Audit and Governance Committee

21st July 2023

TREASURY MANAGEMENT ANNUAL REPORT

Title of Report	Treasury Management Annual Report 2022/23
Purpose of Report	Each year the Council produces an Annual Report covering its Treasury Management activities for the previous year. The Annual Report is submitted each year to the Audit and Governance Committee in accordance with best practice as outlined in CIPFA's Code of Practice on Treasury Management.
Recommendations	To consider the Treasury Management Annual Report 2022/23
Officers	Paul Blacker, Director of Finance (01452) 328999 Paul.Blacker@gloucestershire.gov.uk Kathryn Oakey; Finance Manager (Planning & Treasury) Kathryn.Oakey@gloucestershire.gov.uk

Treasury Management Annual Report 2022/23

REPORT CONTENTS

1. Background

Gloucestershire County Council's (GCC's) treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management (the Code), which requires local authorities to produce annually a Treasury Management Strategy Statement (TMSS), and an Annual Report. The Prudential Code includes a requirement for GCC to produce a Capital Strategy, which covers capital expenditure and financing, treasury management and non-treasury investments.

The TMSS and Capital Strategy are agreed annually by full Council as part of the budget setting process. Scrutiny of these documents as well as a Mid Year Report and the Annual Report is delegated to the Audit and Governance Committee.

GCC has invested substantial sums of money during the year and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to GCC's treasury management strategy.

This report covers treasury activity and the associated monitoring and control of risk. A glossary is provided at Appendix A due to the technical terms and acronyms associated with treasury activity.

2. Economic Background

Treasury Management activities at GCC are driven by the prevailing economic conditions. A summary of these conditions over the financial year, provided by our Treasury Management advisors, is attached at Appendix B.

In summary, it has been a volatile year, with uncertainty being the key driver of financial market sentiment. Bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates. Concern continued as to the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 11.1% in October. Inflation has continued to remain high, although it is predicted to fall in the next financial year3. Bank Rate was 0.75% at the beginning of the reporting period, rising quicky to 4.25% by the end of March 2023.

3. Borrowing and Debt Management

During 2022/23 GCC has continued to borrow funds for specific capital schemes, and this year the total required was £19.984 million. This borrowing was arranged internally because prevailing borrowing rates exceed those that could be gained from investing funds.

The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Interest rates in March fell from September peaks but remain volatile and well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

Due to this increase in the cost of borrowing and the high cash balances held by GCC it still makes sense to borrow internally. Therefore no new external loans were taken out in 2022/23 and £6.9 million of PWLB debt that matured during 2022/23 was paid off and not replaced. The funding can however be externalised at any time should the need arise. The rest of the capital programme new schemes are funded in full from grants, revenue contributions, capital receipts or contributions.

As a result of the additional internal borrowing in 2022/23 GCC's Capital Financing Requirement (CFR) – ie the total capital spend that has not yet been financed by capital receipts, capital grants or contributions from revenue income - increased from £457.553 million to £466.004 million (see table below).

The average cost of GCC's existing borrowing portfolio during 2022/23 was 4.59%. This rate is higher than the rate of return achieved on investments during the year but reflects the mix of long term fixed rate loans taken out historically to reduce the risk associated with short term interest rate volatility.

The opening and closing external borrowing portfolio (including the on balance sheet PFI and Waste liabilities) is summarised below:

	Balance on 31/3/2022	Debt Maturing	Debt Prematurely Repaid	New Borrowing	Balance on 31/3/2023	Avg Rate
	£m	£m	£m	£m	£m	%
Fixed rate loans – PWLB	205.628	6.900	0.000	0.000	198.728	4.63
Variable rate loans – PWLB	0.000	0.000	0.000	0.000	0.000	0.00
Fixed rate loans – LOBO	33.050	0.000	0.000	0.000	33.050	4.23
Fixed rate loans – Market	8.000	0.000	0.000	0.000	8.000	5.00
TOTAL BORROWING	**246.678**	**6.900**	**0.000**	**0.000**	**239.778**	**4.59**
Other Long Term Liabilities	153.040	3.953	0.000	0.000	149.087	
TOTAL EXTERNAL DEBT	**399.718**	**10.853**	**0.000**	**0.000**	**388.865**	
Internal Borrowing	57.835	0.680		19.984	77.139	
Total Borrowing Requirement	**457.553**				**466.004**	
Increase/ (Decrease) in Borrowing £m				**8.451**		

