Report of the Deputy Chief Executive

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2021/22 – MID YEAR REPORT TO 31 OCTOBER 2021

1. Purpose of report

To inform the Committee of treasury management activity and the actual prudential indicators for 2021/22 for the period up to 31 October 2021.

2. Detail

Regulations issued under the Local Government Act 2003 require the Council to fulfil the requirements of the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities when undertaking its treasury management activities.

As well as the Treasury Management and Prudential Indicators annual report that is presented to this Committee in July each year, there is a regulatory requirement for Members to receive a mid-year review. This is intended to enhance the level of Member scrutiny in these areas.

Following consultation in 2017, CIPFA published new versions of the Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities. The local authority specific Guidance Notes to the former Code were issued in October 2018. The Ministry of Housing, Communities and Local Government (MHCLG) has also published its revised Investment Guidance and this came into effect from April 2018.

The CIPFA Code of Practice on Treasury Management requires the Deputy Chief Executive to operate the Treasury Management function in accordance with the Treasury Management Strategy approved by this Committee on 11 February 2021 and Council on 3 March 2021. Details of all borrowing and investment transactions undertaken in 2021/22 up to 31 October 2021, together with the balances at this date and limits on activity, are provided in appendix 1. There are no issues of non-compliance with these practices that need to be reported.

Under the Prudential Code, the Council is required to prepare a number of prudential indicators against which treasury management performance can be measured. The Council has complied with its 2021/22 prudential indicators to 31 October 2021 and details are provided in appendix 2.

Recommendation

The Committee is asked to NOTE the report to 31 October 2021.

Background papers – Nil

APPENDIX 1

1. Borrowing

a) Debt activity during 2021/22

The loan debt outstanding as at 31 October 2021 compared to the opening position at 31 March 2021 is shown below:

Loan Type	Amount Outstanding at 01/04/2021 £	Amount Outstanding at 31/10/2021 £
Short Term Loans:		
Bramcote Crematorium	273,000	540,000
Money Market Loans	18,000,000	2,000,000
Public Works Loan Board	11,625	5,963
Long Term Loans:		
Money Market Loans	3,000,000	3,000,000
Public Works Loan Board	79,769,130	84,763,467
TOTAL	**101,053,755**	**90,309,430**

b) Short Term Loans

The short term money market loans are loans from other local authorities and public sector bodies. Details of the movement in these during the period are set out in the table below:

Lender	Balance 01/04/21 £	Start Date	End Date	Rate %	Balance 31/10/21 £
Merseyside Fire/Rescue Service	£2.0m	05/05/20	04/05/21	0.90	-
Somerset County Council	£2.0m	06/08/20	06/05/21	0.60	-
North of Tyne Combined Authority	£2.0m	30/09/20	29/09/21	0.55	-
South Derbyshire District Council	£2.0m	06/10/20	06/04/21	0.10	-
Shropshire & Wrekin Fire Authority	£2.0m	11/11/20	11/05/21	0.10	-
Merthyr Tydfil Borough Council	£3.0m	05/02/21	05/08/21	0.04	-
Liverpool Combined Council	£5.0m	01/03/21	01/09/21	0.10	-
Shropshire & Wrekin Fire Authority	-	11/05/21	11/11/21	0.04	£2.0m

Short term loans at 31 March 2021 included PWLB annuities of £11,625. A sum of £5,662 was repaid on 13 September 2021 and the remaining £5,963 is due for repayment on 15 March 2021.

Short term loans at 31 March 2021 also included £273,000 that had been invested with the Council by Bramcote Crematorium. At 31 October 2021 Bramcote Crematorium had invested £540,000 with the Council. A distribution of £200,000 was made to each of the constituent authorities on 1 October 2021.

The major element of the long-term loans from the PWLB is the loans totalling £66.4m taken out on 28 March 2012 to make the payment to the Department for Communities and Local Government (DCLG). This enabled the Council to exit the Housing Revenue Account (HRA) subsidy system and move to self-financing arrangements that allow local authorities to support their housing stock from their own HRA income. These loans were for maturity periods between 10 and 20 years and were at special one-off preferential rates made available by the PWLB for this exercise of 13 basis points above the equivalent gilt yield at the date on which the loans were taken out.

