

## **Report to Cabinet**

**Subject:** Prudential Code Indicator Monitoring 2021/22 and Quarterly Treasury Activity Report for Quarter ended 30 June 2021

**Date:** 5 August 2021

**Author:** Head of Finance and ICT

### **Wards Affected**

All

### **Purpose**

To inform Members of the performance monitoring of the 2021/22 Prudential Code Indicators, and to advise Members of the quarterly Treasury activity as required by the Treasury Management Strategy.

### **Key Decision**

This is **not** a key decision.

#### **Recommendation**

That:

1. Members note the report, together with the Treasury Activity Report 2021/22 for Quarter 1 at Appendix 1, and the Prudential and Treasury Indicator Monitoring 2021/22 for Quarter 1, at Appendix 2.

## **1 Background**

- 1.1 The Council is required by regulations issued under the Local Government Act 2003 to report on its Prudential Code indicators and treasury activity. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 For 2021/22 the minimum reporting requirements are that the Full Council should receive the following reports:

- An annual Treasury Strategy in advance of the year (the TMSS, considered by Cabinet on 11 February 2021 and subsequently approved by Full Council on 4 March 2021);
- A mid-year treasury update report;
- An annual review following the end of the year describing the activity compared to the Strategy.

In accordance with best practice, quarterly monitoring reports for treasury activity are provided to Members, and this exceeds the minimum requirements.

1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the position at 30 June 2021 and highlights compliance with the Council's policies.

## **2 Proposal**

### **2.1 Economic update - UK**

#### **General:**

The Monetary Policy Committee (MPC) meeting on 24 June voted unanimously to keep Bank Rate unchanged at 0.10%, and by a majority of 8-1 to continue unchanged the existing programme of quantitative easing (QE) - which is due to finish by the end of this year. In the press release, it was noted that:

*“Since May, developments in global GDP growth have been somewhat stronger than anticipated, particularly in advanced economies. Global price pressures have picked up further, reflecting strong demand for goods, rising commodity prices, supply-side constraints and transportation bottlenecks, and these have started to become apparent in consumer price inflation in some advanced economies. Financial market measures of inflation expectations suggest that the near-term strength in inflation is expected to be transitory”.*

The MPC noted the developing upside risks in the UK to both activity and inflation, saying said that the news on activity “had predominately been to the upside” and that Bank staff had “revised up their expectations for 2021 Q2 GDP growth to 5.5% from 4.25%”. For the first time, the policy statement noted that “there are increasing signs of recruitment difficulties for some businesses” and that it “was possible that the near-term upward pressure on prices could prove somewhat larger than expected”. By saying that inflation “is likely to exceed 3% for a temporary period” the MPC effectively admitted that the Governor of the BOE will have to write to the Chancellor later this year explaining why inflation is more than 1% above the 2% target.

The MPC appears willing to accept the inevitable spike in inflation over the next six months as it thinks it will be short-lived and caused by one-off reopening price rises

and supply shortages relative to demand - boosted by consumers having built up huge savings of around £145bn during lockdown. These spikes will drop out of the CPI calculation over the next twelve months. The forward guidance in the policy statement, designed to demonstrate the MPC's patience, was left intact, and the emphasis remained on "the medium-term prospects for inflation" rather than factors that are "likely to be transient". The minutes said the MPC should "ensure that the recovery was not undermined by a premature tightening in monetary conditions". It also repeated that it will not raise Bank Rate until the 2% inflation target has been attained sustainably ie. the mere fact that it is forecasting inflation to be over 2% during 2021 and 2022 is not in itself sufficient to justify an increase in Bank Rate in the near future. The MPC indicated in the minutes that some members would prefer to wait for a clearer picture of the underlying pace of the recovery once the furlough scheme expires at the end of September, before making any judgement on medium-term inflationary pressures. This implies that the MPC may be unlikely to be in a position to consider a change in policy until early in 2022 at the earliest.

