DATA LABEL: PUBLIC

WEST LOTHIAN COUNCIL

TREASURY MANAGEMENT – INTERIM REPORT AT 30 SEPTEMBER 2021

REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES

A. PURPOSE OF REPORT

To inform members of the activities and results of the treasury management function for the six months to 30 September 2021.

B. RECOMMENDATION

It is recommended that Council:

1. Notes the attached report on the activities of the treasury management function for the first six months of 2021/22 and on the exercise of delegated treasury management powers;
2. Agrees amendments to the prudential indicators, as set out in Appendix 4 of the report.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making the best use of our resources.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	This report complies with the council's Treasury Policy Statement, the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities, the CIPFA Treasury Management in Public Services Code of Practice and the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.
III	**Implications for Scheme of Delegations to Officers**	No changes are proposed to the current scheme of delegation for treasury management activities.
IV	**Impact on performance and performance Indicators**	None.
V	**Relevance to Single Outcome Agreement**	Treasury management provides capital resources necessary to help deliver the council's capital programme.
VI	**Resources - (Financial, Staffing and Property)**	This report is part of a framework for operating treasury management activities designed to minimise risk and the future borrowing costs of the council.

VII	**Consideration at PDSP**	Treasury monitoring reports are presented directly to the Council for consideration.
VIII	**Other consultations**	The council's treasury advisers have been consulted in relation to the forecasts and recommendations included within the treasury plan.

D. TERMS OF REPORT

The interim report for the six months to 30 September 2021 is attached.

Following changes to the forecast capital expenditure and capital resources agreed by Council Executive in June 2021, Council is asked to approve changes to the following prudential indicators:

- Capital Expenditure
- Capital Financing Requirement
- Ratio of Financing Costs to Net Revenue Stream
- Gross External Borrowing and the Capital Financing Requirement
- Authorised Limit for External Debt
- Operational Boundary for External Debt

The council’s updated prudential indicators are included in Appendix 4 of the report.

E. CONCLUSION

The actions taken in the first six months of 2021/22 complied with the annual treasury plan approved by Council on 25 February 2021 and the Treasury Management Policy Statement included in the Financial Regulations.

F. BACKGROUND REFERENCES

West Lothian Council Treasury Policy Statement and Treasury Management Practices
West Lothian Council's Annual Treasury Management Plan for 2021/22 (approved by Council on 25 February 2021)
CIPFA's Code of Practice for Treasury Management in Public Services
CIPFA Prudential Code for Capital Finance in Local Authorities
Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016

Contact Person: Gillian Simpson, Accountant
Email: gillian.simpson@westlothian.gov.uk

Donald Forrest
Head of Finance and Property Services
Date: 23 November 2021

DATA LABEL: PUBLIC

WEST LOTHIAN COUNCIL

TREASURY MANAGEMENT

Interim Report for the Six Months to 30 September 2021

INDEX

		Page
1.0	Introduction	3
2.0	Current Portfolio Position	3
3.0	Performance Measurement	4
4.0	The Strategy *5.1 Interest Rate Forecasts* *5.2 Capital Finance Plan*	4
5.0	The Economy and Interest Rates	5
6.0	Capital Finance Activities	6
7.0	Debt Rescheduling	6
8.0	Management of Cash Flows and Investments *8.1 Internally Managed Investments* *8.2 Investment Plan* *8.3 Investment Results* *8.4 Permitted Investments*	6
9.0	Monitoring of Prudential Indicators	7
10.0	Conclusion	7
Appendix 1	Borrowing in 2021/22	8
Appendix 2	Approved Organisations for Investment	9
Appendix 3	West Lothian Council Permitted Investments	10
Appendix 4	Monitoring of Prudential Indicators 2021/22	13

1.0 Introduction

In accordance with the Standing Orders, Financial Regulations and Local Government Investments (Scotland) Regulations 2010, an interim report on the operation of the treasury management function for the six months to 30 September must be presented to the Council for consideration. The requirement to report to the Council complies with the revised Treasury Management Code and Scottish Investment Regulations.

