South Somerset District Council

2021/22 Treasury Management Performance Outturn Report

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SLT Lead:	Karen Watling, Chief Finance Officer
Lead Officer:	Paul Matravers, Lead Specialist – Finance

Purpose of the Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the 2021/22 financial year as prescribed by the CIPFA Code of Practice and in accordance with the Council's Treasury Strategy, Annual Investment Policy and Treasury Management Practices.

Forward Plan

2. This report appeared on the Audit Committee Forward Plan with an anticipated Committee date of 29th June 2022.

Public Interest

3. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice requires the Council to approve an annual Treasury Management Strategy and, report treasury performance mid-year and at the year end.

Recommendations

4. Council is recommended to:
   - Note the Treasury Management Activity for the 2021/22 financial year;
   - Note the position of the individual prudential indicators for the 2021/22 financial year;
   - Note the outlook for the investment performance in 2021/22;
   - Note the Council operated within all of the Prudential Indicators during 2021/22;

Introduction and Background

5. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, produce a six month and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The

Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.

6. Full Council approved the Council's 2021/22 Treasury Management Strategy on 25 February 2021. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

7. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 25 February 2021.

8. Overall responsibility for treasury management remains with the Council. The day to day treasury management operation is delegated to the S151 Officer and is undertaken by the Finance function which is part of Strategy and Support Services. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

9. This report provides information on the performance of the Council's Treasury Investments in 2021/22. The performance of the Council's Commercial Investments, which are part of the Commercial Strategy, are not included in this report.

Revised CIPFA Codes, Updated Public Works Loan Board Lending Facility Guidance

10. In August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB) lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

11. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

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12. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish.

13. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

14. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

15. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The Treasury Management Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

16. The Council will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 financial year.

Treasury Management Position - Summary

17. The treasury management position at 31st March 2022 and the change during the year is shown in the table below.

	31/03/2021 Balance £000's	Net Movement £000's	31/03/2022 Balance £000's
Long-term borrowing	-	-	-
Short-term borrowing	(98,000)	(30,500)	(128,500)
Total Borrowing	**(98,000)**	**(30,500)**	**(128,500)**
Long-term Investments	2,000	(2,000)	-
Short-term Investments	-	16,550	16,550
Cash and Cash Equivalents	23,980	(0,480)	23,500
Total Investment	**25,980**	**14,070**	**40,050**
Net Position	**(72,020)**	**(16,430)**	**(88,450)**

18. External borrowing has increased during the year, reflecting the financing of planned capital expenditure. The advice received for the year from our Treasury

advisers given the interest rates prevailing and the creation of a new unitary council was to continue to use short term borrowing which is flexible and keeps the Council's borrowing costs low. The projected value of external borrowing as at 31 March 2022 was reported to Full Council in February 2022 in the Annual Treasury Management Strategy report.

19. The amount of external borrowing is dependent on the level of capital expenditure incurred in the financial year along with other in and outgoing cash flow requirements. Short-term borrowing continues to be the best option to meet the financing requirement.

20. Ongoing dialogue is held with the Council's Treasury advisors on the best borrowing options available. The current advice being to continue to borrow short term at present. The Council may however utilise long term borrowing (as part of the current strategy) in 2022/23 if it is deemed the best option, which will also remove an element of interest rate risk. Any long-term borrowing that exceeds £5m and exceeds 365 days will, under the Section 24 Direction, now need the specific consent of the County Council S151 Officer.