The BOE is also undertaking a review of its current policy to raise Bank Rate first before unwinding QE purchases of gilts. It now appears likely that the Bank could unwind QE first before raising Bank Rate, as it sees QE as a useful quick-acting weapon to combat any sudden dysfunction in financial markets, as happened in March 2020. Money markets are currently expecting Bank Rate to start rising in mid-2022, but the Council's treasury advisers, Link Asset Services (LAS), overall view is that there might only be a minimal increase in 2023, or even possibly no increase before 2024.

UK GDP grew by 1.5% in the three months to April 2021, the first expansion since the three months to December 2020. Forward looking monthly business surveys are running at exceptionally high levels indicating that the UK is heading into a strong economic recovery. Capital Economics do not think that the UK economy will suffer major scarring from the lockdowns, and the one month delay to the final easing of restrictions in July is unlikely to have much effect on the progress of recovery with GDP getting back to pre-Covid levels during August.

The annual CPI inflation rate in the United Kingdom rose to 2.1% year-on-year in May from 1.5% y/y in April, the first time that the measure has been above the BOE's 2% target since July 2019. It rose further to 2.5% in June.

### **Covid-19:**

The UK's Covid-19 vaccination programme has been a game changer, boosting confidence that life in the UK might return to a semblance of normality during the second half of 2021 after a third wave of the virus threatened to overwhelm hospitals in Q1 this year. Household saving rates having been exceptionally high since the first lockdown in March 2020, and there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The UK has made fast progress, giving both jabs to nearly half of the total population by 30 June, and one jab to two thirds (84% of all adults). This programme should be completed in the second half of the year. The key question

is whether virus mutations could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

## 2.2 Economic update – Rest of the World

US - The Democrats won the elections in late 2020 and gained control of both Congress and the Senate, (although power is more limited in the latter) and passed a \$1.9trn (8.8% of GDP) stimulus package in March 2021, in addition to the \$900bn fiscal stimulus deal passed by Congress in late December 2020. These, together with the vaccine rollout proceeding to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also now negotiating to pass a \$1trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

At the Federal Reserve's (Fed) June meeting, it maintained its view that it expects strong economic growth this year to have only a transitory impact on inflation which is being temporarily boosted by base effects, spikes in reopening inflation and supply shortages. With regard to interest rates, having previously expected no rises until 2024 at the earliest, most officials now anticipate two in 2023, with 7 out of 18 expecting to raise rates next year. This was a first indication that there was rising concern about the risks around inflationary pressures building up on a more ongoing basis.

EU - Both the roll out and uptake of vaccines was disappointingly slow in the EU in the first few months of 2021 but has since improved. This delay will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. After contracting by another 0.3% in Q1 of 2021, recovery will now be delayed until Q3 of 2021. At its June meeting, the European Central Bank (ECB) forecast strong economic recovery with growth of 4.6% and 4.7% in 2021 and 2022 respectively.

Inflation is likely to rise sharply to around 2.5% during 2021 for a short period, but as this will be transitory, due to one-off factors, it will cause the ECB little concern. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December 2020 meeting added a further €500bn to the QE scheme and extended the duration of the programme to March 2022. Three additional tranches of cheap loans to banks were approved, indicating that support will last beyond the impact of the pandemic, and there is unlikely to be a euro crisis while the ECB maintains this level of support.

## 2.3 Interest rate forecast

Link provided its latest forecast of interest rates on 10 May 2021 and these together with the previous rates provided on 8 March are shown in the table below. PWLB rates in the table are based on the Certainty Rate which include a 0.2% reduction on the standard rates. A comparison of these forecasts shows that PWLB rates have increased marginally and that there is also now a first increase in Bank Rate from 0.10% to 0.25% in Q2 of 2023/24.

