REPORT TO:		CABINET : COUNCIL
DATE:		12th January 2022 : 13th January 2022
PORTFOLIO:		Cllr Joyce Plummer - Resources
REPORT AUTHOR:		A Martin – Principal Accountant D Donlan – Head of Accountancy Services
TITLE OF REPORT:		Prudential Indicators Monitoring and Treasury Management Strategy Update
EXEMPT REPORT:	**No**	
KEY DECISION:	**No**	If yes, date of publication:

1. PURPOSE OF REPORT

This report updates Cabinet on activities in this area since the start of this financial year.

2. RECOMMENDATION(S)

2.1 To note the report.

3. REASONS FOR RECOMMENDATION(S)

As given in the Background paragraph 4.

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4. BACKGROUND

4.1 The *Prudential Code for Capital Finance in Local Authorities* requires the Council to set Prudential Indicators annually for the forthcoming three years to demonstrate that the Council's capital investment plans are affordable, prudent and sustainable. The Council adopted its current prudential indicators at its meeting in February 2021.

4.2 The Prudential Code requires the Council, having agreed at least a minimum number of mandatory prudential indicators (including limits and statements), to monitor them - in a locally determined format and frequency. This half-year report to Cabinet complements a more regular review by the Deputy Chief Executive.

4.3 The indicators are purely for internal use and not designed to be used as comparators between authorities. If it should be necessary to revise any of the indicators during the year, the Deputy Chief Executive will report and advise the Council further.

4.4 *'Treasury Management'* relates to the borrowing and cash activities of the authority, and the effective management of any associated risks. On 25th February 2021 in the same report referred to at 4.1 above the Council also set out and then approved its current Treasury Management Strategy. This was in accordance with the CIPFA (Chartered Institute of Public Finance & Accountancy) code of practice on treasury management in public services, the Council having previously adopted, via Cabinet, the then revised code of practice. Associated treasury management Prudential Indicators were included in the February 2021 report.

5. PRUDENTIAL INDICATORS MONITORING

5.1 Table 1 and Table 2 (**Appendix 1)** show the monitoring information for each of the prudential indicators, limits and statements. They relate to:

- External debt overall limits – Table 1
- Affordability (eg implications for Council Tax) – Table 2
- Prudence and sustainability (eg implications for external borrowing)
- Capital expenditure
- Other particular indicators for Treasury Management.

6. TREASURY MANAGEMENT UPDATE

6.1 Current Treasury Position

Portfolio Position 2021/22	Original Estimate 2021/22 £000	Projected Outturn 2021/22 £000
External Debt		
Debt at 1st April	9,595	9,595
Expected Change in Debt	-	-
Other Long Term Liabilities	362	942
Gross Debt at 31st March	9,957	10,537
Capital Financing Requirement (CFR)	8,866	9,446
Under / (over) borrowing	(1,091)	(1,091)
TOTAL INVESTMENTS (other than short-term)	-	-

6.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. In general the requirement is that CFR exceeds gross debt. However in 2021/22 the gross debt will exceed CFR. This is due to the annual payment of Minimum Revenue Provision (MRP). Other Liabilities reflect the transfer of contract hire leases to balance sheet to comply with IFRS16.

6.3 The requirement to have CFR exceed Gross Debt centres around providing an assurance that borrowing is not taking place for Revenue purposes. However, as the Council is not borrowing additional funds at this time, this is not an issue.

6.4 The current position of the treasury function, and its expected change in the future, introduces risk to the Council from an adverse movement in interest rates. The Prudential Code is constructed on the basis of affordability, part of which is related to borrowing costs and investment returns.

6.5 The Capital Programme 2021/22 will be funded by the use of Government Grants (including New Homes Bonus Grant and S31 Grants) and other external financing. It will also be supported during the year by greater use of internal sources of capital finance (including capital receipts reserve) because of the reduced level of external grant allocation. It is not anticipated currently that any capital borrowing will be required.

7 Expected movement in interest rates

7.1 The Council appointed Link Asset Services as treasury adviser to the Council and part of their service is to assist the Council in formulating a view on interest rates. The following table gives Link's latest available view of the expected future movement in interest rates, from quarter ending 30th September 2021 (their Qtr3 2020) onwards.

	Qtr 3 2021	Qtr 4 2021	Qtr 1 2022	Qtr 2 2022	Qtr 3 2022	Qtr 4 2022	Qtr 1 2023	Qtr 2 2023	Qtr 3 2023	Qtr 4 2023
Base Rate	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5 yr PWLB	1.40%	1.40%	1.50%	1.50%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%
10 yr PWLB	1.80%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%	2.10%	2.10%
25 yr PWLB	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%
50 yr PWLB	2.00%	2.00%	2.00%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%

7.2 In all the above forecasts there is a high level of uncertainty – due to the difficulties of forecasting the timing and amounts of 'quantitative easing' injected into the economy, and also the uncertainties around Brexit.

7.3 The Council's exposure to interest rate movements is largely neutralised currently as our borrowings are effectively at a fixed rate until a trigger point is reached, where the lender believes a better rate can be achieved elsewhere. Interest rates would have to exceed 4% and possibly 5% before this is likely to happen. The above table indicates that this is unlikely to happen until beyond 2023 at the earliest.