Debt is kept under review in order to match the level of borrowing with the financing requirement for assets, based on analysis of the Council's balance sheet, with the aim of maintaining borrowing at the most efficient level in line with the prudential framework for capital finance.

The planned financing of the 2021/22 capital programme as at 31 October 2021 indicates that borrowing of £6,409,150 would be required to help fund the General Fund part of the programme. This borrowing has not, as yet, been fully undertaken as the availability of large investment balances has meant that there has been no specific need to undertake this borrowing thus far.

The Council will continue to adopt a cautious and considered approach to any borrowing that it may undertake. The Council's treasury advisors, Arlingclose, actively consult with investors, investment banks and capital markets to establish the attraction of different sources of borrowing and their related trade-off between risk and reward. The Council will liaise with its advisors before making any borrowing decisions and then report these to Members.

Arlingclose expects short-dated borrowing from the money markets to remain cheaper than long-term borrowing from the PWLB over the next 12-month period.

b) Debt rescheduling

In conjunction with the treasury management advisors, the Council continues to seek opportunities for the rescheduling of debt that could reduce its overall borrowing costs. No debt rescheduling has taken place to date in 2021/22.

Whilst the possibility of achieving savings by repaying a loan may initially appear attractive, if a replacement loan is taken out to facilitate this then the replacement loan will have to be replaced at some stage. There is a risk that, as interest rates rise, future loans could be more expensive and the initial decision to pursue the repayment of the original loan could turn out to be costly in the long term.

There may be opportunities in the future to achieve discounts by repaying loans using funds that are currently invested but the Council's primary concern will be to ensure that it has sufficient liquidity available to meets its liabilities and this represents a significant barrier to debt repayment activity.

Currently all of the Council's PWLB loans would attract a premium, i.e. a penalty, on premature repayment of between 5% and 99%. Those which have a higher probability of attracting a discount in the future were interest rates to rise (i.e. where the current premium is between 0% and 10%) are some loans that were taken out on 28 March 2012 at preferential rates as part of the move to exit the HRA subsidy system as referred to in 1(a) above.

The Council and its treasury management advisors will continue to monitor the situation and evaluate potential opportunities where appropriate. Debt rescheduling activity will only be undertaken when annual revenue savings can be achieved and both a stable debt maturity profile and suitable interest rate structure can be maintained.

c) Cost of borrowing and debt profile

i. Long term debt

The Council's long term debt had an average of 8.00 years to maturity at 31 October 2021 (31 March 2021 was 7.03 years). The average interest payable at that date was 3.19% (31 March 2021 was 2.93%).

ii. Short term borrowing

Short-term borrowing comprises the continuing loan from the Bramcote Crematorium Joint Committee and the loans outlined in 1(a) above.

The Council has, on occasion, taken advantage of exceptionally low interest rates for short-term loans that have been available from other local authorities and public sector bodies.

iii. PWLB Rate Changes and Future Borrowing

Most of the Council's long term debt is borrowed from the PWLB. The most recent PWLB Technical Note (published on 21 October 2021) shows the current Standard Rate for PWLB loans is 100 basis points above current gilt prices. Those local authorities who submit a Certainty Rate Return, which is primarily a high-level analysis of the authority's capital programme, capital financing and borrowing plans for the next three years, are eligible to borrow at the Certainty Rate. The Certainty Rate is 20 basis points below the Standard Rate.

Given that current PWLB lending terms are currently competitive, PWLB will be considered, alongside other lenders, by the Council when looking to take out future long-term borrowing.

2. Investments

a) Investment Policy

The Council's investment policy is governed by MHCLG guidance, which was implemented in the annual investment strategy approved at the Finance and Resources Committee meeting on 11 February 2021 and then by Council on 3 March 2021. This gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

The Council only places investments with banks and building societies which are UK domiciled and have, as a minimum, the following rating from the Fitch, Moody's and Standard and Poor credit rating agencies:

(i) Long Term A– (or equivalent)

The Council is also able to invest in Money Market Funds (MMF) that are AAA rated and with the UK government, as well as with other local authorities. The maximum permitted duration of investments is two years.