Investment Activity

21. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

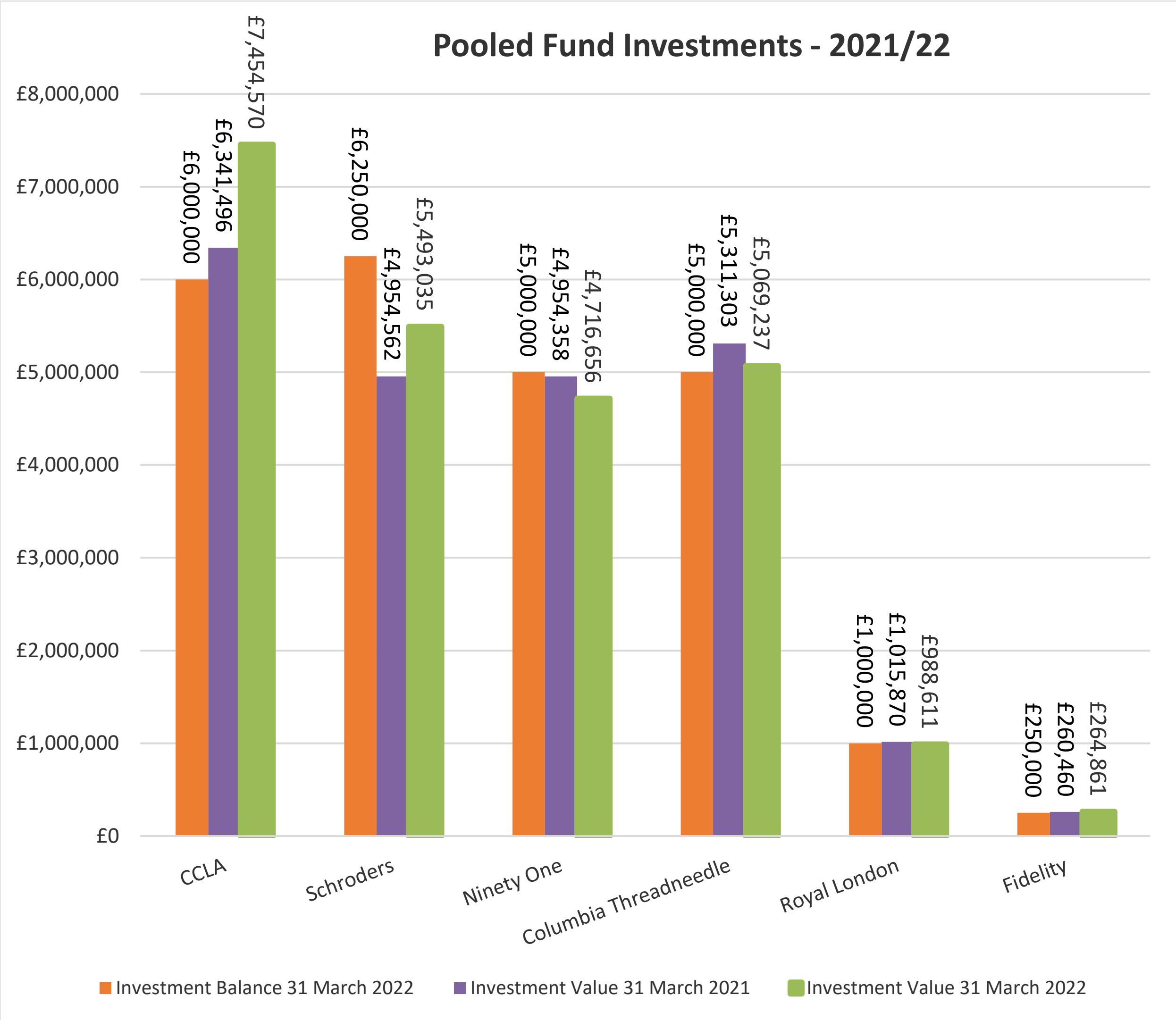
22. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Council's investment balance ranged between £23 million and £48 million. The average investment balance in 2021/22 was between £30m and 32m.

23. Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

24. Ultra low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December 2021, February 2022 and March 2022.

25. Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1%, but following the rises policy rates increased to between 0.55% and 0.85% depending on the deposit maturity.

26. The Council's best performing investments continue to be the investments in the Pooled Funds (Strategic Investments). Details of the investment balance as at 31 March 2022 and the value of each investment at the same date is detailed in the chart below.