The 2021/22 Annual Treasury Plan, approved by Council on 25 February 2021, sets out the planned approach to treasury management for 2021/22. This report assesses the application and outcome of the plan for the first six months of the financial year.

2.0 Current Portfolio Position

The council's debt and investment position at the beginning and end of the period is as follows:

31 March 2021			30 September 2021	
Principal £m	**Rate %**	**DEBT**	**Principal £m**	**Rate %**
		Fixed Rate Funding:		
538.6		PWLB	538.6	
60.6		Market	60.6	
599.2	3.9%	Total Fixed Rate Funding	599.2	3.9%
-	-	Variable Rate Funding	-	-
-	-	Temporary Funding	-	-
599.2	3.9%	Total Debt	599.2	3.9%
	41.7 years	Average Life of Debt		42.4 years
£m	**Rate %**	**INVESTMENTS**	**£m**	**Rate %**
85.4	0.51%	Cash Deposits	90.9	0.14%

Debt during the period has remained the same at £599.2 million with £10 million of PWLB borrowing maturing in June 2021 and new £10 million of PWLB borrowing undertaken in July 2021. There was no temporary borrowing during this period.

Investments have increased by £5.5 million during the first six months of 2021/22. The average investment rate has decreased since the start of the financial year, from an average of 0.51% to 0.14%. This is due to the Bank of England base rate remaining at a record low level of 0.10% since March 2020. Normally when a fixed term deposit matures, it would be reinvested for a period up to one year to maximise the return on investment whilst ensuring security of funds. However, with rates being at historical low levels, rates for longer term investments have in some instances been lower than instant access products. The latest investment benchmarking data for September 2021 from the council's treasury advisors, Link Group, indicates that the council continues to perform well compared to other councils.

3.0 Performance Measurement

The CIPFA's Directors of Finance Best Value Working Group and the Treasury Forum Group recommend the reporting of the following performance indicators:

2020/21	Headline Performance Indicator	2021/22
	Average Cost of Servicing Loans Fund Advances in Year	
3.69%	• Loans Fund Interest Rate	Year End
0.06%	• Loans Fund Expenses Rate	Year End
3.74%		
	Local Performance Indicators	
11.78%	1. Percentage of Debt at period end which is Short Term or Variable	10.11%
11.78%	2. Percentage of Debt at period end repayable in each of the next two years	10.11%
N/A	3. Average Interest Rate of Borrowing raised in period	1.64%
N/A	4. Average Maturity of Borrowing raised in period	50.0 years

A comparison of the average interest rate of borrowing raised in the period is not possible between the first six months of 2021/22 and 2020/21 as there was no borrowing undertaken during 2020/21. The percentage of debt which is short term or repayable in each of the next two years is at a level which will not expose the council to any loan maturity risks.

4.0 The Strategy

4.1 Interest Rate Forecasts

The plan for 2021/22 was structured around the general forecasts for interest rates, with some flexibility of application dependent on prevailing economic conditions.

The Monetary Policy Committee (MPC) agreed on 11 March 2020 to decrease the bank rate to 0.25%, and then further reduced the rate from 0.25% to 0.10% in an emergency move to help control the economic shock of the coronavirus pandemic. When the annual plan was approved, the average City view suggested that bank rates would remain at 0.10% for the remainder of 2021 and 2022 due to the ongoing uncertainty associated with the Covid-19 pandemic. At the most recent meeting of the MPC on 2 November 2021, the committee voted by a majority to maintain the bank rate at 0.10%. The committee acknowledged however, it may be necessary to increase the bank rate over the coming months in order to return CPI inflation sustainably to the 2% target. As the cut in the bank rate to 0.10% was an emergency measure to deal with the Covid-19 pandemic, it should be noted that the MPC could decide to remove that final cut to the interest rate at any time on the grounds of it being no longer warranted, and as part of the return to normalisation. The council's forecast reflects these forecasts. The forecast for PWLB rates to March 2022 is now 1.50% for five years, 1.90% for ten years and 2.20% for twenty-five years. Both the short term and the longer term PWLB rates have increased since the forecast in the treasury plan reported to Council in February 2021.