The investment activity during the first seven months of 2021/22 conformed to the approved strategy and the Council had no security or liquidity difficulties.

b) Interest Received

The total interest receivable for the period ended 31 October 2021 amounted to £101,300 at an average rate of 0.96% (to 31 October 2020 was £144,400 and 1.20%). This was largely due to the continuation of the 0.1% Base Rate and the ongoing economic impact of the pandemic causing a small but noticeable decrease in long-term investment income. In addition, the Council held relatively high levels of cash in the previous financial year due to the large number of Covid related grants received, with the surplus funds being included in short-term investments. The majority of these grants will not be received in 2021/22.

The return of Money Market Funds (net of fees) also fell during the period up to 31 October 2021 and for MMF the net returns currently range between zero and 0.1%. In a number of cases, fund management companies have temporarily lowered or waived fees in order to maintain a positive net return.

Whilst the Council's treasury advisors, Arlingclose, expects Bank Rate to remain at 0.10% for the foreseeable future, there remains substantial risks to this forecast, dependant on factors such as the impact of the Covid-19 pandemic, the on-going impact of inflation, supply, Brexit, global growth and trade concerns.

The UK 1 month, 3-months and 12-months LIBID rates averaged -0.01%, 0.11% and 0.33% respectively over the period from 1 April to 31 October 2021.

The Council has a total of four long term investment totalling £8.0m and details of these along with the average interest income received per quarter are as follows:

- CCLA Local Authority Property Fund (LAPF) – £2.0m (£18,000)
- CCLA Diversified Income Fund (DIF) – £2.0m (£15,000).
- Royal London Enhanced Cash Plus Fund – £2.0m (£3,700)
- Ninety-One Diversified Income Fund – £2.0m (£8,900)

The £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF) had a dividend yield of 3.86% at 31 October 2020 whilst the £2.0m invested in CCLA Diversified Income Fund had a dividend yield of 2.57% as at that date. The Royal London Cash Plus and Ninety-One Diversified Income Funds have dividend yields that generally average around 0.45% and 2.18% respectively. Further details of these long-term investments are set out in 3(v).

Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities Property Fund was suspended in March 2020. The relative infrequency of property transactions as the Covid-19 pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers and holders of units in the fund, it was obliged to suspend transactions until the required level of certainty is re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for the CCLA Local Authorities Property Fund in that from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.

c) <u>Investments Placed</u>

A summary of all investments (either short or long term) made and repaid from 1 April to 31 October 2021 is set out in the following table:

Investments	Balance 01/04/21 £000	Invests Made £000	Invests Repaid £000	Balance 31/10/21 £000	Invests Movement £000
UK Banks/Building Societies					
Barclays	-	-	-	-	-
Santander UK	3,000	8,274	(11,274)	-	(3,000)
Other Local Authorities	-	-	-	-	-
Money Market Funds					
Insight MMF	-	-	-	-	-
LGIM MMF	-	-	-	-	-
Aberdeen MMF	379	15,721	(16,100)	-	(379)
Federated MMF	-	-	-	-	-
Public Sector Deposit Fund	1,873	12,072	(10,145)	3,800	1,927

Long Term Funds					
LA Property Fund	2,000	-	-	2,000	-
Royal London Enhanced Cash Plus	2,000	-	-	2,000	-
CCLA Diversified Income Fund	2,000	-	-	2,000	-
Ninety One Diversified Income Fund	2,000	-	-	2,000	-
Total	**13,252**	**36,067**	**(37,519)**	**11,800**	**(1,452)**

The Money Market Funds (MMF) are set up as individual accounts where funds can be placed short-term, often overnight, and monies withdrawn as and when required. This has a major impact upon the number of investments made with these institutions during the period above.

Use continues to be made of MMF due to their ability to provide a secure and highly liquid place in which to invest and the reduced number of other potential counterparties available as outlined in 2(g) below.

d) Credit Risk

Security of capital has remained the Council's main investment objective. The Council aims to achieve a score of '7' or lower in order to reflect its overriding priority of maintaining the security of any sums invested. This equates to the minimum credit rating threshold of A- for investment counterparties as set out in the 2021/22 investment strategy.