Link Group Interest Rate View		10.5.21											
		Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings		0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB		1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB		1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB		2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB		2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

Link Group Interest Rate 8.3.21													
		Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings		0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB		1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB		1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB		2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB		1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

The Covid-19 pandemic has done huge economic damage to the UK, and to economies around the world. After the Bank of England's emergency action in March to cut Bank Rate, first to 0.25% and then to 0.10%, it remained unchanged at subsequent meetings - although some forecasters had suggested that a cut into negative territory was possible. However, the BOE made it clear that commercial banks could not implement negative rates within six months, by which time the economy would be recovering and therefore there would be no requirement for negative rates. As shown in the table above, one tentative increase in Bank Rate from 0.10% to 0.25% has now been shown for Q2 of 2023/24 as an indication that the BOE will be moving towards some form of monetary tightening around this time. However, it may well opt for reducing QE as a first measure.

## 2.4 Investment strategy

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by Council on 4 March 2021, and sets out the Council's investment priorities as:

- Security of capital;
- Liquidity;
- Yield.

Whilst the Council will always seek to obtain the optimum return (yield) on its investments, this will at all times be commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate either to keep investments short term to cover cash flow needs, or to extend the period up to 12 months with highly rated financial institutions, selected by the use of the LAS creditworthiness methodology (see below) which includes consideration of sovereign ratings.

Investment counterparty limits for 2021/22 are generally **£3m** per individual counterparty, however a higher limit of **£4m** per Money Market Fund is considered prudent since such funds are already by definition highly diversified investment vehicles. There is no limit on Investment with the Debt Management Office (DMO) since this represents lending to central government. The Chief Financial Officer has delegated authority to vary these limits as appropriate, and then to report any change to Cabinet as part of the next quarterly report.

Members are advised that no new variations have been made during Q1 of 2021/22, having been previously advised of an extension to £4m with Santander and a limitation to £3m with the CCLAC PSDF, both for operational reasons. These variations remain in place.

Limits with investment counterparties have not exceeded the prevailing levels approved by the CFO during the period 1 April to 30 June 2021.

Credit ratings advice is taken from LAS and the Chief Financial Officer has adopted the LAS credit rating methodology for the selection of investment counterparties. This employs a sophisticated modelling approach utilising credit ratings from all three of the main rating agencies to give a suggested maximum duration for investments. Accordingly it does not place undue reliance on any one agency's ratings.

The methodology subsequently applies an "overlay" to take account of positive and negative credit watches and/or credit outlook information, which may increase or decrease the suggested duration of investments. It then applies a second overlay based on the credit default swap spreads for institutions, the monitoring of which has been shown to give an early warning of likely changes in credit ratings. It also incorporates sovereign ratings to ensure selection of counterparties

from only the most creditworthy countries. The current Treasury Strategy permits the use of any UK counterparties subject to their individual credit ratings under the LAS methodology. It also permits the use of counterparties from other countries with a minimum sovereign rating of AA. For information, the UK currently has a rating of AA minus.

The LAS modelling approach combines all the various factors in a weighted scoring system and results in a series of colour coded bands which indicate the creditworthiness of counterparties. The colour bandings are as follows:

- Yellow 5 years (UK Government debt or its equivalent)
- Dark pink 5 years for Ultra Short Dated Bond Funds (credit score 1.25)
- Light pink 5 years for Ultra Short Dated Bond Funds (credit score 1.50)
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK banks only)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Significant downgrades by the Ratings agencies have not materialised since the beginning of the Covid-19 crisis in March 2020. Where changes were made these were generally limited to "outlooks", however as economies have begun to reopen, there have been some instances of previous reductions to ratings being reversed.

Credit ratings are monitored weekly and the Council is also alerted to interim changes by its use of the LAS creditworthiness service, however ratings under the methodology, including sovereign ratings, will not necessarily be the sole determinant of the quality of an institution. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

**The ultimate decision on what is prudent and manageable for the Council will be taken by the Chief Financial Officer under the approved scheme of delegation.**

## 2.5 Treasury Activity during Quarter 1 of 2021/22

The Treasury Activity Report for the quarter ended 30 June 2021 is attached at Appendix 1, in accordance with the Treasury Management Strategy.

