DATA LABEL: PUBLIC

WEST LOTHIAN COUNCIL

TREASURY MANAGEMENT – INTERIM REPORT AT 30 SEPTEMBER 2022

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 2022.

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 2022/23 and on the exercise of delegated treasury management powers;
2. Approves the increase to the investment limits for each category of investment and changes to WLC rating categorisation, as set out in Appendix 2;
3. 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 2022 is attached.

As the range of counterparties is limited, it is proposed to increase the investment limits for each category by £3 million. Alongside this, a realignment of WLC rating categorisation had been undertaken. The council's treasury advisors, Link Group, were consulted on both proposals. Longer term investments would still be in UK banks rated upper medium grade or higher. Although the council has traditionally invested for a year to maximise returns, duration would match the recommended timescales from Link to ensure no unnecessary exposure to risk of the council's funds. This will increase investment options available to the council through the use of appropriately rated institutions without substantially increasing current risk levels. The revised limits are reflected in Appendix 2.

Following changes to forecast capital expenditure and capital resources agreed by Council Executive in June 2022, 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 2022/23 complied with the annual treasury plan approved by Council on 15 February 2022 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 2022/23 (approved by Council on 15 February 2022)
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

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Donald Forrest
Head of Finance and Property Services
Date: 22 November 2022

WEST LOTHIAN COUNCIL

TREASURY MANAGEMENT

Interim Report for the Six Months to 30 September 2022

INDEX

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 2022/23 Annual Treasury Plan, approved by Council on 15 February 2022, sets out the planned approach to treasury management for 2022/23. 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 2022			30 September 2022	
Principal £m	**Rate %**	**DEBT**	**Principal £m**	**Rate %**
		Fixed Rate Funding:		
568.6		PWLB	578.6	
60.6		Market	60.6	
629.2	3.8%	Total Fixed Rate Funding	639.2	3.7%
-	-	Variable Rate Funding	-	-
-	-	Temporary Funding	-	-
629.2	3.8%	Total Debt	639.2	3.7%
	42.8 years	Average Life of Debt		42.8 years
£m	**Rate %**	**INVESTMENTS**	**£m**	**Rate %**
90.0	0.19%	Cash Deposits	115.4	1.2%

Debt during the period has increased to £639.2 million with new £10 million of PWLB borrowing undertaken in August 2022. There was no temporary borrowing during this period.

Investments have increased by £25.4 million during the first six months of 2022/23. The average investment rate has increased since the start of the financial year, from an average of 0.19% to 1.2%. This is due to the Bank of England base rate increases in April, June and September 2022. 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, due to uncertainty relating to economic conditions, more liquidity was required therefore most investments were placed in short term periods of up to six months. The latest investment benchmarking data for June 2022 from the council's treasury advisors, Link Group, indicates that the council continues to perform well compared to other councils being second in the benchmarking group.

3.0 Performance Measurement

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

2021/22	Headline Performance Indicator	2022/23
	Average Cost of Servicing Loans Fund Advances in Year	
3.64%	• Loans Fund Interest Rate	Year End
0.06%	• Loans Fund Expenses Rate	Year End
3.70%		
	Local Performance Indicators	
9.63%	1. Percentage of Debt at period end which is Short Term or Variable	9.48%
9.63%	2. Percentage of Debt at period end repayable in each of the next two years	9.48%
1.43%	3. Average Interest Rate of Borrowing raised in period	2.79%
49.8 years	4. Average Maturity of Borrowing raised in period	48.0 years

The average rate of borrowing undertaken in the first six months of 2022/23 is higher than the rate in 2021/22 due to increases in interest rate levels available from the PWLB to September 2022. 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 2022/23 was structured around the general forecasts for interest rates, with some flexibility of application dependent on prevailing economic conditions.

When the annual plan was approved, the average City view suggested that bank rates would reach 0.75% by quarter one of 2023 and to remain constant at 0.75% for the rest of 2023. Medium term interest rates were expected to be lower than longer term rates with gradual increases in rates forecast throughout the year. The long term trend was for gilt yields, and therefore PWLB rates, to increase gradually due to the high issuance of bonds in major western countries and as investors move from bonds to equities. Five-year PWLB rates were forecast to rise from 1.5% in quarter 1 (Q1) 2022 to 1.7% in Q1 2023, with 25-year PWLB rates forecast to increase from 1.9% in Q1 2022 to 2.2% in Q1 2023.

The Monetary Policy Committee (MPC) agreed on 17 March 2022 to increase the bank rate to 0.75%. In the first six months of 2022/23 there have been four further increases to the bank rate, to 1% from 5 May 2022, then 1.25% from 16 June 2022, 1.75% from 4 August 2022, and the most recent increase to 2.25% from 22 September 2022. Interest rates are now at the highest since December 2008. The committee acknowledged that it may be necessary to increase the bank rate further over the coming months in order to return CPI inflation sustainably to the 2% target in the medium term.

At the end of September, the council's advisors Link expected the MPC to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, inflation expectations and the tight labour meant they expected the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%).

