

AUDIT COMMITTEE	AGENDA ITEM No. 6
29 NOVEMBER 2021	PUBLIC REPORT

Report of:	Pete Carpenter, Corporate Director of Resources	
Cabinet Member(s) responsible:	Cllr Coles, Cabinet Member for Finance	
Contact Officer(s):	Pete Carpenter, Corporate Director of Resources Kirsty Nutton, Acting Service Director: Financial Services	Tel. 452520 Tel. 384590

TREASURY MANAGEMENT MID YEAR UPDATE

R E C O M M E N D A T I O N S	
FROM: Pete Carpenter, Corporate Director of Resources	Deadline date: N/A
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> Review current performance against the Prudential Indicators as approved in the Treasury Management Strategy (TMS) contained in the Medium-Term Financial Strategy (MTFS). 	

1. ORIGIN OF REPORT

- 1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017), which recommends that Members receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 1.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the following:
 - A review of the Treasury Management Strategy Statement;
 - A review of compliance with Treasury and Prudential Limits for 2021/22;
 - The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
 - An update on interest rate forecasts;
 - A review of the Council's borrowing strategy for 2021/22;
- 1.3 The Treasury Management Strategy Statement, (TMSS), for 2021/22 was approved by this Council on 3 March 2021. Following the recent report published by The Chartered Institute of Public Finance and Accountancy (CIPFA) into the Councils financial position, and the recommendations set out in the DHULC action plan, a moratorium on Capital spending is due to be implemented on schemes that are not legally committed and are to be funded from borrowing. It is expected that this will impact in reducing the 2021/22 Forecast Outturn position and associated prudential indicators.
- 1.4 The final performance against the revised strategy will be reported to Audit Committee in July 2022 alongside the Statement of Accounts, and as part of the Outturn Report as part of the reporting of the financial performance for the year.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to report current performance and the forecast outturn position against the Prudential Indicators in the strategy.
- 2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.17 to consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. TREASURY MANAGEMENT STRATEGY PRUDENTIAL INDICATORS

4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in long term and current assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:

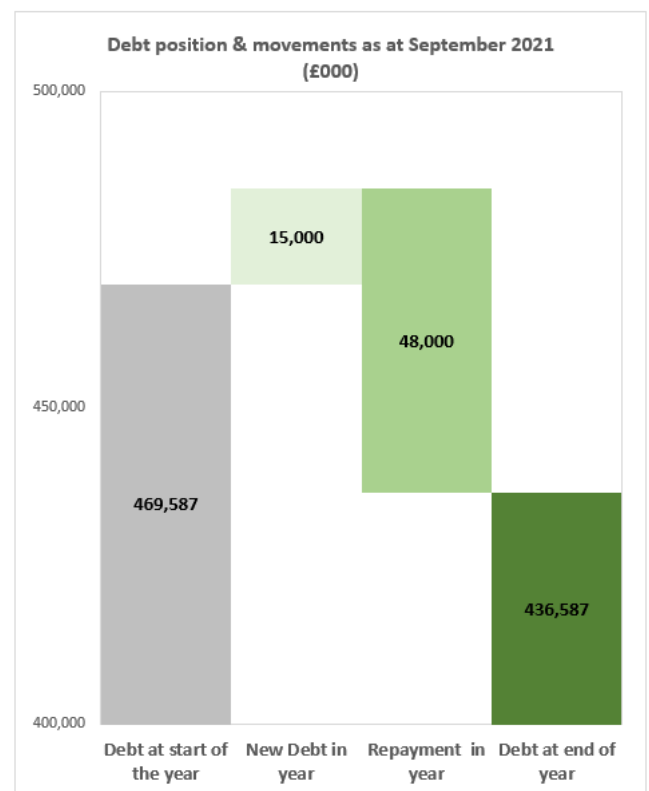
- Capital investment plans are affordable;
- All external borrowing and other long-term term liabilities are within prudent and sustainable levels; and
- Treasury management decisions are taken in accordance with professional good advice.

4.2 The 2021/22 Prudential Indicators are shown in Appendix 1. During the half year ended 30th September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22.

4.3 The Council has continued to operate a restrictive lending list due to the continued economic uncertainty. Surplus cash is only invested for short periods with Barclays and the Churches, Charities and Local Authorities (CCLA) money market fund. The Council also invests with other Local Authorities and the Debt Management Office (DMO).

4.4 The Council forecasts to borrow to fund the capital investment programme. The Council's approach is for loans to be arranged at fixed interest rates to achieve budget certainty and over varying periods to fit in with the Council's debt maturity profile. However, due to cash flow timings the Council's borrowing has reduced by a net £33m to date, see chart.

4.5 The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10%. Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy. Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards



the end of September. These increases are anticipated to have an impact on the cost of any new borrowing taken after this date as well as on income received from investing surplus cash balances.