4.2 Capital Finance Plan

The annual plan in February 2021 reported a new borrowing requirement of £38.9 million with replacement borrowing of £9.0 million. This gave a total borrowing requirement for 2021/22 of £47.9 million.

Forecasts demonstrated a range of options available to implement the borrowing strategy in 2021/22. Short, medium and long-term fixed rates were all forecast to remain constant during 2021 and increase incrementally over 2022, with short to medium term rates being cheaper than long term rates. It was planned to borrow a spread of short and medium-term loans from the PWLB at the most opportune times during the financial year. Consideration would be given to longer term borrowing if attractive rates were available. Forward dated Lender Option Borrower Option (LOBO) loans could also be considered for periods of to 15 years to lock in rates without having to incur borrowing costs if the money is not required straight away.

5.0 The Economy and Interest Rates

The first quarter of 2021/22 has seen UK economic growth of 4.8% following the gradual easing of Covid-19 restrictions to varying degrees over the different regions in the UK, with increases in services, production and construction output. GDP grew by a further 1.3% in the three months to September 2021, mainly reflecting the performance of the services sector, following the further easing of restrictions and reopening of the economy. GDP is now 2.1% below its pre-pandemic level and is expected to grow by an additional 1% in Quarter 4. GDP is projected to remain below its pre Covid-19 level until at least Quarter 1 2022. These forecasts reflect the effects of the current supply chain disruption and a modest recovery in consumer demand but it should be noted that forecasts are subject to increased uncertainty due to the current climate.

Inflation, as measured by the Consumer Price Index (CPI), fell slightly from 3.2% in August to 3.1% in September and is expected to rise to just under 4% in October, predominantly due to the impact on utility bills of wholesale gas prices. CPI inflation is projected to rise to 4.5% in November and remain at around that level through the winter as a result of further increases in core goods and food price inflation. The Bank of England is forecasting inflation to peak at around 5% in April when the next round of capped gas prices will go up. The initial surge in inflation in 2021 and 2022 is due to a combination of base effects, one-off energy price increases and a release of pent-up demand, particularly from consumers who have accumulated massive savings during the pandemic, hitting supply constraints. The upward pressure on CPI inflation is expected to dissipate over time, as supply disruption eases and energy prices stop rising and is expected to decrease materially from the second half of 2022 with it projected to be slightly above the 2% target in 2 years.

Gilt yields had been on a generally falling trend up until the coronavirus pandemic hit western economies in March 2020. Gilt yields spiked up during the initial phases of the crisis, and subsequently fell sharply to unprecedented lows as major central banks took rapid action through massive quantitative easing purchases of government bonds to relieve stress in financial markets. Since the start of 2021, there has been a lot of volatility in gilt yields and hence PWLB rates. During September, gilt yields from 5 to 50 years rose steadily and rose further following the meeting of the MPC on 23 September. Following the announcement of the Budget on 27 October, gilt yields fell sharply after the Debt Management Office announced the cancellation of nearly all gilt sales until the end of the financial year. The forecasts for gilt yields show a steady, but slow, rise in rates during the forecast period to March 2025. With unpredictable virus factors now being part of the forecasting environment, there is a risk that forecasts could be subject to significant revision during the next three years.

The following table provides details of interest rates at the start and end of the period. PWLB interest rates have increased during the first six months of 2021/22 for both short and longer-term borrowing, although rates for 50 years have marginally decreased, with ongoing uncertainty in the markets expected to continue over the rest of 2021/22 and beyond.