Counterparty credit quality has been maintained at an appropriate level during 2021/22 as shown by the credit score analysis in the following table:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31 March 2021	5.18	A+	5.18	A+
30 June 2021	5.34	A+	5.33	A+
30 September 2021	5.38	A+	5.38	A+

No investments were made with institutions where the credit rating exceeded a score of 7 (i.e. lower than A-). All deposits were made with institutions achieving an average score of 5.5 or better. As such, counterparty credit quality has been maintained at an appropriate level during the period.

The table below shows how credit risk scores are related to credit ratings:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

e) Risk Benchmarking

The Investment Strategy 2021/22 to 2023/24 contained a number of security, liquidity and risk benchmarks to allow officers to monitor the current and trend positions and incorporate these within investment decisions. The benchmarks have been met in full for the period to October 2021 such that:

- the Council's maximum average credit risk score has been less than 7;
- a bank overdraft limit of £1m has been maintained;
- liquid short-term deposits of at least £0.5m have been available within one week;
- the average weighted life of investments has been below a maximum of six months; and
- returns on investment have been above the 7-day London Interbank Bid rate (LIBID).

f) Counterparty Update

The Deputy Chief Executive maintains a counterparty list based upon criteria set out in the Investment Strategy. Any proposed revisions to the criteria will be submitted to Finance and Resources Committee for formal approval as set out in 2(g) below.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For example, if an institution is rated by two agencies and one meets the Council's criteria and the other does not, the institution will fall outside the lending criteria.

Creditworthiness information is provided by the treasury management advisors, Arlingclose, on all counterparties that comply with the criteria set out in the Investments Strategy. Any counterparty failing to meet the criteria is removed from the counterparty list.

g) Changes to the Investments Strategy

Due to the level of uncertainty in financial markets, it is important that there is sufficient flexibility to enable changes to be made to the Investments Strategy at short notice should they be considered necessary by the Deputy Chief Executive.

Any such changes to the Investments Strategy will be made by the Chief Executive Exercising Standing Order 32 powers following consultation with the Chair of the Finance and Resources Committee. A report setting out the detail behind these changes would then be presented to this Committee at the next available opportunity.

h) Regulatory Update

The MHCLG consulted in July 2018 on statutory overrides relating to the introduction of the IFRS 9 Financial Instruments accounting standard from 2018/19. It has since decided to introduce a statutory override for fair value movements in pooled funds for at least five years until 31 March 2023.

MHCLG accepted arguments made by many respondents to the consultation that the unamended adoption of IFRS 9 could result in unwarranted volatility for the General Fund and impact unnecessarily upon council tax or service expenditure. It will therefore a statutory override that, while requiring IFRS 9 to be adopted in full, requires fair value movements in pooled investment funds to be taken to a separate unusable reserve instead of to the General Fund.

MHCLG accepted that the three-year statutory override suggested in the consultation was too short a period and committed to keeping the override in place for five years. It will keep under review whether permitting the override to lapse in March 2023 will have a detrimental impact on balanced budget calculations in subsequent years.

The override will apply to all collective investment schemes and not just to pooled property funds as suggested in the consultation. As set out above, in order to promote transparency MHCLG will require a separate unusable reserve to be used to hold the fair value movements rather than the Financial Instruments Adjustment Account.

i) Prudential and Treasury Management Code Changes

The Prudential Code requires the production of a high-level Capital Strategy report to full Council covering the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit are included in this report

The definition of investments in the Treasury Management Code now covers all of the Council's financial assets as well as other non-financial assets that are held primarily for a financial return. This is replicated in MHCLG's Investment Guidance in which the definition of investments is further broadened to include all such assets held partially for financial return. The Council has no such assets at present.

3. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

i) Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	Target 2021/22
Portfolio Average Credit Rating	A-

The Council has complied with this indicator by achieving an average credit rating of A+ for its investment portfolio between 1 April and 31 October 2021.

ii) Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity Risk Indicator	Target 2021/22
Total cash available within 3 months	£10m

The Council has complied with this indicator by maintaining an average of £10.7m in cash available to meet unexpected payments within a rolling three-month period from 1 April to 31 October 2021.

iii) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates for 2021/22 are:

Interest rate risk indicator	Target Limit 2021/22
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1,000,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1,000,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Even after the reduction in Bank Rate from 0.75% to 0.10%, the target limits for 2021/22 have been complied with for the period to 31 October 2021.

iv) Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. It is intended to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %	Fixed Rate Borrowing 31/10/21	Level %	Compliance with Set Limits
Under 12 months	0	50	7,606	8	Yes
12 months to 2 years	0	50	4,513	5	Yes
2 years to 5 years	0	50	24,498	27	Yes
5 years to 10 years	0	75	45,022	50	Yes
10 years to 20 years	0	100	2,125	2	Yes
20 years to 30 years	0	100	0	0	Yes
30 years to 40 years	0	100	3,000	3	Yes
40 years to 50 years	0	100	0	0	Yes
50 years and above	0	100	3,000	3	Yes

Investments are limited to a maximum of two years as set out earlier. As suggested in the CIPFA Code, fixed rate investments of less than 12 months and fixed rate borrowing with less than 12 months to maturity are regarded as variable rather than fixed rate investments and borrowings as their replacement could be subject to movements in interest rates. This principle has been applied in calculating the fixed and variable interest rate exposures on debt and investments. However, the borrowing with less than 12 months to maturity at 31 October 2021 is shown as fixed rate borrowing in the maturity structure.

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

v) Principal Sums Invested for Periods Longer than a Year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Risk Indicator	Target Limit 2021/22 £000
Upper limit on principal invested beyond year end	8,000

The upper limit for this indicator was set at 50% of the estimated in-year average of total investments of £16.0m for 2021/22. The Council has complied with the limit during the period to 31 October 2021.

The Council had £8.0m in long term investments as at 31 October 2021 consisting of:

- £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF). Although the Council can theoretically redeem part or all of its holding in the fund by giving 90 calendar days' notice as set out in 2(c), this is intended to be a long term investment.
- £2.0m invested in the CCLA Diversified Income Fund. Whilst this is intended to be a long term investment, two days' notice is required should this investment need to be repaid to the Council.
- £2.0m invested in the Royal London Enhanced Cash Plus Fund. Whilst this is intended to be a long term investment, should the Council require this to be repaid then it can be done with one day's notice.
- £2.0m invested in the Ninety-One Diversified Income Fund. The minimum recommended period for such an investment is 3-5 years. However, should this need to be repaid to the Council then it can be done with three days' notice.

APPENDIX 2

PRUDENTIAL INDICATORS

1. Introduction

The Local Government Act 2003 requires local authorities to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their capital budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators, which provide the basis for the management and monitoring of capital expenditure, borrowing and investments. The indicators are based on the Council's planned and actual capital spending.

2. Capital Expenditure and Financing 2021/22

The Council undertakes capital expenditure on assets which have a long term value. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resulting impact upon the Council's borrowing need; or

- if insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

Actual capital expenditure forms one of the required prudential indicators. The following table shows the 2021/22 capital programme as at 31 October 2021 compared with the original estimate for the year across each committee:

	2021/22 Original Estimate £000	2021/22 Estimate at 31/10/21 £000
Housing	10,785	15,035
Community Safety	0	25
Jobs and Economy	0	489
Leisure and Health	0	94
Environment and Climate Change	866	1,638
Finance and Resources	360	5,172
Total	**12,011**	**22,453**

The change to the original estimate is largely accounted for by the carry forward of unspent capital budgets totalling £8,542,650 from 2020/21 plus additional budget allocated to a variety of schemes including £725,000 allocated to the Central Heating Improvements scheme (grant funded) and £400,000 allocated to New Housing Feasibility costs.

Excluded from the original 2021/22 capital programme were schemes totalling £1,123,000 that were on a ‘reserve list’ to be brought forward for formal approval to proceed once a source of funding was identified. The schemes on the ‘reserve list’ had have reduced to £1,103,000 at 31 October 2021 as one scheme, namely repairs to the Kimberley Leisure Centre roof, was funded from the 2021/22 Capital Contingency and has therefore been moved off the reserve list.