- 4.6 The Council's current borrowing strategy has been to take advantage of shorter-term Local Authority loans which are currently available below bank rate, with a view to undertaking some longer term borrowing later in the year. This is because despite the PWLB's long term interest rates having been historically low, they have also been volatile. This approach minimises in-year interest cost and maintains flexibility with regards to options available to be deployed. For example with the capital programme reduction exercise, which forms part of the action plan from the DLUHC reviews, less borrowing is anticipated to be required and further debt repayment activity can occur as and when the short term loans mature and are not replaced with new re-financing loans.

5. CONSULTATION

- 5.1 The Council's Prudential Indicators and Treasury Management Strategy 2021/22 - 2023/24 have undergone full consultation, and been through the scrutiny process, as it forms part of the Annual MTFS.
- 5.2 The Council continues to liaise with its treasury advisors, Link Asset Services.

6. ANTICIPATED OUTCOMES OR IMPACT

- 6.1 As set out in the report.

7. REASON FOR THE RECOMMENDATION

- 7.1 This report is given to the Committee to review performance against the Prudential Indicators in the TMS set in the MTFS.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 The Treasury Management Strategy 2021/22 – 2023/24 is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2017. This report sets out the performance against the associated prudential indicators. The options are therefore limited.

9. IMPLICATIONS

Financial Implications

- 9.1 To provide the Committee the opportunity to review current performance against the Prudential Indicators.

Legal Implications

- 9.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 The Prudential Code for Capital Finance in Local Authorities – 2017 Edition, CIPFA; and Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition, CIPFA.

11. APPENDICES

- 11.1 Appendix A - Treasury Management Strategy – Prudential Indicators – Forecast Outturn as at 30 September 2021.

Treasury Management Strategy – Prudential Indicators – Forecast Outturn as at September 2021

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

- (a) capital expenditure plans are affordable,
- (b) all external borrowing and other long-term liabilities are within prudent and sustainable levels;
- (c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to (a) and (c) above, the local authority is accountable by providing a clear and transparent framework.

The Code requires the Council to set a range of Prudential Indicators for the forthcoming financial year and at least the following two financial years.

Following the recent report published by The Chartered Institute of Public Finance and Accountancy (CIPFA) into the Councils financial position and the recommendations set out in the DHULC action plan, a moratorium on Capital spending is due to be implemented on schemes that are not legally committed and are to be funded from borrowing, therefore it is expected that the 2021/22 Forecast Outturn position will reduce. At the time of drafting this report it was not possible to factor the capital programme amendments into the forecast outturn, however any impact shall be beneficial with the objective of helping to create an overall sustainable budget.

The actual and forecast outturn, compared to those contained in the MTFs for the Prudential Indicators for this financial year are detailed below. The indicators include the Invest to Save schemes however the costs of borrowing associated with these schemes will be offset by the income generated by these projects.

1. Indicator 1: Capital Expenditure

This indicator is the estimated capital expenditure for the year based on the Capital Programme for that period.

Capital Expenditure	2021/22 Indicator £m	2021/22 Actual at 30.09.2021 £m	2021/22 Forecast Outturn £m
Capital Expenditure	133.4	21.5	86.1
Invest to Save	13.5	3.7	10.9
Total	146.9	25.2	97.0

2. Indicator 2: Capital Financing Requirement (CFR)

The CFR measures the Council's underlying need to borrow money in the long term for capital purposes. Any capital expenditure which has not immediately been paid for will increase the CFR.

Capital Financing Requirement	2021/22 Indicator £m	2021/22 Actual at 30.09.2021 £m	2021/22 Forecast Outturn £m
CFR b/fwd	622.0	598.8	598.8
Underlying Need to Borrow	64.5	5.5	35.8
Underlying Need to Borrow - Invest to Save	13.5	3.7	10.9
Repayment of debt - Minimum Revenue Provision	(17.8)	(14.6)	(14.6)
Total CFR C/fwd	682.2	593.4	630.9

3. Indicator 3: Actuals and Estimates of the Ratio of Financing Costs to Net Revenue Budget

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt.

Ratio of gross financing costs to net revenue Stream	2021/22 Indicator £m	2021/22 Actual at 30.09.2021 £m	2021/22 Forecast Outturn £m
Total Ratio	15.2%	11.2%	13.6%

4. Indicator 4: Proportion of Gross Debt to the Capital Financing Requirement (CFR)

This indicator shows the proportion of the Council's external borrowings (Gross Debt) against the CFR. In order to ensure that borrowing levels are prudent over the medium term and only for capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The gross debt amount includes borrowing undertaken through lease arrangements and PFI (see following indicator).

Proportion of Gross Debt to the CFR	2021/22 Indicator £m	2021/22 Actual at 30.09.2021 £m	2021/22 Forecast Outturn £m
Gross Debt	619.4	484.6	546.5
CFR	682.2	593.4	630.9
% of Gross Debt to CFR	90.8%	81.7%	86.6%

This indicator shows that the Council is maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), is not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow is being used. This strategy continues to be prudent as investment returns remain low and counterparty risk continues to be variable. The forecast outturn for the % of Gross debt to CFR is 86.6% which is less than that of the indicator at 90.8%. The indicator relates to the proportion of debt compared to the CFR which is within the target, £630.9m against £682.2m.