	At 1 April 2021	**At 30 September 2021**
Bank Rates	0.10%	0.10%
5 Year PWLB	1.39%	1.61%
10 Year PWLB	1.90%	2.01%
50 Year PWLB	2.19%	2.17%

The council, as set out in the annual treasury plan, continually monitors interest rates and consults with treasury advisors to determine the most opportune time to borrow throughout the year. The increase in PWLB rates and the effect this will have on borrowing decisions will continue to be assessed, with the council committed to considering all funding options that provide best value. This includes continuing to monitor PWLB rates to take advantage of any opportunities to borrow that may arise, borrowing from other sources (within the parameters set out in the treasury plan) and the use of internal borrowing.

There is likely to be an unwinding of the currently depressed levels of PWLB rates and a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US with exceptional volatility and unpredictability in respect of gilt yields expected.

6.0 Capital Finance Activities

The original forecast new borrowing requirement for 2021/22 of £38.9 million needs to be revised to £58.0 million. The revised borrowing position reflects the updated capital programmes for 2021/22 and the decision of the Council Executive on 25 June 2021 to reprofile borrowing for 2021/22. Any further updates to the approved programme or accelerated spending against the approved budgets will result in further adjustments to the borrowing requirement for the year. The revised position also incorporates 2020/21 under borrowing, which is the borrowing required to fund the 2020/21 capital programmes that was not secured with external debt. With replacement borrowing of £10.0 million, the total revised borrowing requirement for 2021/22 is £98.0 million.

The borrowing undertaken to date in 2021/22 is at an average rate of 1.64% for an average maturity of 50.0 years. The council's overall debt portfolio has an average rate of 3.9% for 42.4 years.

Full details of borrowing undertaken to date are shown in Appendix 1.

7.0 Debt Rescheduling

The annual plan stated that due to the introduction of different rates for new borrowing and early repayment of debt, the spread in rates significantly restricted opportunities for debt rescheduling. Based on this there were no opportunities available to reschedule long term fixed PWLB debt to short variable and temporary debt during the six months to 30 September 2021.

8.0 Management of Cash Flows and Investments

8.1 Internally Managed Investments

Cash flows are monitored daily to allow temporary investment of any surplus funds. The procedure allows for same day lending of cash surpluses to institutions approved in the Treasury Management Practices and leaves the bank current account balance at the optimum level of zero. The security of the council's funds is paramount. Investment in the period to 30 September 2021 was restricted to the major UK Clearing Banks, including the council's bankers Lloyds Banking Group, certain designated building societies, other local authorities, UK Government treasury bills, and AAA rated money market funds.

8.2 Investment Plan

As investment rates for short periods are low, the previous approach was that a proportion of investments relating to cash backed balances and reserves not required until future years could be invested for up to two years. The investment plan was to weight investments to longer periods, as much as possible within cash flow considerations, with a view to locking in higher rates of return than may be available from current short-term investment rates. The approach for 2020/21 changed due to the low interest rate environment, especially for longer term investments. Due to the low Bank of England base rate the difference in long-term and short-term rates is no longer significant, however limited longer-term investments have been undertaken based on maximising income where cash flow allows.

8.3 Investment Results

The annual plan highlighted that the council's policy of investing only in appropriately rated money market funds, the UK Government and UK banks and building societies was considered risk averse. It is considered, in light of a reduced number of UK financial institutions on the council's approved counterparty list, that any risk to our investments is minimal. Detailed below are the results of the investment strategy undertaken by the council during the period:

Average Investment	Rate of Return	Benchmark Return*
£85.9 million	0.14%	-0.08%

* The benchmark is seven day London Interbank Bid (LIBID) Rate

The majority of investments are now short term however before the pandemic investments were fixed for up to twelve months where interest rates were significantly higher. This has resulted in a return of 0.22% above the benchmark. During the six months to 30 September 2021, the amount lent to approved organisations, including instant access and short-term investments, ranged from a low of £53.7 million to a high of £108.6 million.