Note: Pooled fund investments are revalued at the end of the financial year to reflect the fair value of the investment; the third bar in the graph signifies this value and details the investment value as at 31 March 2022. The first bar represent the investment balance in each fund at that date.

Pooled Fund Investments 2021/22

27. The table below includes the closing investment balance for each pooled fund investment and the opening and closing investment value. There were no changes to the investment balance for pooled fund investments in 2021/22 with the total investment remaining at £23.5m as at 31 March 2022. The investment fair value signifies the individual value of the investments after the year end revaluation.

Investment Type	Investment Balance 31/03/2022 £000's		Investment Value 01/04/2021 £000's	31/03/2022 £000's	Change £000's
CCLA	£6,000		£6,341	£7,455	£1,114
Schroders	£6,250		£4,955	£5,493	£538
Investec	£5,000		£4,954	£4,716	(£238)
Colombia Threadneedle	£5,000		£5,311	£5,069	(£242)
Royal London	£1,000		£1,016	£989	(£27)
Fidelity	£250		£260	£265	£5
Total	**£23,500**		**£22,837**	**£23,987**	**£1,150**

28. The Council has investments in equity, multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

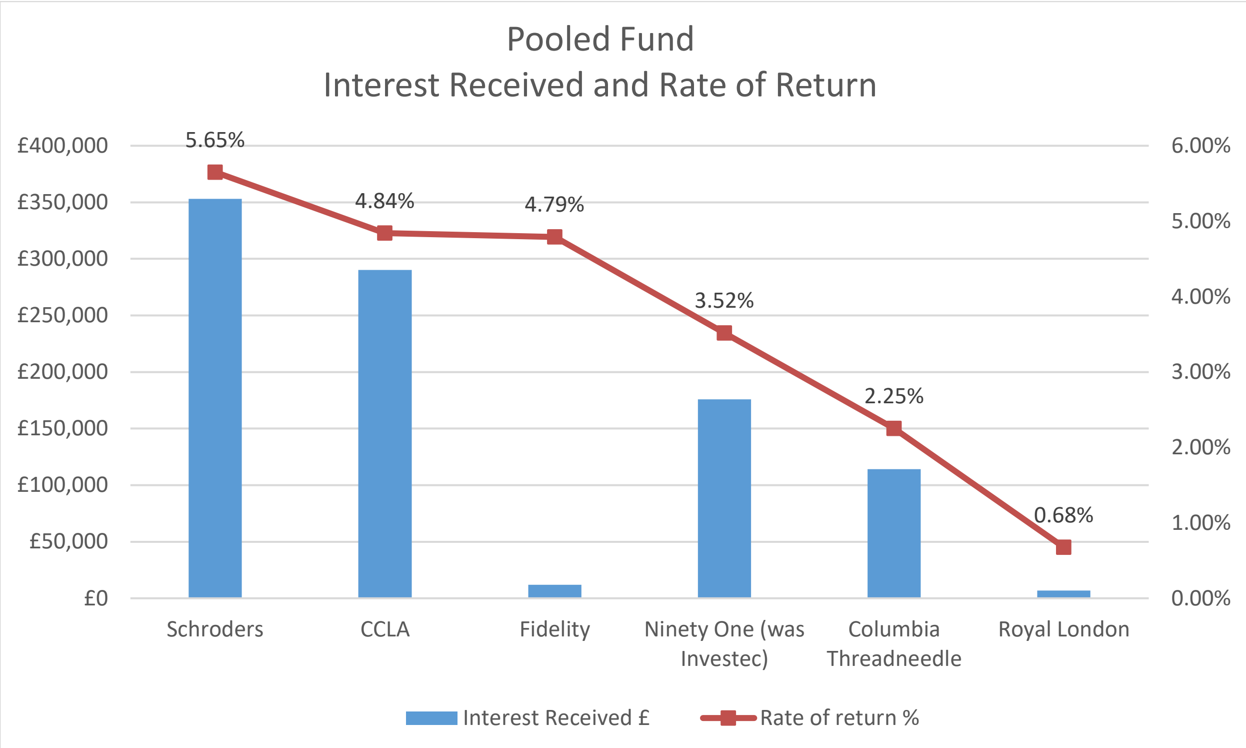
29. In the nine months to December improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Council’s property, equity and multi-asset income funds. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January to March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