The table below shows the planned capital expenditure up to 31 October 2021 and how this will be financed:

	Original Estimate 2021/22 £000	Original Estimate at 31/10/21 £000
General Fund	2,024	8,769
HRA	9,987	13,684
Total Capital Expenditure	**12,011**	**22,453**
Financed by:		
Capital Receipts	2,383	3,972
Capital Grants	798	2,550
Revenue	6,369	8,078
Unfinanced Capital Expenditure	**2,461**	**7,853**

The increase in the estimated use of capital receipts in 2021/22 is primarily due to schemes carried forward from 2020/21 and to the further use of HRA capital receipts to assist the financing of capital schemes in the Housing Delivery Plan.

The increase in the estimated use of capital grants in 2021/22 is largely attributable to additional funding of £724,850 provided for central heating upgrades along with £346,000 of schemes funded by Section 106 contributions.

It is anticipated that the schemes on the ‘reserve list’ will be financed from capital receipts received at a future date. Unfinanced capital expenditure will be met from additional borrowing as set out above.

2. Overall Borrowing Need

The Council’s underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council’s debt position and represents net capital expenditure that has not yet been paid for by revenue or other resources.

Part of the treasury management activity seeks to address this borrowing need, either through borrowing from external bodies or utilising temporary cash resources within the Council.

As set out in 1(a) in appendix 1, the Council has not fully taken out the anticipated borrowing of £7,852,000 in respect of the planned capital expenditure for 2021/22 shown as unfinanced above. It is likely that some of this borrowing will be delayed until 2022/23 if there is significant slippage in the capital programme from 2021/22 into the following year. Any additional borrowing to be undertaken will seek to align the Council's overall borrowing level with the CFR. As at 31 October 2021, the Council has one short term loan totalling £2.0 million with other local authorities that is due to mature before 31 March 2022 as set out in 1(a) in appendix 1. The Council has reduced its position on short-term loans in the period as the Council sought to stabilise its level of investments in order to reduce credit risk.

The Council's CFR will next be calculated as at 31 March 2022 when the financing of actual capital expenditure incurred in 2021/22 will be undertaken. This will be reported to this Committee in July 2022.

3. Prudential Indicators and Compliance Issues

Some of the prudential indicators provide either an overview or specific limits on treasury management activity. These are as follows:

i) Gross Borrowing Compared to the Capital Financing Requirement (CFR)

In order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, exceed the CFR. This indicator will be calculated at the end of 2021/22 and the result reported to this Committee in July 2022. It is presently anticipated that the Council will comply with this indicator.

ii) Authorised Limit

This is the statutory limit determined under section 3(1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which could be afforded in the short term to maximise treasury management opportunities and cover temporary cash flow shortfalls, but is unlikely to be sustainable over the longer term. The table below demonstrates up to 31 October 2021, the Council has maintained gross borrowing within its authorised limit.

iii) Operational Boundary

This indicator is based on the probable external debt during the course of the year. The operational boundary is not a limit and actual borrowing can vary around the levels shown for short times. The operational boundary should act as an indicator to ensure the authorised limit is not breached and is a key management tool for in year monitoring of treasury management activities by the Deputy Chief Executive.

	Values £000
Authorised Limit 2021/22	124,250
Operational Boundary 2021/22	99,400
*Maximum Gross Borrowing (April to October 2021)	101,054

The maximum external debt in the period from April to October 2021 represents the gross borrowing figures as set out in 1(a) and includes the loan received from Bramcote Crematorium during this period.

*The Council temporarily had borrowing beyond its operational boundary (but not beyond the authorised limit) for six days (1 to 6 April). This was due to a short-term loan being taken out earlier in March 2021 to take advantage of favourable market rates, which was partly used to repay a short-term loan that matured on 6 April 2021. The risk was assessed to be low. The Council subsequently maintained gross borrowing within its operational boundary up to and including 31 October 2021.

iv) Ratio of Financing Costs to Net Revenue Stream

This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time. The indicator will be calculated for 2021/22 at the end of the financial year and reported to this Committee in July 2022.