Notes to Table

- **Market Loans (LOBOs) and Fixed Market Loans:** GCC holds £33.05m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which GCC has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOs had options during the year, none of which were exercised by the lender. Previously a further £8 million of loans with Barclays were classified as LOBOs; however Barclays have since fixed the interest rates on these loans until maturity. These are classified as fixed rate market loans.
- **Public Works Loans Board (PWLB)**: The PWLB continued to operate a spread of over 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in GCC's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.
- **Other Long Term Liabilities**: These liabilities are associated with GCC's PFI schemes and waste service concessions. Under current accounting regulations GCC must show these liabilities as part of the total debt of GCC. The schemes include a Fire Joint Training Centre, four Fire Stations, a Community Life Skills Centre and the Waste facility at Javelin Park.

The table below reconciles the opening and closing total borrowing position during 2022/23:

	£m
Opening CFR	**457.552**
Plus New Borrowing	19.984
PFI and Lease Liabilities	(3.953)
Less MRP	(7.579)
Total	**466.004**
Closing CFR	**466.004**
External Debt	239.778
Other long term liabilities	149.087
Internal Debt	77.139
Total Debt	**466.004**

The minimum revenue provision (MRP) shown above of £7.579 million is a statutory minimum amount by which GCC must reduce debt. The internal debt of £77.139 million results from existing internal debt, the additional borrowing requirement of £19.984 million during 2022/23 and a temporary in year timing mismatch between MRP set aside in 2022/23 to repay maturing debt and actual debt maturing in year.

A graph of the maturity profile of our external loans is shown in Appendix C. Generally the maturity profile is well spread.

4. Investment Activity

CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

GCC has held significant invested funds during the year, representing income received in advance of expenditure plus balances and reserves. During 2022/23 GCC's investment balances have varied – the average balance was £298.1 million. This generated interest of £7.4m which is equivalent to 2.48%. Interest rates have been volatile during the year and started to rise very quickly. As we have a predominately fixed investment profile, we have not been able to take immediate advantage of the new rates.

The table below summarises investment activity during the year;

Total number of loans made to 31 March 2023	78
Daily invested range	£1.0m to £26.0m
Total value of loans made to 31 March 2023	£608.942m
Maximum value loan made (non call)	£5.0m
Maximum value of loans made (Call)	£26.0m
Periods	Overnight to 2 years

All investments made during the year complied with GCC's agreed TMSS, Prudential Indicators, Treasury Management Practices and prescribed limits as approved by the County Council in February 2022. All maturing investments were repaid to GCC in full and in a timely manner.

The opening and closing investment balances (principal positions) are summarised in the table below;

Investments	Balance on 31/03/2022 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2023 £m	Avg Rate (%)
Short term Investments (call accounts, deposits)					
- Banks and Building Societies with ratings of A- or higher	35.5	130.0	-140.5	25.0	4.2
- Local Authorities	90.0	70.0	-50.0	110.0	2.9
Long term Investments					
- Strategic Funds	95.0	0.0	0.0	95.0	4.1
- Local Authorities	35.0	5.0	-35.0	5.0	1.7
Money Market Funds	41.8	903.9	-910.3	35.4	1.8
Pooled Funds	15.0	0.0	-15.0	0.0	1.2
TOTAL INVESTMENTS	**312.3**			**270.5**	
Increase/ (Decrease) in Investments £m				-41.9	

GCC also has three £5 million Rolling Credit Facilities (RCF) with the following Housing Associations:

- Network Housing
- Southern Housing
- Yorkshire Housing

These RCF's provide a quarterly return from a non utilisation fee, adding to our investment returns. Should they be drawn down, the interest rate is at a fixed rate, and runs as per agreed terms. Currently none of the RCF's are drawn down.