30. In light of Russia’s invasion, Arlingclose contacted the fund managers of our MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

31. It should be noted that the £1.15m increase in the capital value of the investments will not have an impact on the General Fund as the Council is using the alternative fair value through profit and loss (FVPL) accounting and defers the funds’ fair

value losses (and gains) to the Pooled Investment Fund Adjustment Account until 2023/24.

The income generated from these investments in 2021/22 and the rate of return is detailed in graph and table below.



Fund	Interest Received £	Rate of return %
Schroders	£353,022	5.65%
CCLA	£290,285	4.84%
Fidelity	£13,992	4.79%
Ninety One	£175,904	3.52%
Columbia Threadneedle	£114,223	2.25%
Royal London	£6,768	0.68%
Total	**£954,194**	**4.06%**

32. Pooled funds have no defined maturity date, but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council’s investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

33. The investment strategy approved in the 2022/23 Treasury Management Strategy Statement recommended that the Council maintains its investments in the secure and higher yielding asset classes given the increasing risk and very low returns from short-term unsecured bank investments.

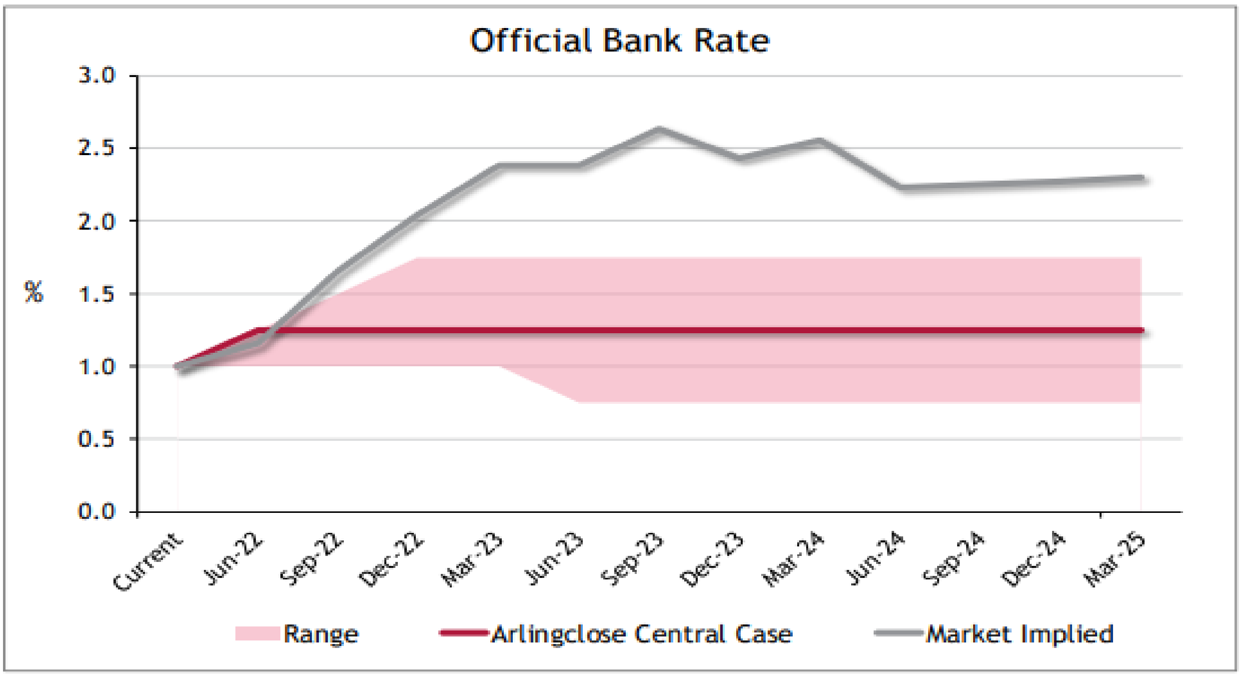
34. The graph above and table detailing interest received, and the rate of return on investments demonstrates that the approved policy has met the objectives of the investment strategy. It is anticipated that the level of strategic (long-term) investments will remain in the region of £24m in 2022/23, with the possibility of increasing these investments, if cash flow permits, in line with the Council's overall Financial Strategy and income generation targets.