Members will note that investment interest of £15,529 was generated from MMF activity, term deposits with banks and building societies, and the property fund, during the period from 1 April to 30 June 2021. This represents an overall equated rate for the Council of 0.27% and outperforms the benchmark 7 day LIBID rate,

which averaged negative 0.08% for the same period. In cash terms this represents additional income to the General Fund of around £20,100 (since at a negative rate there would have been a cost to the Council) and was achieved by positive investment management, and in particular a favourable return on the property fund (see below). Performance in respect of the longer 3 month LIBID rate, which averaged negative 0.04%, still represents additional income of £17,800.

During the period from 1 April to 30 June 2021, significant use was made of the Council's three Money Market Funds (MMFs). These are AAA rated investment vehicles which allow the pooling of many billions of pounds into highly diversified funds, thus reducing risk. The current rates of return on these funds are between 0.01% and 0.025%, which whilst exceptionally low, remain generally higher than overnight treasury deposit rates, and the rate obtainable from the Debt Management Office (DMO).

The Council made an investment of £1m in the CCLA Local Authority Property Fund (LAPF) on 1 December 2017. The LAPF is a local government investment scheme approved by the Treasury under the Trustee Investments Act 1961 (section 11). Dividends are treated as revenue income and have in previous years averaged around 4%. The fund performed better than expected during 2020/21 despite challenging economic conditions and a temporary suspension, and the equated dividend for the year remained at 4%. At the time of writing, confirmation of the Q1 dividend for 2021/22 had not been received.

This investment allows the Council to introduce a property element into its investment portfolio without the risks associated with the direct purchase of assets. It should be noted however that the capital value is **not** guaranteed and can fall as well as rise, as was the case in 2020/21 when the certificated value of the investment fell from £936k to £930k. CCLA fully expect this position to recover, however it serves to demonstrate that the investment must be seen as a long-term commitment (see 2.9 below).

Interest rates in the market remain exceptionally low, and this is likely to continue in view of the pandemic, as well as the ongoing uncertainty surrounding Brexit and the ending of the transition period. As loans mature every effort is made to replace them at favourable rates, however security and liquidity will always be the overriding factors in the Council's treasury management. LAS currently forecast that Bank Rate is unlikely to rise again until at least Q2 of 2023/24, however there is much uncertainty and interest rates are then expected to rise only gradually, and not significantly.

It is currently anticipated that the outturn for investment interest will be broadly in line with the current approved estimate of £60,000 for 2021/22. Whilst rates in the market are below those used in the estimates, the level of cash balances for short term investment remains significantly higher than that estimated, and every effort has been made to maximise use of the most favourable rates available. In



particular, the property fund and the extension to the counterparty limit with Santander are making significant contributions.

## 2.6 New borrowing

At 30 June 2021 no new borrowing had been undertaken, however it is anticipated that up to £3m may be arranged during the coming months. The projected outturn for PWLB interest payable is £362,400, which is in line with the current approved estimate.

Advice will be taken from LAS with regard to the amount and timing of any additional borrowing, and should conditions become advantageous, some borrowing in advance of need will also be considered by the Chief Financial Officer. The Council's Capital Financing Requirement (CFR) represents its underlying need to borrow to finance capital investment. Due to favourable interest rates, borrowing in advance of need is sometimes desirable, with the result that the CFR can differ to the actual borrowing planned in the year. Investment guidance issued in February 2018 reaffirmed that Councils may not borrow in advance of need purely to profit from the investment of the extra sums borrowed, rather than prudent early borrowing for a demonstrable service objective, which is permitted.

Whilst HMT's review removed the possibility of using PWLB to finance commercial property investment, it also reduced interest rates by 1% across the board from 26 November 2020. However, investment rates remain exceptionally low, and serious consideration must be given to the cost of carrying any additional borrowing during the period prior to it being required for the financing of capital expenditure since this places a further burden on the General Fund.

## 2.7 Debt rescheduling

When the current day PWLB rate for the same term is higher than that being paid on an existing loan there is the potential for a discount to be receivable if the loan is repaid prematurely.