As bank rates have risen over the period, both short term and longer term PWLB rates have also increased since the forecast in the treasury plan reported to Council in February 2022. Five-year PWLB rates have risen to 5.3% at the end of September, with 25-year PWLB rates at 4.85%.

4.2 Capital Finance Plan

The annual plan in February 2022 reported a new borrowing requirement of £15.6 million with no replacement borrowing needed. This gave a total borrowing requirement for 2022/23 of £15.6 million.

Forecasts demonstrated a range of options available to implement the borrowing strategy in 2022/23. Short, medium and long-term fixed rates were all forecast to increase incrementally over 2022 and 2023, with the short to medium term rates forecast to be 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 2022/23 saw UK economic growth of 0.2%. GDP grew by a further 0.1% in July but is estimated to have fallen by 0.3% in August. There has been a continued slowing in the underlying three-month on three-month growth, where GDP also fell by 0.3% in the three months to August compared with the three months to May 2022. Monthly GDP is now estimated to be at the same level as its pre-coronavirus levels (February 2020). There are signs of higher energy prices creating more persistent downward effects in economic activity and consumer confidence is at a record low.

Inflation, as measured by the Consumer Price Index (CPI), rose by 10.1% in the 12 months to September 2022, up from 9.9% in August and returning to July's recent high. CPI inflation is expected to peak close to 10.4% in November with the underlying inflationary pressures strong until early next year.

Gilt yields rose sharply at the end of September as investors demanded a higher premium and expected faster and higher interest rate rises to offset the government's financial stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the fiscal event, which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. The increases and volatility in gilt yields during the period is also reflected in PWLB rates.

The mini-budget delivered by the Chancellor on the 23 September 2022, the market reaction to it and the subsequent political and economic fall-out has created significant additional economic uncertainty. The Office for Budget Responsibility is now scheduled to publish the Autumn 2022 forecast, giving the latest outlook for the economy and public finances, on 17 November. This will accompany the Chancellor's Autumn Statement on the same day. An update report on the Autumn Statement will be presented to Council Executive on 6 December 2022.

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 2022/23 for both short and longer-term borrowing, with ongoing uncertainty in the markets expected to continue over the rest of 2022/23 and beyond.

	At 1 April 2022	**At 30 September 2022**
Bank Rates	0.75%	2.25%
5 Year PWLB	2.45%	5.30%
10 Year PWLB	2.63%	5.07%
50 Year PWLB	2.58%	4.36%

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.

6.0 Capital Finance Activities

The original forecast new borrowing requirement for 2022/23 of £15.6 million needs to be revised to £36.5 million. The revised borrowing position reflects the updated capital programmes for 2022/23 reported to Council Executive on 21 June 2022. 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 2021/22 under borrowing, which is the borrowing required to fund the 2021/22 capital programmes that was not secured with external debt. The total revised borrowing requirement for 2022/23 is £80.0 million.

The borrowing undertaken to date in 2022/23 is at an average rate of 2.79% for an average maturity of 48.0 years. The council's overall debt portfolio has an average rate of 3.8% for 42.8 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 2022.

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 2022 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

Previously, 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. As investment rates for short periods and long periods were low in 2020/21 and most of 2021/22 any maturing investments were moved to short term investments for liquidity purposes to be reactive to any unforeseen circumstances. Interest rates are now increasing but as there remains a great deal of uncertainty around them the current approach continues to be a preference for short term investments. That approach will be kept under review and longer-term investments may be 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*
£117.6 million	1.20%	1.19%

* The benchmark is seven Day Compounded SONIA (Average for month) after previous benchmark of seven day London Interbank Bid (LIBID) Rate ceased in December 2021

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 0.01% above the benchmark. During the six months to 30 September 2022, the amount lent to approved organisations, including instant access and short-term investments, ranged from a low of £96.6 million to a high of £141.3 million.

Investments at 30 September 2021 were £117.6 million which have been invested throughout the period at an average daily rate of return of 1.20%. This represents a robust return on investments as rates have now started to rise during the first six months of 2022/23.

Authorised institutions and investments at 30 September 2022 are found in Appendix 2. As the range of counterparties is limited, it is proposed to increase the investment limits for each category by £3 million. Alongside this a realignment of WLC rating categorisation had been undertaken. The council's treasury advisors, Link Group, were consulted on both proposals. Longer term investments would still be in UK banks rated upper medium grade or higher. Although we have traditionally invested for a year to maximise returns, duration would match the recommended timescales from Link to ensure no unnecessary exposure to risk of the council's funds. This will increase investment options available to the council through the use of appropriately rated institutions without substantially increasing current risk levels. The revised limits and alignment of approved organisations to each WLC rating category are reflected 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 2022/23 indicators were originally approved by the Council on 15 February 2022 and it was agreed that these indicators would be monitored and revised, if required, throughout the year by the Council. The 2022/23 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 2022/23, as approved by the Council Executive on 21 June 2022.