Investments at 30 September 2021 were £90.9 million which have been invested throughout the period at an average daily rate of return of 0.14%. This represents a robust return on investments as rates have remained low during the first six months of 2021/22.

Authorised institutions and investments at 30 September 2021 are found in Appendix 2.

8.4 Permitted Investments

The Local Government Investments (Scotland) Regulations 2010 require local authorities to specify what investments will be used. Any investment not listed as a permitted investment will not be in accordance with the Regulations and will, as a result, be ultra vires.

No changes to the approved investments are proposed at this time. Appendix 3 details the updated permitted investments and maximum amounts that can be invested in them. It also includes reference to associated treasury risks and mitigating controls. Permitted investments include current investments in long term investments, share capital in companies and loans to third parties. Following a review under the International Financial Reporting Standards (IFRS), the council does not have any investment properties.

9.0 Monitoring of Prudential Indicators

The CIPFA Prudential Code ensures the capital plans of local authorities are affordable, prudent and sustainable. To demonstrate compliance with these objectives, the Code establishes nine indicators designed to support and record local authority decision making. The 2021/22 indicators were originally approved by the Council on 25 February 2021 and it was agreed that these indicators would be monitored and revised, if required, throughout the year by the Council. The 2021/22 prudential indicators are included in Appendix 4 along with proposed amendments to the capital expenditure, financing requirement, authorised and operational limits for borrowing and financing costs to net revenue stream indicators. The changes to the prudential indicators are a result of revised capital investment and resources programmes for 2021/22, as approved by the Council Executive on 22 June 2021.

10.0 Conclusion

This report details the treasury activities undertaken in the six months to 30 September 2021. Actions taken have complied with the annual treasury plan for 2021/22, approved by the Council on 25 February 2021, and the Treasury Management Policy Statement. Activities completed during the period also ensured that best value was secured in the delivery of the treasury function of the council.

Donald Forrest
Head of Finance and Property Services
Date: 23 November 2021

Appendix 1

WEST LOTHIAN COUNCIL

Borrowing in 2021/22

Date	Amount Advanced £m	Details	Repayment Period (Years)
PWLB			
22 July 2021	10.00	1.64%	50 years
Temporary Borrowing – Local Authorities			
None			
Total Borrowing	**10.0**		

Long- and Short-Term Debt Undertaken to Date in 2021/22

Average Rate – 1.64%

Average Life – 50 years

Appendix 2

APPROVED ORGANISATIONS FOR INVESTMENT

	2021/22 Investment Limit £	Investment at 30 September 2021 £
Council Bankers		
Lloyds Banking Group (inc Bank of Scotland)	**70,000,000**	46,565,000
WLC Rating Category 1*	**22,000,000**	
No institutions in this category		
WLC Rating Category 2*	**19,500,000**	
No institutions in this category		
WLC Rating Category 3*	**17,000,000**	
HSBC Bank plc		0
WLC Rating Category 4*	**14,500,000**	
No institutions in this category		
WLC Rating Category 5*	**10,000,000**	
No institutions in this category		
WLC Rating Category 6*	**7,000,000**	
Goldman Sachs		7,000,000
Santander UK plc		7,000,000
Local Authorities, Public Bodies & DMO**	**18,171,282**	
Maximum of 20% of total investments		
All UK Local Authorities		0
UK Public Bodies		0
Debt Management Office – Deposit Account		0
Treasury Bills		0
UK Nationalised Banks	**35,000,000**	
National Westminster Bank plc		0
Money Market Fund – AAA rated***	**31,799,744**	
Maximum of 35% of total investments		
Deutsche Money Market Fund		15,000,000
Federated Hermes Money Market Fund		15,000,000
Other Permitted Investments		
West Calder High School DBFMCo Ltd	**350,000**	291,412
	TOTAL	**90,856,412**

* As rated by the lowest credit rating of the three credit rating agencies Fitch, Moody's and Standard & Poors

** This limit fluctuates according to total investments. Based on current investments of £90.856 million, the limit would be £18.171 million.