However, debt rescheduling opportunities are limited in the current economic climate, and due to the structure of PWLB interest rates. Advice in this regard will continue to be taken from LAS. No debt rescheduling has been undertaken during the period from 1 April to 30 June 2021.

## 2.8 Compliance with Prudential and treasury indicators

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limit. The Council's approved Prudential and Treasury Indicators (affordability limits) are included in the Treasury Management Strategy Statement (TMSS) approved by Full Council on 4 March 2021.

During the financial year to date the Council has at all times operated within the treasury limits and Prudential Indicators set out in the Council's TMSS, and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators as at 30 June 2021 are shown at Appendix 2.

A) Prudential Indicators:

These indicators are based on estimates of expected outcomes, and are key indicators of "affordability". They are monitored on a quarterly basis, and Appendix 2 compares the approved indicators with the projected outturn for 2021/22, and shows variances on the indicators, as described below:

a. Capital Expenditure

The latest projected outturn shows that total capital expenditure is expected to be £10,298,400. This differs to the approved indicator of £10,868,300 due to the inclusion of approved carry-forward requests from 2020/21 and variations on the current year's capital programme.

b. Capital Financing Requirement (CFR)

The CFR represents the historic outstanding capital expenditure which has not yet been paid for from capital or revenue resources, and is essentially a measure of the Council's underlying borrowing need. The CFR does not increase indefinitely since the minimum revenue provision (MRP) is a statutory annual revenue charge for the economic consumption of capital assets.

At 30 June the projected closing CFR for 2021/22 is £14,171,900. This differs to the approved indicator of £15,290,400, due to savings and deferrals on the 2020/21 capital programme, as well as to variations to the current year's capital programme.

c. Gearing ratio

The concept of "gearing" compares the total underlying borrowing need (the CFR) to the Council's total fixed assets and the gearing ratio can provide an early indication where debt levels are rising relative to long term assets held.

The projected gearing ratio at 31 March 2022 is 34%, which is in line with the approved indicator and is broadly comparable with the average gearing ratio for councils of a similar size.

d. Ratio of financing costs to net revenue stream – service related and commercial property

These indicators identify the trend in the cost of borrowing net of investment income against the net revenue stream. Financing costs represent the element of the Council's budget to which it is committed even before providing any services.

The projected outturn of 20.09% for service related expenditure differs to the approved indicator of 17.70% due to additional direct revenue financing, offset by a reduction in MRP arising from savings and deferrals on the capital programme in 2020/21.

e. Ratio of commercial property income to net revenue stream

This indicator has been removed following the withdrawal of the Commercial Property Investment Strategy in 2020/21 and will no longer be reported.

f. Maximum gross debt

The Council must ensure that its gross debt does not, except in the short term, exceed the opening capital financing requirement, plus estimates of any additional CFR for 2021/22 and the following two financial years. This allows flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The Council's gross debt at 30 June 2021 was £9.812m, which was within the approved indicator.

g. Ratio of internal borrowing to CFR

The Council is currently maintaining an "internal borrowing" position, ie. the underlying borrowing need (CFR) has not yet been fully funded with loan debt as cash supporting the Council's reserves and balances is being used as a temporary measure.

The projected outturn for internal borrowing is 10%, which is lower than the approved indicator of 16% due to variations to the capital programme - which in turn reduce the projected outturn for CFR and hence the difference between CFR and projected external borrowing.

B) Treasury Management Indicators:

These indicators are based on limits, beyond which activities should not pass without management action. They include two key indicators of affordability and four key indicators of prudence.

### Affordability:

#### a. Operational boundary for external debt

This is the limit which external debt is not “normally” expected to exceed. In most cases, this would be a similar figure to the CFR, but it may be lower or higher depending on the levels of actual debt, and must allow for unusual cashflow movements.

