Report to Cabinet

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

Date: 4 November 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 2 at Appendix 1, and the Prudential and Treasury Indicator Monitoring 2021/22 for Quarter 2, 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 (this 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 September 2021 and highlights compliance with the Council's policies.

2 Proposal

2.1 Economic update - UK

General:

The Monetary Policy Committee (MPC) voted unanimously at its meeting on 24 September to keep Bank Rate unchanged at 0.10%, and by a majority of 7-2 to continue unchanged the existing programme of quantitative easing (QE) - which is due to finish by the end of 2021. There was a major shift in the tone of the MPC minutes from that in August, which had indicated that some tightening in monetary policy was on the horizon but that the Bank did not want to stifle economic recovery by increasing Bank Rate too early – effectively putting the country "on alert". A potential danger was flagged that labour shortages could push up wage growth by more than expected, and that as a result, CPI inflation would stay above the 2% target for longer - but that the Bank was prepared to "look through a temporary spike in inflation". In September however, the MPC indicated that there had been a marked increase in concern that prices, particularly gas and electricity, would lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. The MPC reaffirmed its commitment to the 2% target, and financial markets are now pricing in a first increase in Bank Rate from 0.1% to 0.25% in February 2022, although this may be ambitious with only limited data available by then. By May the MPC will have a clearer indication of the likely peak of inflation, and action to raise rates may be more likely at that time.

The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling bond holdings (QE) is as follows:

1. Placing focus on raising Bank Rate as “the active instrument in most circumstances”;
2. Raising Bank Rate to 0.5% before starting reducing its holdings;
3. Once Bank Rate is at 0.5% it would stop reinvesting maturing gilts;
4. Once Bank Rate had risen to at least 1% it would start selling its holdings.

Covid-19:

The UK’s Covid-19 vaccination programme has been a game changer, boosting confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in the spring. 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 key question remains 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 - During the first part of the year the Democratic party’s determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic unsettled financial markets, as this was in addition to the $900bn support package already passed in December 2020. This was followed by an additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade. Financial markets were alarmed that this stimulus was happening at a time when:

1. A fast vaccination programme had enabled a rapid opening up of the economy;
2. The economy had been growing strongly during 2021;
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries;
4. The Federal Reserve (Fed) was still providing stimulus through monthly QE purchases.

These factors could cause excess demand in the economy, which could unleash strong inflationary pressures. This could then force the Fed to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation. At the September Fed meeting, members again moved forward their expectation of when the first increases in the Fed rate would occur. In addition, a shortage of workers appears to be stoking underlying wage inflationary pressures - which are likely to feed through into CPI inflation. A run of stronger jobs growth figures could be enough to meet the threshold set by the Fed of “substantial further progress towards maximum employment” for a first increase in the Fed rate.

EU - The slow rollout of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has now picked up sharply. After a contraction of -0.3% in Q1 of 2021, strong growth of 2% followed in Q2 and this is likely to continue into Q3

– although some countries more dependent on tourism may struggle. Recent increases in gas and electricity prices have increased overall inflationary pressures but the European Central Bank (ECB) is likely to see these as being only transitory after an initial rise to around 4%, so is unlikely to raise rates for a considerable time.

World growth - World growth was in recession in 2020 but recovered during early 2021, until losing momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that there will be a reversal of world globalisation and a "decoupling" of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages - The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At present there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also facing difficulty in filling job vacancies. It is expected that these issues will be gradually resolved, but they are currently contributing to a spike upwards in inflation, and to shortages of materials and goods on shelves.

2.3 Interest rate forecast

The Council's Treasury management advisers, Link Asset Services (LAS) provided its latest forecast of interest rates on 29 September 2021 and these together with the previous rates provided on 10 May 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 there are now three expected increases in Bank Rate, to end at 0.75%, instead of one rise to only 0.25%. However, many PWLB rates were significantly lower than forecast during the earlier part of Q2.

Link Group Interest Rate View 29.9.21										
	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	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

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

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 2020 to cut Bank Rate, first to 0.25% and then to 0.10%, it remained unchanged at subsequent meetings.

Bank Rate is not expected to rise rapidly after the initial increase as the supply potential of the economy has not in general taken a major hit during the pandemic, and should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may need changing within a relatively short time frame for the following reasons:

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer, and now into the autumn. This could potentially lead to "stagflation" (rising inflation combined with unemployment and sluggish growth) which would create a dilemma for the MPC as to what action to take;
- Key supply shortages eg. petrol and diesel, could cause economic activity in some sectors to take a significant hit;
- Rising gas and electricity prices in October and next April, and increases in other prices caused by supply shortages and increases in taxation next April, are already deflating consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. The Government's upcoming budget could also further reduce consumer spending power;
- Consumers are holding around £200bn of excess savings left over from the pandemic, so some or all of this could be spent;
- 1.6 million people came off furlough at the end of September - some of those did not have jobs on 1 October and are therefore be available to fill labour shortages in many sectors of the economy. Supply shortages which have been driving up both wages and costs, could in theory reduce significantly within the next six months, and alleviate the MPC's current concerns;
- There is a risk that Covid could present further unpleasant surprises, on top of the flu season this winter, and this could depress economic activity.

In summary, with the high level of uncertainty on multiple fronts, it is likely that Link's forecasts will need to be revised again in the near future in line with the prevailing economic news. It should also be noted that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply reverse that final emergency cut from 0.25% to 0.10%, on the grounds that it is no longer warranted, and as a step forward in the return to normalisation.

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 Q2 of 2021/22, having been previously advised of an extension to £4m with Santander and a limitation to £3m with the CCLA 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 September 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 2 of 2021/22

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

Members will note that investment interest of £32,315 was generated from MMF activity, term deposits with banks and building societies, and the property fund, during the period from 1 April to 30 September 2021. This represents an overall equated rate for the Council of 0.26% 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 £42,300 (since at a negative rate there would have been a cost to the Council to place funds) 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 0.05%, still represents additional income of £38,500.

During the period from 1 April to 30 September 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 0.022%, 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%. The dividend for Q1 of 2021/22 equated to 3.63%, so whilst falling slightly it remains the most significant factor in the overall investment return achieved to date. The dividend for Q2 has not yet been declared.

The LAPF 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, and by 30 September 2021 the value was £995k, 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 the full impact of Brexit and the ending of the transition period. As investments 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 until at least February 2022, 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 generally 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 September 2021 new borrowing of £1m for 50 years from the PWLB at 1.81% had been undertaken, and it is currently anticipated that up to another £2m may be arranged during the coming months should conditions be favourable. 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 planned borrowing 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 any 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 September 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 September 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 £10,111,400. 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 September 2021 the projected closing CFR for 2021/22 is £13,955,300. 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 18.65% 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 September 2021 was £10.812m, 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 8%, 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 minimse 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 September 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.

Consultations

As a follow-up to the process that started earlier this year, stage 2 consultations commenced in September in respect of proposed changes to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. These consultations are due to close on 16 Nov 2021.

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 2 (30 September 2021).
2. Prudential and Treasury Indicator Monitoring 2021/22 for Quarter 2.

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: 25.10.21

Approved by: Monitoring Officer

Date: 25.10.21