5. Indicator 5: The Operational Boundary

The Operational Boundary is a measure of the day to day likely borrowing for the Council. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

This indicator takes into consideration the capital programme over the life of the MTFs and the ability to phase the borrowing over this period. The indicator provides flexibility for the Council to take advantage of favourable interest rates in advance of the timing of the actual capital expenditure.

Operational Boundary	2021/22 Indicator £m	2021/22 Actual at 30.09.2021 £m	2021/22 Forecast Outturn £m
Borrowing	702.2	436.6	498.5
Other Liabilities	48.0	48.0	48.0
Total Operational Boundary	750.2	484.6	546.5

6. Indicator 6: The Authorised Limit

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is "prudent".

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year.

The limits also incorporated margins to allow for exceptional short-term movements in the Council's cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

Authorised Limit	2021/22 Indicator £m	2021/22 Actual at 30.09.2021 £m	2021/22 Forecast Outturn £m
Borrowing	780.2	436.6	528.5
Other Liabilities	48.0	48.0	48.0
Total Authorised Limit	828.2	484.6	576.5

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year. The forecast outturn is lower than the indicator as the Council does not currently anticipate borrowing in advance of need due to the additional cost of holding the funds until required.

7. Indicator 7: Fixed Interest rate exposure

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the majority of borrowing was at fixed rates to provide budget certainty.

Upper limit for fixed rate exposure	2021/22 Indicator £m	2021/22 Actual at 30.09.2021 £m	2021/22 Forecast Outturn £m
Upper Limit	744.4	436.6	528.5
% of fixed interest rate exposure	100%	100%	100%

8. Indicator 8: Variable interest rate exposure

Upper limit for variable rate exposure	2021/22 Indicator £m	2021/22 Actual at 30.09.2021 £m	2021/22 Forecast Outturn £m
Upper Limit	186.1	-	-
% of variable interest rate exposure	25%	0%	0%

The indicator for actual and forecast outturn is zero due to the current borrowing strategy of borrowing only at a fixed interest rate in the current economic climate of volatile interest rates. Borrowing at fixed interest rates provides budget certainty for the Council.

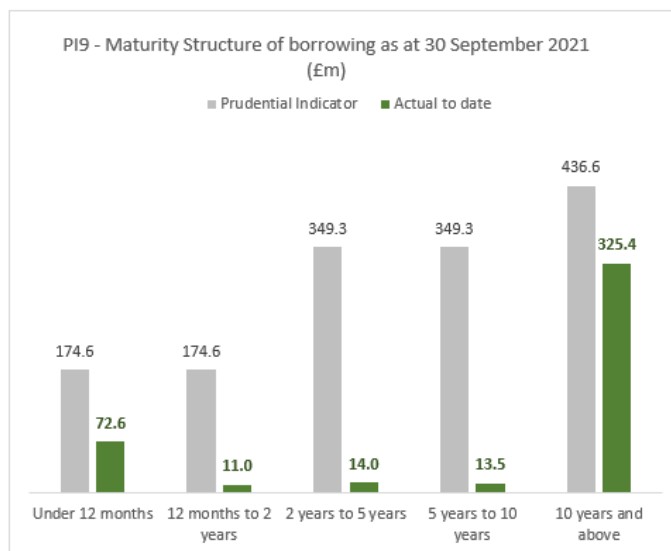
9. Indicator 9: Maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council's borrowing and reflected the relatively beneficial long-term rates that were expected to be available over the next few years. The borrowing that the Council has actually taken up to the end of September 2021 is £436.6m shown in the indicator below.

Period	Upper Limit	2021/22 Actual at 30.09.2021 (£m)	
Under 12 months*	40%	16.6%	72.6
1 – 2 years	40%	2.5%	11.0
3 – 5 years	80%	3.2%	14.0
6 – 10 years	80%	3.1%	13.5
Over 10 years	100%	74.5%	325.5
Total Borrowing			436.6

* The borrowing for under 12 months includes £17.5m of Lenders Option Borrowers Option (LOBO) loans.

Although the loans are due to mature in 20-32 years' time, they are classed as loans repayable within the financial year due to LOBO's having a call-in date every 6 months.



10. Indicator 10: Total Investments for periods longer than 365 days

Authorities are able to invest for longer than 365 days excluding loans. This can be advantageous if higher rates are available. However, it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs.

	2021/22 Indicator £m	2021/22 Actual at 30.09.2021 £m	2021/22 Fore cast Outturn £m
Principal sums invested >365 days	10.0	0.0	0.0

This indicator reflects the Council's current lending policy of keeping investments short term for liquidity purposes. Also, the Council has minimised its available cash balances as an alternative to new borrowing and does not have the available cash balances to invest for long periods. This is in line with the current strategy for revenue savings and avoids the 'cost of carry' associated with taking borrowing in advance of need.

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