7.4 The Council has invested relatively small amounts of surplus cash on a short-term, temporary basis. The interest received from these investments is below the budgeted expectations for the six months to 30 September, mainly due to lower interest rates plus the impact of covid19 on surplus cash available for short term investment. Our strategy continues to focus on the security of deposits and the liquidity of funds.

7.5 The Council continues to invest surplus cash in the top rated financial institutions. We continue to spread our money around a number of institutions to ensure that we are not potentially damaged by the unforeseen collapse of any one bank. Deposits are also held with banks where we believe that the respective governments are likely to be able to guarantee deposits in the event of bank failure. This strategy is continuing to yield an appropriate rate of return, though at a lower rate, as there is less risk attached to these deposits. We also operate a policy of holding no more than £2m in any one bank (with the exception of the liquidity account held with Nat West Bank where the limit is £3m) to ensure that the risk is spread.

8. ALTERNATIVE OPTIONS CONSIDERED AND REASONS FOR REJECTION

None applicable.

9. CONSULTATIONS

None applicable in this instance.

10. IMPLICATIONS

Financial (Including any future financial commitments for the Council)	There are none arising directly from this report.
Legal and human rights implications	The Local Government Act 2003 (part 1) and associated regulations gave statutory recognition to the Prudential Code - therefore there is a statutory backing to the background and local purpose of the report. Treasury Management activities of local authorities are prescribed by statute – the source of powers is, in England & Wales, the 2003 Act. 'Statutory Guidance' on investment is given by the DCLG to local authorities.
Assessment of risk	There are inherent risks in capital finance and treasury management. When appropriate the risks are identified and assessed as part of the various recommendations made on Prudential Capital Finance and in the Council's Treasury Management Strategy.
Equality and diversity implications	There are no specific implications for customers' equality and diversity arising directly from the recommendations in this report

12. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

- Background papers are the legislation referred to in section 10 above, and the report approved by Council on 25th February 2021.
- Part 1 of the Local Government Act 2003 and related regulations
- The Prudential Code for Capital Finance in Local Authorities (CIPFA 2017)
- The Council's Policy Statement on Treasury Management (Full Council February 2021)
- The Councils Policy on Treasury Management Practices (Full Council February 2021)

13. FREEDOM OF INFORMATION

The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

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Appendix 1

TABLE 1

TREASURY MANAGEMENT INDICATORS

Prudential Indicators – actual and projected	Original Indicator Estimate 2021/22 £'000	Actual 6 months £'000	Projected Outturn 2021/22 £'000	Note
External Debt - Gross Borrowing	9,957	10,537	10,537	1
Authorised limit for external debt	35,000	35,000	35,000	
Operational boundary for external debt	20,000	20,000	20,000	
Maximum principal sum invested >364 days	3,000	0	0	
Limit on fixed interest rate for net borrowing	100%	57%	100%	2
Limit on variable interest rate for net borrowing	100%	43%	43%	2
Maturity structure of borrowing limits (Upper Limit)				
Under 12 months	43%	43%	43%	3
12 months - 24 months	0%	0%	0%	
24 months - 5 years	0%	0%	0%	
5 years - 10 years	0%	0%	0%	
10 years and above	57%	57%	100%	

1. Includes the minor portion of borrowing from Charities (Internal Borrowing) - approximately £70k. The debt is based on the capital value of mainly loans outstanding and does not include accrued interest or effective rate of interest adjustment (accounting adjustments to be made).
   No temporary borrowing is expected.
   The figure also reflects the liability for finance leases. Several leases have had their terms extended rather than be replaced due to the Coronavirus situation.
   Contract hire leases are also included in this figure to comply with IFRS requirements

2. In 2016/17 Barclays notified Hyndburn that they will class £5.4m LOBO debt as fixed rate debt. The interest rate has remained the same. The balance of debt outstanding remains as LOBO's which are classed as variable. It is not expected that these loans will be "called" and repaid during 2021/22. However the projection reflects that this may be a possibility (depending on movements within the market) and replaced with fixed rate debt.

3. Borrowings of £4.12m are via LOBO agreements. As they have a call period of 6 month intervals they are classed as borrowing under 12 months. £5.4m former Barclays LOBO's are classed as long term debt.

TABLE 2

CAPITAL FINANCE PRUDENTIAL INDICATORS

Prudential Indicators - Latest Estimate	Original Indicator Estimate 2021/22 £'000	Latest Estimate 2021/22 £'000	Note
Capital Financing Requirement (CFR)	8,866	9,446	1
Estimated Capital Expenditure	2,315	7,993	2
Ratio of Financing Costs to Net Revenue Stream	4%	4%	

1. The capital financing requirement (CFR) includes the finance lease position for the Council. CFR is a prescribed measure of the capital expenditure incurred historically by an authority which has to be financed.
   The increase in CFR reflects the transfer of contract hire leases to comply with IFRS16 requirements.

2. Approved capital programme, including slippage b/fwd and additional fully funded schemes.