*** This limit fluctuates according to total investments. Based on current investments of £90.856 million, the limit would be £31.799 million.

Appendix 3

WEST LOTHIAN COUNCIL PERMITTED INVESTMENTS

Permitted Investment Instrument	Minimum credit rating	Maximum Percentage of Total Investments	Treasury Risks	Mitigating Controls
Cash Investments up to one year				
Term Deposits and Bonds – UK Banks and Building Societies	Equivalent to Fitch's rating of FI short term A long term	Up to 100%	There is minimal risk to the value of principal invested. Consideration needs to be given to credit ratings to ensure appropriate counterparties are used. Liquidity risk that funds are not available when required.	Adoption of lowest rating from all relevant rating agencies to determine creditworthy counterparties. Cash flow forecasting undertaken to identify when funds will be required. Also use overnight account for daily access to funds.
Term Deposits – Local Authorities and Public Bodies	Local Authorities & Public Bodies are not awarded credit ratings	20%	Counterparty risk is very low as this is considered UK Government debt and there is no risk to value.	No controls required as investment is with the UK Government and has minimal risk.
Money Market Funds	AAA	35%	Pooled cash investment vehicle with very low counterparty, liquidity and market risk.	The council will only use funds with a constant net asset value or low volatility net asset value to ensure minimal risk to market value. Funds required to be AAA rated to limit counterparty risk and instant access to ensure liquidity.
Debt Management Agency – Deposit Facility	UK Government	20%	Minimal counterparty or liquidity risk as deposit is with the UK Government.	No controls required as investment is with the UK Government and has minimal risk.
Treasury Bills	UK Government	20%	Minimal counterparty or liquidity risk as deposit is with the UK Government. Potential market risk due to longer term movements in interest rates.	No general controls required as investment is with the UK Government. All investments are short term and held to maturity therefore minimal risk to value from resale on secondary market.

Appendix 3

WEST LOTHIAN COUNCIL PERMITTED INVESTMENTS

Permitted Investment Instrument	Minimum credit rating	Maximum Percentage of Total Investments	Treasury Risks	Mitigating Controls
Cash Investments up to one year				
Certificates of Deposit	Equivalent to Fitch's rating of FI short term A long term	20%	There is minimal risk to the value of principal invested. Consideration needs to be given to credit ratings to ensure appropriate counterparties are used. Liquidity risk that funds are not available when required.	Adoption of lowest rating from all relevant rating agencies to determine creditworthy counterparties. Cash flow forecasting undertaken to identify when funds will be required. Deposit will be held to maturity to ensure that the full amount invested is returned to the council. Investments will only be for periods of three to twelve months.
Cash Investments between one year and up to two years				
Term Deposits and Bonds – UK Banks and Building Societies	Nationalised or part nationalised UK Banks	£35 million	There is minimal risk to the value of principal invested. Consideration needs to be given to credit ratings to ensure appropriate counterparties are used. Liquidity risk that funds are not available when required.	Adoption of lowest rating from all relevant rating agencies to determine creditworthy counterparties. Cash flow forecasting undertaken to identify when funds will be required.
Non Treasury Investments				
Long Term Investment - £25,000 £1 shares in Lothian Buses plc	This is the share of Lothian Buses plc allocated to the council on the disaggregation of Lothian Regional Council in 1996	£25,000 £1 shares	This is a service investment which may exhibit market risk.	Shares will not be sold therefore market changes will have no impact. Ownership is supported by service requirements and must be approved by elected members.