#### b. Authorised limit for external debt

This limit represents a control on the “maximum” level of borrowing. It is the statutory limit determined under s3 (1) of the Local Government Act 2003 and represents the limit beyond which external debt is prohibited. The Authorised Limit must be set, and revised if necessary, by Full Council. It reflects a level of external debt which, while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Government retains an option to control either the total of all councils’ plans, or those of a specific council, although this power has not yet been exercised.

### Prudence:

#### c. Upper limits for the maturity structure of borrowing

These are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing.

#### d. Maximum new principal sums to be invested during 2021/22 for periods in excess of one year (365 days)

All such investments are classified as “non-specified”. This indicator is subject to the overall limit for non-specified investments set out in the TMSS, and to the overall limit per counterparty.

#### e. Interest rate exposure

The latest Treasury Management Code requires a statement in the TMSS explaining how interest rate exposure is managed and monitored by the Council, and this is repeated below:

*The Council has a general preference for fixed rate borrowing in order to minimise uncertainty and ensure stability in the charge to revenue, however it is acknowledged that in certain circumstances, some variable rate borrowing may be prudent, for example if interest rates are expected to fall. The Council’s investments are generally for cashflow purposes and accordingly a mix of fixed and variable rates will be used to maximise flexibility and liquidity. Interest rate exposure will be managed and monitored on a daily basis by the Chief Financial Officer.*

Local indicators for the proportions of fixed and variable rate loans, have been retained by the Council for information purposes.

Appendix 2 shows the actual position as at 30 June 2021, and demonstrates that all activities are contained within the currently approved limits.

## 2.9 Other Issues

### Access to PWLB – Changes following HMT Consultation

As previously reported the outcome of this consultation was published in November 2020 and confirmed that HMT will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is primarily to generate an income stream (ie debt for yield).

- To access PWLB funds the Council must provide a high level description of its capital spending plans for the next 3 years including expected use of PWLB;
- As part of this the CFO must confirm there is no intention to buy investments assets primarily for yield at any point in the next 3 years;
- This restriction is on a whole plan basis – ie even if the Council intends to buy investments assets primarily for yield at any point in the plan and to finance them other than by borrowing or alternative funding sources, the PWLB will not lend to it;
- When applying for a new loan the Council will have to confirm that the plans they have submitted remain current and that the assurance on investments assets primarily for yield remains valid;
- HMT do not intend to routinely review individual loans but if it has concerns it may contact the Council to gain a fuller understanding. Access to PWLB could be suspended if deliberate misuse is found. In extreme cases full repayment of loans made may be imposed, although this is thought unlikely.

Following the HMT consultation and the imposition of a curb on lending for commercial debt-for yield projects, the PWLB certainty rate, for which the Council qualifies, fell by 1% across the board from 9am on 26 November 2020 which should allow access to cheaper borrowing for service investment where necessary.

No other significant treasury management issues have arisen since approval of the TMSS on 4 March 2021 that should be brought to the attention of Members.

### **3 Alternative Options**

An alternative option is to fail to present a quarterly Prudential Code Indicator Monitoring and Treasury Activity Report, however this would contravene the requirement of the Council's Treasury Management Strategy Statement (TMSS).

### **4 Financial Implications**

No specific financial implications are attributable to this report.

### **5 Legal Implications**

There are no legal implications arising from this report.

### **6 Equalities Implications**

There are no equalities implications arising from this report.

### **7 Carbon Reduction/Environmental Sustainability Implications**

There are no carbon reduction/environmental sustainability implications arising from this report.

### **8 Appendices**

1. Treasury Activity Report 2021/22 for Quarter 1 (30 June 2021).
2. Prudential and Treasury Indicator Monitoring 2021/22 for Quarter 1.

### **9 Background Papers**

None identified.

### **10 Reasons for Recommendation**

To comply with the requirements of the Council's Treasury Management Strategy Statement.

**Statutory Officer approval:**

**Approved by:** Chief Financial Officer

**Date:** 22.07.21

**Approved by:** Monitoring Officer

**Date:** 22.07.21