

REPORT TO:		CABINET : COUNCIL	
DATE:		21 st June 2023	
PORTFOLIO:		Councillor Peter Britcliffe - Deputy Leader of the Council, Resources	
REPORT AUTHOR:		C Worthington – Principal Accountant / A Martin – Principal Accountant M Dyson – Executive Director - Resources	
TITLE OF REPORT:		Prudential Indicators Monitoring and Treasury Management Strategy Update – Draft Outturn 2022/2023	
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)

3.1 To keep Cabinet updated on the activities in the report.

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 prudential indicators for 2022/2023 at its meeting in February 2022.

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 full-year report to Cabinet compliments a more regular review by the Executive Director (Resources).

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 Executive Director of Resources 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 23rd February 2022 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 2022 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 2022/23	Original Estimate 2022/23 £000	Actual Outturn 2022/23 £000
External Debt		
Debt at 1 st April	9,595	9,595
Expected Change in Debt	-	-
Other Long Term Liabilities	612	504
Gross Debt at 31 st March	10,207	10,099
Capital Financing Requirement (CFR)	8,776	8,668
Under / (over) borrowing	(1,431)	(1,431)
TOTAL INVESTMENTS (other than short-term)	-	-

6.2 As can be seen from the above table we are performing within the original targets set at the start of the year. 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 2022/23 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 2022/23 has been funded by the use of Government Grants (including New Homes Bonus Grant and S31 Grants) and other external financing. It has 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. No borrowing capital borrowing has been required in year.

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.

	Qtr 1 2023	Qtr 2 2023	Qtr 3 2023	Qtr 4 2023	Qtr 1 2024	Qtr 2 2024	Qtr 3 2024	Qtr 4 2024	Qtr 1 2025	Qtr 2 2025	Qtr 3 2025
Base Rate	4.75%	5.00%	5.00%	4.75%	4.50%	4.00%	3.50%	3.25%	2.75%	2.50%	2.50%
5 yr PWLB	5.00%	5.00%	5.00%	4.80%	4.50%	4.10%	3.70%	3.50%	3.30%	3.20%	3.20%
10 yr PWLB	5.00%	5.00%	5.00%	4.80%	4.40%	4.10%	3.80%	3.60%	3.50%	3.40%	3.30%
25 yr PWLB	5.30%	5.30%	5.20%	5.10%	4.80%	4.50%	4.20%	4.00%	3.80%	3.70%	3.60%
50 yr PLWB	5.10%	5.10%	5.00%	4.90%	4.60%	4.30%	4.00%	3.80%	3.60%	3.50%	3.40%

Link interest rate forecasts as at 25/05/2023.

- 7.2 The latest forecast sets out a view that both short and long-dated interest rates will be elevated as the Bank of England seeks to squeeze inflation out of the economy. This has happened but the new Government's policy of emphasising fiscal rectitude probably means the Bank Rate does not now need to increase to further than 5.00%.
- 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 5.00% before this is likely to happen. The above table indicates that this is unlikely to happen in the next few years, although future rises will be closely monitored against any trigger points against the current fixed rate borrowing.
- 7.4 The Council has invested amounts of surplus cash on a short-term, temporary basis. The interest received from these investments is above the budgeted expectations for the full year to 31st March, mainly due to the Bank of England increasing the interest rates. Our strategy continues to focus on the security of deposits and the liquidity of funds. The additional interest generated as a result of rate increases and change in investment policy is £416k for the year

ending March 2023. This increase has been used to offset the additional inflation pressures in the current year and future year's financial forecasts.

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.

7.6 The council updated its policy on external investment by increasing the maximum limit for investment with the Governments Debt Management Agency Deposit Facility (DMADF) from £2m to unlimited. This has allowed greater flexibility for placing of funds with potential for higher returns with minimal risk. This update change in policy was updated in the Treasury Management Strategy that was approved at full Budget Council in February 2023.

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 MHCLG 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 24th February 2022 & 23rd February 2023.

- 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 2022 & February 2023)
- The Councils Policy on Treasury Management Practices (Full Council February 2022 & February 2023)

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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TABLE 1

TREASURY MANAGEMENT INDICATORS

	Original Indicator Estimate 2022/23 £'000	Actual 6 months £'000	Projected Outturn 2022/23 £'000	Note
Prudential Indicators – actual and projected				
External Debt - Gross Borrowing	10,207	10,088	10,088	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	0	0	0	
Limit on fixed interest rate for net borrowing	100%	57%	57%	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%	57%	

- 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
- 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.
- 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 2022/23 £'000	Actual 2022/23 £'000	Note
Capital Financing Requirement (CFR)	8,776	8,668	1
Estimated Capital Expenditure	38,594	6,564	2
Ratio of Financing Costs to Net Revenue Stream	4%	3%	

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 reduction in CFR reflects the extension of several vehicle leases (extension costs are chargeable to revenue) until an electric (or otherwise) alternative of this vehicle is leased.

2. Various schemes have underspent. Slippage has been requested for some of these schemes.