Appendix 3

WEST LOTHIAN COUNCIL PERMITTED INVESTMENTS

Permitted Investment Instrument	Minimum credit rating	Maximum Percentage of Total Investments	Treasury Risks	Mitigating Controls
Non Treasury Investments				
Loans to Third Parties – Small Business Loans	Small amounts not subject to credit ratings	At 30 September 2021, there were no outstanding loans	Counterparty and market risk where the funds invested are not returned.	Close administration and ongoing monitoring of receipts. Award criteria established by service.
Loans to Third Parties – Empty Homes Loan Fund	Small amounts not subject to credit ratings	£150,000 or total funding made available from Scottish Government	Counterparty and market risk where the funds invested are not returned but council has to repay funding to Scottish Government.	A robust procedure is in place for the monitoring and collection of empty homes loans.
West Calder High School DBFMCo Ltd Equity and Subordinated Debt	DBFM company established to provide new West Calder High School by HUB South East Ltd (HUBco) through Schools for the Future Programme	Equity Subscription - £100 Subordinated debt – maximum of 1% of the total eligible cost of construction (£350,000)	This is a service investment which may exhibit market risk. If the DBFM company does not perform and fails to deliver on agreed service objective, the subordinated debt element is at risk.	Shares will not be sold therefore market changes will have no impact. Investment is directly linked to delivery of the new West Calder High School. Ownership is supported by service requirements and must be approved by elected members.

Appendix 4

MONITORING OF PRUDENTIAL INDICATORS – 2021/22

CAPITAL EXPENDITURE INDICATORS (Items 1 and 2)

1. CAPITAL EXPENDITURE

Purpose of the Indicator
The purpose of this indicator is to inform Council of projected capital spending in 2021/22.

	Council 25 February 2021 2021/22 Estimate £'000	Revised 2021/22 Estimate £'000
General Services	86,125	79,475
Housing	43,828	49,027
Total	**129,953**	**128,502**

Performance
The original estimate for this indicator was approved in February 2021 before the revised 2021/22 capital programmes for both General Services and Housing were approved in June 2021. The indicator therefore needs to be updated to bring it in line with estimated spend on the overall capital programme for 2021/22. The overall estimate of capital spend has decreased due to changes to phasing of works.

2. CAPITAL FINANCING REQUIREMENT

Purpose of the Indicator
The capital financing requirement measures the council's underlying need to borrow for a capital purpose. This is, at a high level, the council's total outstanding debt required to finance planned capital expenditure.

	Council 25 February 2021 2021/22 Estimate £'000	Revised 2021/22 Estimate £'000
General Services	485,808	490,882
Housing	275,574	276,659
Total	**761,382**	**767,541**

Performance
The capital financing requirement was approved by Council on 25 February 2021 and covers the council's total borrowing requirement. The estimate has been revised to incorporate updated capital expenditure and resources programmes approved by Council Executive on 22 June 2021.

AFFORDABILITY INDICATORS (Item 3)

3. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

Purpose of the Indicator

This indicator provides a measure of the proportion of the budget that is being allocated to financing of capital expenditure. For the General Fund, this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers. For Housing, the indicator is the ratio of financing costs to gross house rental income.

	Council 25 February 2021 2021/22 Estimate £'000	Revised 2021/22 Estimate £'000
General Fund	4.2%	4.4%
Housing	19.2%	21.7%

Performance

The estimate for 2021/22 has been revised to incorporate the changes in the capital investment and resources programme for the financial year as outlined in the indicators above. The actual percentages for 2021/22 will not be available until after the end of the financial year.

FINANCIAL PRUDENCE INDICATOR (Item 4)

4. GROSS EXTERNAL BORROWING AND THE CAPITAL FINANCING REQUIREMENT

Purpose of the Indicator

This indicator records the extent that gross external borrowing is less than the capital financing requirement (indicator 2 above). This is a key indicator of prudence and is designed to ensure that, over the medium term, external borrowing is only for a capital purpose. The values are measured at the end of the financial year.

	Council 25 February 2021 2021/22 Estimate £'000	Revised 2021/22 Estimate £'000
Net External Borrowing	761,382	767,541
Capital Financing Requirement	761,382	767,541
Under limit by	**-**	**-**

Performance

These figures are measured at the end of the financial year when a comparison will be provided for this indicator. During the course of the financial year, the net external borrowing should be forecast to equal the capital financing requirement as the council only borrows for capital purposes.