Investment Objectives

Both the CIPFA Code and government guidance require GCC to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

1) Security

GCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities. By end March 2023, the rates on Debt Management Account Debt Facility (DMADF) deposits ranged between 4.05% and 4.15%. The return on the GCC's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between 0.5% - 0.7% p.a. in early April and between 4.0% and 4.2% at the end of March.

GCC receives regular correspondence from its Treasury Advisors on credit risk, which is taken into account before transactions are made. GCC used long term credit criteria during 2022/23, with minimum long-term counterparty credit rating determined for the 2022/23 treasury strategy being A-.

GCC's counterparty credit quality has been maintained over the year as demonstrated by the Credit Score Analysis summarised below. The table in Appendix D explains the credit score. Our rate of return increased over the year as interest rates went up and we were able to lock into higher rates. Bank duration reduced during the year due to an inverted yield curve, resulting in shorter term investments offering better value only longer dated ones. During March 2023, in response to the failure of several banks, our bank duration limit was reduced to 35 days in line with recommendations from our Treasury Advisors.

	Credit Score	Credit Rating	Bail-in Exposure	Average Maturity (days)	Rate of Return %
31.03.2022	4.69	A+	31%	192	1.56%
30.06.2022	4.78	A+	33%	163	1.84%
30.09.2022	4.70	A+	37%	134	2.11%
31.12.2022	4.75	A+	30%	139	2.70%
31.03.2023	4.93	A+	32%	119	3.55%
Similar LAs	**4.37**	**AA-**	**42%**	**1894**	**3.48%**

The Rate of Return shown in the table above is a quarterly position, so not directly comparable to the annual rate of return, achieved by GCC over the year.

Risk is further reduced by ensuring a good mix of duration of deposits and mix of counterparties. The table below shows a comparison between years.

Investments by type of institution		
	At 31/3/22 %	**At 31/3/23 %**
UK Banks	0	5.5
Non UK Banks	1.6	5.5
Other Local Authorities	40.0	40.6
Call / Current Accounts	0.2	2.8
Money Market Funds (MMF's)	18.2	13.0
Strategic Funds	30.4	32.6
Notice Accounts	9.6	0
Total	100	**100**

2) ***Liquidity***: In keeping with the MLUHC's Guidance on Investments, GCC maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and call accounts.

Average Length of investments		
	At 31/3/22 %	**At 31/3/23 %**
Less than 1 month (including Call)	18.3	15.8
Between 1 to 3 months	13.8	20.2
Between 3 to 6 months	9.6	14.8
Between 6 to 12 months	16.7	14.8
Over 12 months	41.6	34.4
Total	100	**100**

3) ***Yield***: GCC sought to optimise returns commensurate with its objectives of security and liquidity. Short term money market rates picked up significantly during the year, and shorter dated deposits became more attractive than longer term.

   £95 million of GCC's investments are invested in externally managed strategic pooled (bond, equity, multi-asset, Real Estate Investment Trust (REIT) and property) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

   UK and global equities remained volatile against a backdrop of high and sticky inflation, rapid policy rates tightening and an increasing risk of recession. There was a large sell-off in global equities in April, and again in June and September for both UK and global equities. The total return on the FTSE All Share index for the 12 months ending March 2023 was 2.9% and 5.4% for the FTSE 100. Despite this these funds generated a total return of £5.1 million (4.06%), which is used to support services in year. Due to the volatile market conditions these funds have suffered a capital loss of 9.97% as at 31st March 2023, however GCC maintains a long dated outlook on these funds and recognises that the capital value will be variable.

5. Other Non-Treasury Holdings and Activity

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of GCC as well as other non-financial assets which GCC holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the DLUHC also broadens the definition of investments to include all such assets held partially or wholly for financial return.

GCC does not currently hold funds meeting this definition.

6. Compliance Report

All treasury management activities undertaken during 2022/23 complied fully with the CIPFA Code of Practice and GCC's approved Treasury Management Strategy set in February 2022 - (which can be accessed here).

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2022/23. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. Details can be found in Appendix E.

