund the Capital expenditure has resulted in significant savings to the Council.

98. The Council has carefully considered the overall levels of borrowing being undertaken against the size of the Council's budget and its unencumbered assets, along with the affordability of the debt commitments as and when income streams potentially reduce – as unfortunately tested by the recent Covid-19 crisis. At no time during the year has cash flow been an issue for the Council.

99. The effective management of the Council's cash flow, reserves, and investments remains of critical importance. The increasing governance in this area, as well as the increasing sums involved will necessitate more staff resources being required to manage and report on this critical area.

100. Recent changes to the Prudential Code and Treasury Management Code has increased the controls and reporting requirements. Any further limits on borrowing could potentially impact significantly on the Council's plans.

101. On 11 May 2022, the government announced new measures to address excessive risk stemming from borrowing and investment practices. The measures, to be taken forward through the Levelling Up and Regeneration Bill, will put in place statutory powers allowing the government to investigate local practices and, where necessary, require remedial action by an authority where there is excessive risk to financial stability from capital practices. The intent of the powers is to provide the government with the ability to take targeted and precise action where it has concerns, without the need for further reform to the Prudential Framework as a whole. The Council's current treasury management, investment and capital expenditure plans are unlikely to see us impacted by this new legislation.

Timetable of Next Steps

102. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Cabinet	Report	3 July 2023	Chief Finance Officer
Audit Committee	Report	6 July 2023	Chief Finance Officer
Full Council	Report	19 July 2023	Chief Finance Officer

Wards Affected

None.

Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No
Climate Change	No

Additional Information

Treasury Management and Annual Investment Strategy 2022/23
CIPFA - Treasury Management Code of Practice
CIPFA - The Prudential Code

Appendix 1 – Prudential Indicators
Appendix 2 – Capital Expenditure 2022/23 (and amounts financed by borrowing)
Appendix 3 – Abbreviations used in this report

Officer to Contact

Officer Name: Simon Jones, Deputy Chief Finance Officer
Officer Email Address; simon.jones@hastings.gov.uk

Appendix 1 - Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	110,000	110,000	135,000	135,000	135,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	140,000	140,000	140,000
Operational Boundary for external debt					
borrowing	105,000	105,000	130,000	130,000	130,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	135,000	135,000	135,000

The Council's external borrowing at 31 March 2023 amounted to £65,421,204 which is well within approved borrowing limits.

Interest Rate Exposures	2022/23 Upper	2023/24 Upper	2024/25 Upper
Limits on fixed interest rates based on **net** debt	100%	100%	100%
Limits on variable interest rates based on **net** debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%

Maturity Structure of fixed interest rate borrowing 2023/24	Lower	Upper
Under 12 Months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Maturity Structure of variable interest rate borrowing 2023/24	Lower	Upper
Under 12 Months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years to 20 years	0%	10%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

Affordability prudential indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances. 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.

Prudential Indicator: Financing Cost to Net Revenue Stream	2021/22 Actual	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,825	1,862	2,811	3,681	3,665
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-
4. Interest and Investment Income	(540)	(1,141)	(824)	(618)	(618)
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,668	870	904	939	976
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
Total	2,953	1,591	2,891	4,002	4,023
Net Revenue Stream Amount to be met from government grants and local taxpayers	14,253	13,370	13,637	13,910	14,188
Ratio **Financing Cost to Net Revenue Stream**	**21%**	**12%**	**21%**	**29%**	**28%**

Note: Outturn figures for 2021/22 and 2022/23 are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is generally increasing. This is not unexpected given that the Council agreed a programme for over £61m of Capital expenditure over the period 2023/24 to 2025/26 - thus increasing borrowing costs.

Appendix 2 - Capital Expenditure Financing in 2022/23

Capital Expenditure 2022/23	2022/23 Outturn £	Finance by Borrowing £	Finance by Grants £	Finance by Capital Receipts £
Private Sector Renewal Support	13	0	13	0
Disabled Facilities Grant	1,328	0	1,328	0
Work on Harbour Arm and New Groynes	32	0	32	0
Further Sea Defence works	36	0	36	0
Playgrounds Upgrade Programme	38	0	0	38
Conversion of 12/13 York Buildings	63	0	63	0
Buckshole and Shornden Reservoirs	910	0	0	910
Churchfields Business Centre	3,021	0	976	2,045
Development / Furbishment of Lacuna Place	27	0	0	27
Cornwallis Street Development	237	0	0	237
Harold Place Restaurant Devt	9	0	0	9
Electric Vehicle Infrastructure	8	0	0	8
Castleham Car Park Resurfacing	1	0	0	1
Rough Sleeping Accommodation Programme	969	0	969	0
Castleham Industrial Units	121	0	0	121
MUGA Refurbishments	31	0	0	31
TFC - Enterprise & employment infrastructure	117	0	117	0
TFC - Green low carbon skills & economy	96	0	96	0
TFC - Hastings Castle world heritage destination	111	0	111	0
TFC - Town to sea creative quarter	1,055	0	1,055	0
TFC - Town centre core	840	0	840	0
TFC - Town centre public realm & green connections	66	0	66	0
TFC - Town living	39	0	39	0
TFC - Source/Courtyard Lift	65	0	65	0
RSI Mobile Health Unit	44	0	44	0
LC20 East Hill Cliff Railway	226	0	0	226
Hastings Retail Park	158	0	33	125
	9,661	**0**	**5,883**	**3,778**

Appendix 3 - ABBREVIATIONS USED IN THIS REPORT

CE: Capital Economics - is the economics consultancy that provides Link Group, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the

United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).