TREASURY AND EXTERNAL DEBT INDICATORS (Items 5 to 8)

5. AUTHORISED LIMIT FOR EXTERNAL DEBT

Purpose of the Indicator
The authorised limit for external debt is required to identify external borrowing and other long-term liabilities such as covenant repayments, finance lease and PPP obligations. This limit provides a maximum figure to which the council could borrow at any given point during each financial year.

Authorised Limit for:	Council 18 February 2021 2021/22 Estimate £'000	Revised 2021/22 Estimate £'000
Gross External Borrowing	783,155	743,888
Other Long-Term Liabilities	81,296	81,296
External Debt	**864,451**	**825,184**

Performance
Following the revision of capital expenditure and resources assumptions, and the corresponding amendments to the prudential indicators above, there is a requirement to recalculate the authorised limit for external debt. Currently the council's external debt is substantially below this indicator. This gap may reduce if further borrowing is undertaken during the latter half of the year, however it is not expected that total external debt will exceed the revised authorised limit.

6. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

Purpose of the Indicator
This is a key management tool for in year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point during the financial year.

Operational Boundary for:	Council 25 February 2021 2021/22 Estimate £'000	Revised 2021/22 Estimate £'000
Gross External Borrowing	773,155	733,888
Other Long-Term Liabilities	80,296	80,296
External Debt	**853,451**	**814,184**

Performance
Following the revision of capital expenditure and resources assumptions, and the corresponding amendments to the prudential indicators above, there is a requirement to recalculate the operational boundary for external debt. Currently the council's external debt is substantially below this indicator. This gap may reduce if further borrowing is undertaken during the latter half of the year, however it is not expected that total external debt will exceed the revised authorised limit.

7. ACTUAL EXTERNAL DEBT

Purpose of the Indicator
This is a factual indicator showing actual external debt for previous financial years.

	31 March 2019 £'000	31 March 2020 £'000	31 March 2021 £'000
Actual External Borrowing	620,854	620,570	605,386
Actual Other Long-Term Liabilities	89,568	86,138	82,684
Actual External Debt	**710,422**	**706,708**	**688,070**

Performance
The external debt reported in the annual accounts for previous years is included for comparison purposes only.

8. TREASURY MANAGEMENT INDICATOR

This indicator intends to demonstrate good professional practice is being followed.

8.1 Adoption of the CIPFA Treasury Management Code

The CIPFA Treasury Code was adopted on 25 March 1997 as an indication of good practice. In line with the fully revised Treasury Code, the council's Annual Treasury Plan is reported to full Council for approval.

8.2 Upper limits for fixed and variable rate borrowing

The limit for fixed rate borrowing is 100% and the limit for variable rate borrowing is 35%. These limits mean that fixed rate exposures will be managed within the range of 65 to 100% and the maximum exposure to variable rate borrowing will be 35% of total debt. This is a continuation of current practice.

8.3 Maturity structure of fixed rate borrowing for 2021/22

	Approved Upper Limit	**Approved Lower Limit**
Under 12 months	35%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and over	100%	25%

Excluding LOBO loans shown as maturing in the next 12 months for accounting purposes only, the current maturity levels of debt are within these upper and lower limits.

8.4 Total principal sums invested for periods longer than 364 days

Following changes from the Investment Regulations applicable from 1 April 2010, the council can make investments for periods longer than 364 days. The approved limit for total principal sums invested for periods of over one year is £35 million.

The treasury management indicator confirms sound professional practice is being followed by the council in undertaking treasury management. The approved values and parameters provide sufficient flexibility in undertaking operational treasury management.

CONCLUSION

In monitoring the above prudential indicators, the council is fulfilling its duty under the Prudential Code. The monitoring indicates that spending plans remain affordable, prudent and sustainable, and that treasury management is operating in line with the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.