7. Investment Training

Training was undertaken for members in January 2023. This was provided by our Treasury Management advisors, Arlingclose. Officers ensure that they are kept up to date on treasury related matters and training and attendance at updates with GCC's advisors is undertaken as appropriate.

8. Environmental, Social and Governance Considerations

The CIPFA Treasury Management Code requires local authorities to consider their counterparty policies in light of environmental, social and governance (ESG) information, while recognising that there is not a developed approach to ESG for public sector organisations and not expecting authorities to use real-time ESG scoring / criteria for individual investments.

Whilst recognising that ESG issues are wide-ranging and non-standardised, the Council aims to be a responsible investor and will consider ESG issues when investing. As such,

- We invest in a social housing REIT that provides high-standard, specialist properties which provide housing for some of society's most vulnerable people. Tenant groups include those with autism, learning disabilities as well as mental health struggles. This fund is also signed up to the UN Principles for Responsible Investment.
- We invest in a responsible income fund which does not invest in companies which have fossil fuel reserves or are engaged in fossil fuel extraction.
- We invest in an ethical bond fund which does not invest in companies which have fossil fuel reserves or are engaged in fossil fuel extraction.
- We invest in a diversified income fund that has a significant exposure to wind / solar / renewable energy companies and is very active in promoting responsible investing.
- All the banks that we hold investment balances with are signed up to the UN Principles for Responsible Banking.
- All of our Pooled Strategic Funds (excluding our social housing REIT) and Money Market Funds are signed up to the UN Principles for Responsible Investment, the UK Stewardship Code 2020, and the Net-Zero Asset Managers Initiative.

Appendix A

GLOSSARY OF TERMS

Basis Point
A measure of percentage where 1 basis point is equivalent to 0.01%.

Call Account
A bank account with instant access to funds held on deposit.

Capital Financing Requirement
The total borrowing required by GCC to support the Capital programme. The CFR measures a vital component of an authority's capital strategy: the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose, although this borrowing is unlikely to need to actually take place externally, given the generally positive net cash flow position of local authorities.

Certificate of Deposit (CD)
A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination, although GCC only trades in sterling. A CD can be sold before maturity.

CIPFA – **Chartered Institute of Public Finance and Accountancy**
Leading professional accountancy bodies in the UK and the only one which specialises in the public services.

Credit Default Swap (CDS)
A credit default swap (CDS) is a financial swap agreement that the seller of the CDS will compensate the buyer in the event of a loan default or other credit event.

Debt Management Office (DMO)
An Executive Agency of Her Majesty's Treasury. The DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

Economic, Social and Governance (ESG)
Funds that offer non financial factors as part of their analysis process to identify material risks and growth opportunities.

GDP
Gross Domestic Product.

Gilt
Long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange

LOBO (Lender's Option / Borrowers Option)
Money Market instruments that have a fixed initial term (typically one to ten years) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the loan.

Minimum Revenue Provision

The minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.

Ministry for Levelling Up, Housing, and Communities MLUHC
Formerly the Department for Housing, Communities and Local Government.

Money Market
The term applied to the institutions willing to trade in financial instruments. It is not a physical creation, but an electronic/telephonic one.

PFI Liabilities
A requirement under current accounting standards to include all Private Financing arrangements within the borrowing requirement, to reflect the additional liability on GCC from these schemes.

Pooled Fund
Investments are made with an organisation that pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

Premium
An additional sum - calculated on normal actuarial principles – which the authority pays to a lender if a loan is repaid early and if interest rates are presently lower than the loan rate. The premium reflects the loss to the lender of foregoing the remaining instalments of interest, and receiving funds which have to be re-invested at current interest rates.

Prudential Indicator
Indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment.

PWLB – **Public Works Loan Board**
An independent statutory body operated within the **DMO**, which is able to meet all of a local authority's needs for long-term borrowing. The PWLB is prepared to lend to authorities who act prudently and comply with all relevant legislation.

RISK:
Credit and counterparty risk
The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

Liquidity risk
The risk that cash will not be available when it is needed and that ineffective management of liquidity creates additional unbudgeted costs.