35. The diversification into strategic investments represents a continuation of the strategy adopted in 2017/18. The Council's Treasury advisors have indicated that a maximum exposure to this investment type should be limited to £30m.

Interest Rates 2021/22

36. As detailed in the Arlingclose external context provided in Appendix A, the Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

37. As anticipated the Bank Rate increased to 1.25% in June. Risks around the forecast are weighted to the upside in the short term and a further rise to 1.50%, or higher, is a possibility.



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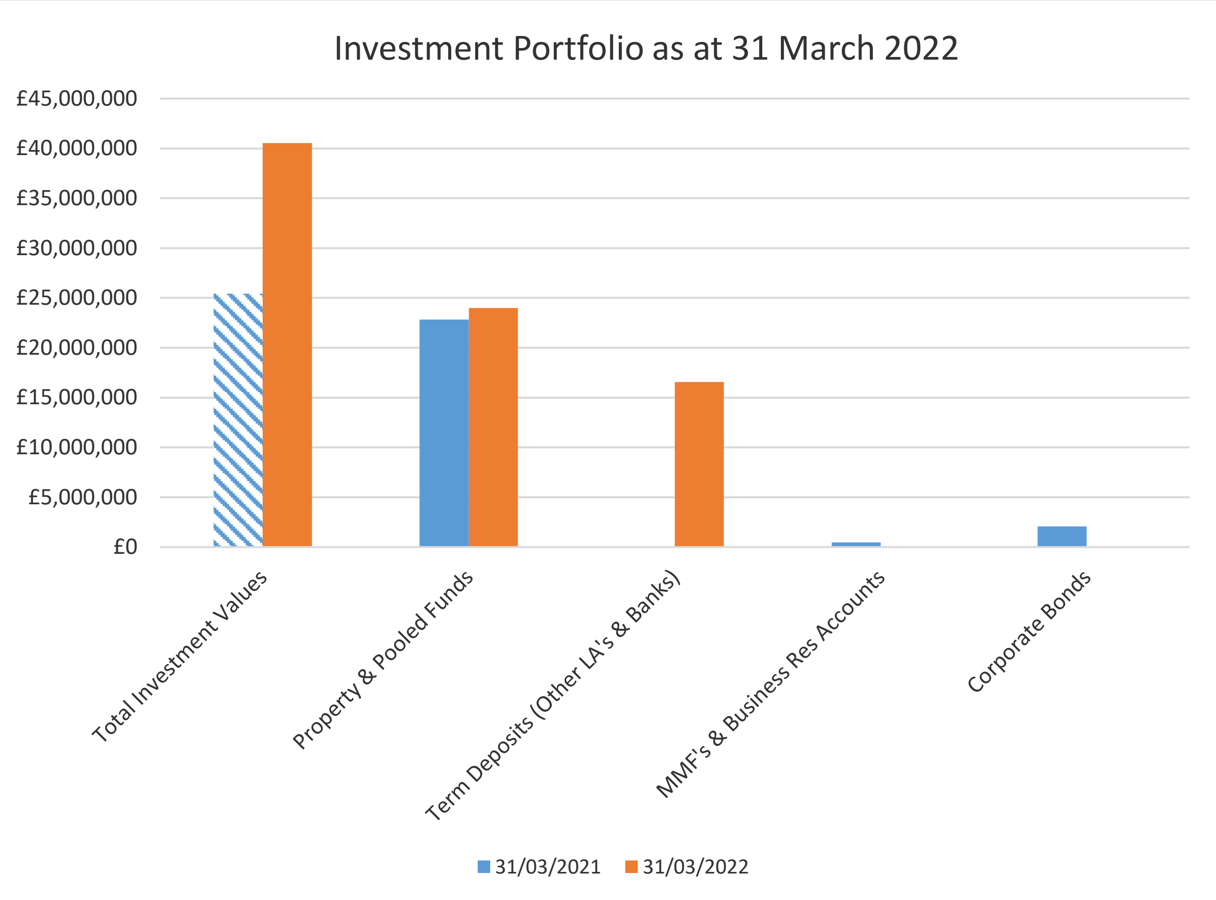
Investment Portfolio – Values and Returns