10.0 Conclusion

This report details the treasury activities undertaken in the six months to 30 September 2022. Actions taken have complied with the annual treasury plan for 2022/23, approved by the Council on 15 February 2022, 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: 22 November 2022

Appendix 1

WEST LOTHIAN COUNCIL

Borrowing in 2022/23

Date	Amount Advanced £m	Details	Repayment Period (Years)
PWLB			
9 August 2022	10.00	2.79%	48 years
Temporary Borrowing – Local Authorities			
None			
Total Borrowing	**10.00**		

Long- and Short-Term Debt Undertaken to Date in 2022/23

Average Rate – 2.79%

Average Life – 48 years

Appendix 2

APPROVED ORGANISATIONS FOR INVESTMENT

	Current Investment Limit £	Proposed Investment Limit £	Investment at 30 September 2022 £
Council Bankers			
Lloyds Banking Group (inc Bank of Scotland)	**70,000,000**	**70,000,000**	58,640,000
WLC Rating Category 1*	**22,000,000**	**25,000,000**	
No institutions in this category			
WLC Rating Category 2*	**19,500,000**	**22,500,000**	
No institutions in this category			
WLC Rating Category 3*	**17,000,000**	**20,000,000**	
Handelsbanken Plc			
WLC Rating Category 4*	**14,500,000**	**17,500,000**	
Al Rayan Bank PLC			14,500,000
Goldman Sachs			7,000,000
HSBC UK Bank Plc			
Standard Chartered			7,000,000
WLC Rating Category 5*	**10,000,000**	**13,000,000**	
Barclays			
National Bank of Kuwait (International) PLC			7,000,000
Nationwide Building Society			7,000,000
Santander UK plc			7,000,000
Sumitomo Mitsui Banking Corporation			7,000,000
WLC Rating Category 6*	**7,000,000**	**10,000,000**	
Close Brothers Ltd			
Clydesdale Bank PLC			
Coventry Building Society			
Leeds Building Society			
Skipton Building Society			
Yorkshire Building Society			
Local Authorities, Public Bodies & DMO**	**23,085,467**	**23,085,467**	
Maximum of 20% of total investments			
All UK Local Authorities			
UK Public Bodies			
Debt Management Office – Deposit Account			
Treasury Bills			
UK Part Nationalised Banks	**35,000,000**	**35,000,000**	
National Westminster Bank plc			
Royal Bank of Scotland			
Money Market Fund – AAA rated***	**40,399,568**	**40,399,568**	
Maximum of 35% of total investments			
Aberdeen Liquidity Money Market Fund			

Other Permitted Investments			
West Calder High School DBFMCo Ltd	**350,000**	**350,000**	287,337
	TOTAL	**TOTAL**	**115,427,337**

* As rated by the adoption of lowest rating from all relevant rating agencies to determine creditworthy counterparties.

** This limit fluctuates according to total investments. Based on current investments of £115.427 million, the limit would be £23.085 million.

*** This limit fluctuates according to total investments. Based on current investments of £115.427 million, the limit would be £40.399 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 2022, 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	£60,000 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 – 2022/23

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 2022/23.

	Council 15 February 2022 2022/23 Estimate £'000	Revised 2022/23 Estimate £'000
General Services	83,693	72,860
Housing	40,947	46,055
Total	**124,640**	**118,915**

Performance
The original estimate for this indicator was approved in February 2022 before the revised 2022/23 capital programmes for both General Services and Housing were approved in June 2022. The indicator therefore needs to be updated to bring it in line with estimated spend on the overall capital programme for 2022/23. 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 15 February 2022 2022/23 Estimate £'000	Revised 2022/23 Estimate £'000
General Services	490,941	490,791
Housing	296,888	296,430
Total	**787,829**	**787,221**

Performance
The capital financing requirement was approved by Council on 15 February 2022 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 21 June 2022.

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 allocated to financing 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 15 February 2022 2022/23 Estimate £'000	Revised 2022/23 Estimate £'000
General Fund	5.7%	5.6%
Housing	24.2%	22.0%

Performance
The estimate for 2022/23 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 2022/23 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 15 February 2022 2022/23 Estimate £'000	Revised 2022/23 Estimate £'000
Gross External Borrowing	787,829	787,221
Capital Financing Requirement	787,829	787,221
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 15 February 2022 2022/23 Estimate £'000	Revised 2022/23 Estimate £'000
Gross External Borrowing	829,250	764,367
Other Long-Term Liabilities	78,657	78,686
External Debt	**907,907**	**843,053**

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 15 February 2022 2022/23 Estimate £'000	Revised 2022/23 Estimate £'000
Gross External Borrowing	819,250	754,367
Other Long-Term Liabilities	77,657	77,686
External Debt	**896,907**	**832,053**

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 2020 £'000	31 March 2021 £'000	31 March 2022 £'000
Actual External Borrowing	620,570	605,386	635,452
Actual Other Long-Term Liabilities	86,138	82,624	80,238
Actual External Debt	**706,708**	**688,010**	**715,699**

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 2022/23

	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.