Interest Rate risk
The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

Refinancing risk

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Legal Risk
The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Operational Risk
The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

Market Risk
The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Rolling Credit Facility
A facility whereby the lender agrees to lend at an agreed rate for a defined period should the borrower require the funds. Whilst funds are not drawn down a non utilisation fee applies.

Stable Net Asset Value Money Market Funds
The principle invested remains at its invested value and achieves a return on investment.

Appendix B

Economic Update

The bullets below provided by our treasury advisors, are a summary of the economic climate over the financial year 2022/23 that has impacted on the treasury management environment of GCC:

Economic background:

- The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

- Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

- Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

- Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

- The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

- The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

- Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

- The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

- After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

- From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Financial markets:

- Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

- Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit review:

- Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

- In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

- The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including

Barclays Bank, National Westminster Bank (and related entities) and Santander.

- During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

- Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

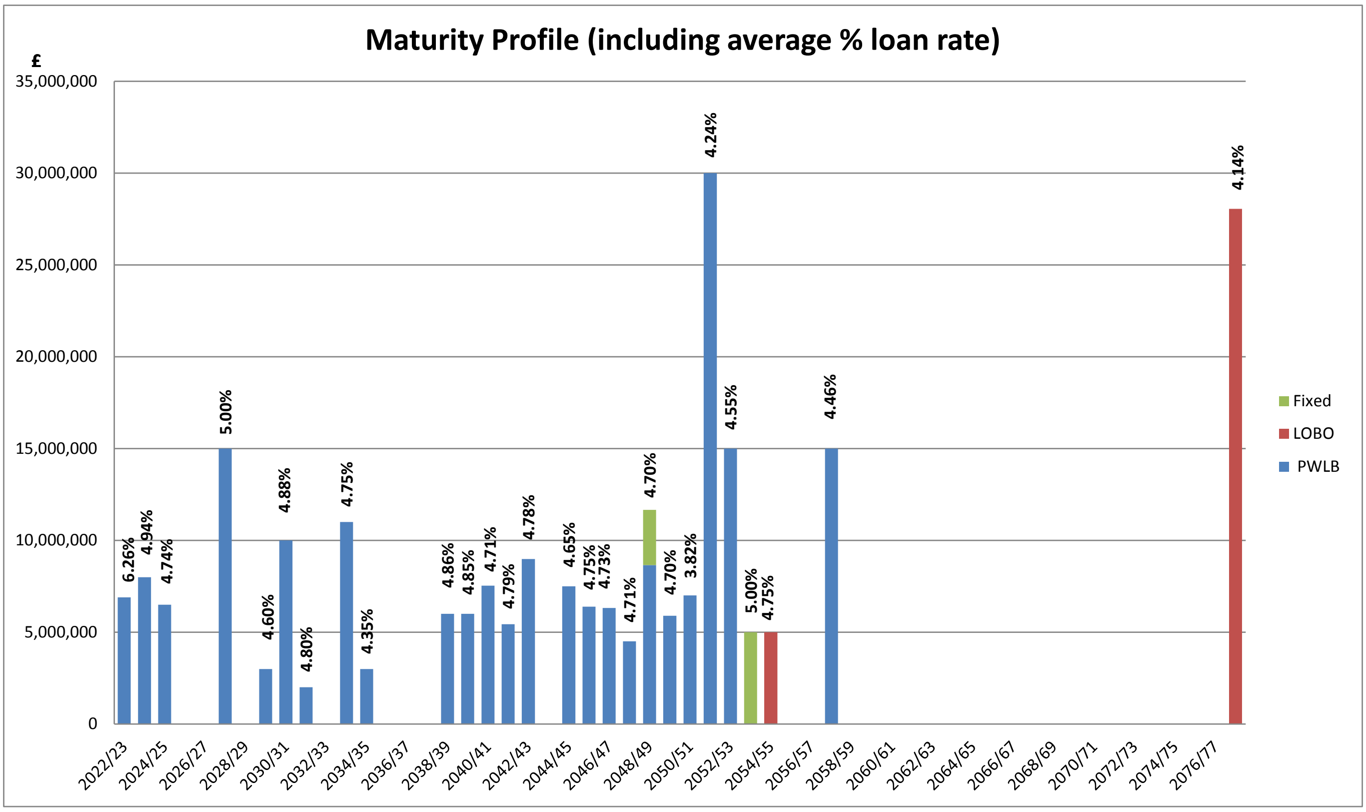
- On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