38. The graph below provides a snapshot of the Council's portfolio of investments at the end of the 2021/22 financial year, in comparison to the previous year end position.



39. The table below provides additional information on the actual value of investments at the start and end of the 2021/22 financial year:

Investment type	**Investment Value as at 31/03/2021**	**Investment Value as at 31/03/2022**	**Actual Income**	**% Rate of return**
Property & Pooled Funds	22,838,048	23,986,971	954,194	4.06%
Money Market Funds & Business Reserve Accounts	480,000	0	1,847	0.04%
Term Deposits (Other LAs & Banks)	0	16,550,000	2,714	0.14%
Corporate Bonds	2,060,491	0	8,699	0.75%
Total Investment Values	**25,378,539**	**40,536,971**	**967,454**	**2.77%**

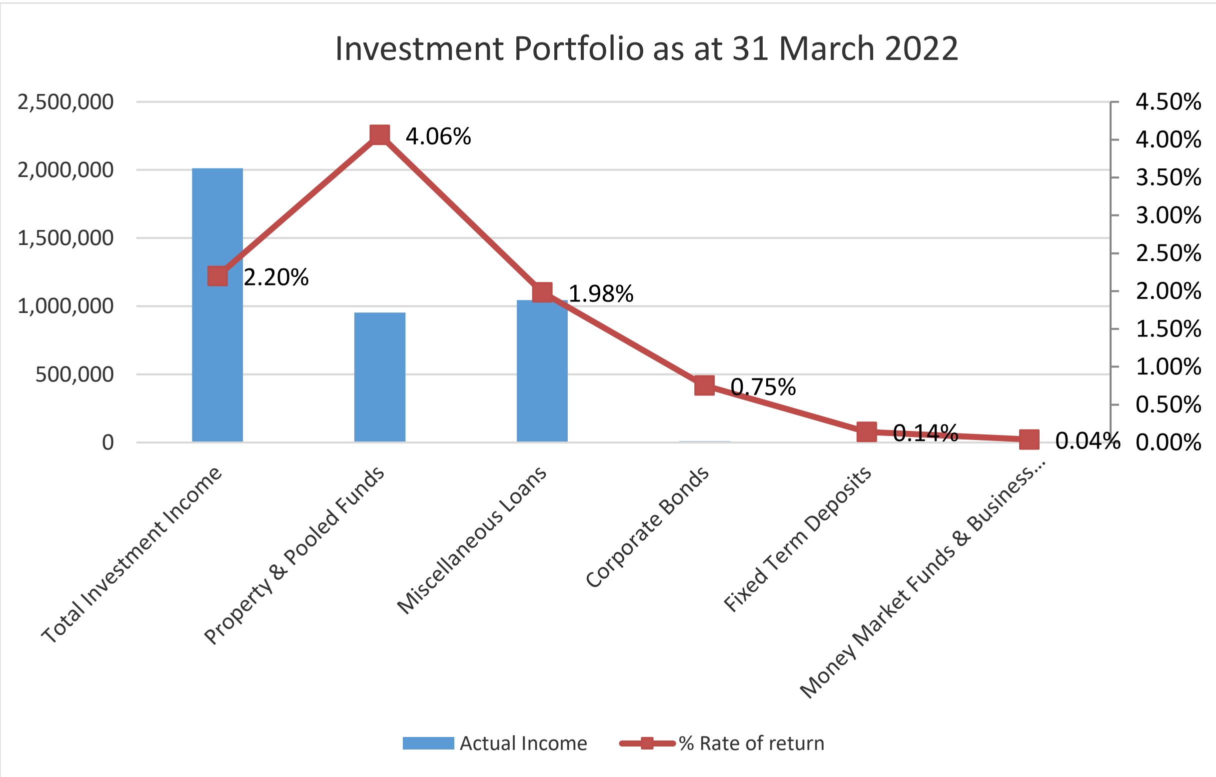
40. The types of investment that the Council held at the 31 March 2021 and 31 March 2022 has changed. The continuation of the policy to invest in higher yielding, long term strategic investments has resulted in a large portion of the Council's investment being concentrated in the pooled and property fund investment type. Pooled and property fund investments amounted to 59% of the investment portfolio as at 31 March 2021 (90% as at 31 March 2021).