- As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

- Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

Appendix C

Loan Maturity Profile



Although the spread of borrowing is generally smooth there are a number of peaks. The peak in 2051/52 is because there are three loans maturing, one of which is for £15m. The peak in 2077/78 is the final date of maturity for a number of LOBOs loans. Note that LOBO loans are shown at maturity rather than the earliest call (option) date.

Appendix D

Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit.

GCC aimed to achieve a score of 7 or lower, to reflect GCC’s overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

Appendix E

Compliance Statement: Prudential Indicators

Capital Financing Requirement

The Capital Financing Requirement is the total amount required by GCC to fully fund the Capital Programme. The outturn position for GCC's cumulative maximum external borrowing requirement for 2022/23 is shown in the table below:

	31/03/2023 Actual £m
CFR	466.004
Less: Existing Profile of Borrowing	239.778
Less: Other Long Term Liabilities*	149.087
Cumulative Maximum External Borrowing Requirement	**77.139**
Useable Reserves **	(279.955)
Cumulative Net Borrowing Requirement/(investments)	**(202.816)**

**Other long term liabilities are GCC's PFI schemes and the Energy from Waste contract. The PFI schemes include a Fire Joint Training Centre, and 4 Fire Stations and a Community Life Skills Centre. Under current accounting regulations GCC must show these liabilities as part of the total debt of GCC.*

***Reserves shown here may differ slightly to those shown in the final Statement of Accounts following approval by Cabinet for carry forwards, which may increase the final reserves amount.*

Prudential Indicator Compliance

Authorised Limit and Operational Boundary for External Debt

GCC is required to set an affordable Authorised Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. GCC's Authorised Borrowing Limit is £520 million.

This limit represents a worse case scenario for debt required and is calculated as the total capital financing requirement (including lease liabilities), plus the minimum revenue provision, plus maturing debt and capital receipts. Added to this is an allowance to cover the possibility of not being able to make monthly salary payments. This allows GCC flexibility with its total borrowing requirement.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

	2022/23 Maximum	31.3.23 Actual	2022/23 Operational	2022/23 Authorised
Borrowing	246.68	239.78	370.91	386.96
PFI and Finance Leases	153.04	149.09	149.09	153.04
Total debt	**399.72**	**388.87**	**520.00**	**540.00**

Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The table below shows the principal position.

Maturity Structure of Fixed Rate Borrowing	Upper Limit	Lower Limit	Actual Fixed Rate £m Borrowing as at 31/03/23	Actual Fixed Rate £m Borrowing as at 31/03/23	Actual Fixed Rate £m Borrowing as at 31/03/23	Fixed Rate Borrowing as at 31/03/23	Compliance with Set Limits?
	%	%	LOBO*	Market	PWLB	%	
under 12 months	25	0	33.050		8.000	17.1	Yes
12 months and within 24 months	25	0			6.500	2.7	Yes
24 months and within 5 years	50	0			15.000	6.3	Yes
5 years and within 10 years	75	0			15.000	6.3	Yes
10 years and within 20 years	100	0			47.958	20.0	Yes
20 years and within 30 years	100	0		3.000	91.269	39.3	Yes
30 years and within 40 years	100	0		5.000	15.000	8.3	Yes

* Note that LOBO's are included in the table above at earliest call date and not at maturity.

<u>Treasury Management Indicators</u>

GCC measures and manages its exposures to treasury management risks using the following indicators.

GCC has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment as shown by Appendix D and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

The target set in the Treasury Strategy is A-, and the target achieved was A+.

Total principal sums invested for periods longer than 364 days.

This indicator allows GCC to manage the risk inherent in investments longer than 364 days. The limit for 2022/23 was set at £200m. At its peak sums invested for longer than 365 days, including strategic funds, totalled £130 million.