41. The proportion of the investment portfolio which has increased 2021/22 is term deposits. The balance as at 31 March 2022 was £16.55m, with £12.55m invested with the DMADF and £4m invested with other LA's. The maximum investment period, in days, of the £16.55m was 13 days. These investments were made in line with the cash flow requirements of the Council meaning that the funds were unable to be invested in the higher yielding investment classes such as a property fund due to the short time period of the investments.

42. The Council continues to work closely with Arlingclose on the investment diversification and portfolio mix, Arlingclose are comfortable with the percentage of investment that the Council holds in pooled and property funds but has suggested a maximum exposure of £30m. The Council continually monitors the performance of the property and pooled funds and is able to withdraw funds at short notice if the fund performance were to deteriorate. Equally, the Council may borrow short term to manage cash flow variations if necessary.

Returns achieved in 2021/22

43. The returns are shown in the graph and table below:



Investment type	Actual Income £	Rate of return %
Property & Pooled Funds	954,194	4.06%
Miscellaneous Loans	1,046,132	1.98%
Corporate Bonds	8,699	0.75%
Fixed Term Deposits	2,714	0.14%
Money Market Funds & Business Reserve Accounts	1,847	0.04%
2021/22 Treasury Investment Income	**2,013,586**	**2.20%**
2021/22 Treasury Income Budget	**1,973,230**	
Surplus /(Deficit)	**40,356**	

44. The table above shows investment income for the year compared to the budget. The figures show a small surplus over budget of £40,356. The original treasury management budget of £1,973,230 was derived by forecasting an average rate of return of **1.39%** based on an average investment portfolio of £50m.

45. The outturn position is also affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of revenue and capital income and expenditure, and the collection and distribution of council tax and business rates income.

Treasury Investments

46. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2021/22. The table below lists the investments held on 31 March 2022.

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Breakdown of investments as at 31 March 2022

Date Invested	Counterparty	Nominal Amount £'000	Rate %	Maturity Date
	Term Deposits (Other LAs & Banks)			
25/03/2022	DMADF	4,550	0.55	07/04/2022
28/03/2022	North Warwickshire Borough Council	1,000	0.60	04/04/2022
30/03/2022	Cumbria Police & Crime Commissioner	3,000	0.61	11/04/2022
30/03/2022	DMADF	8,000	0.55	11/04/2022
	Property& Pooled Funds			
	Fidelity Global enhanced income (Global Equity)	250	5.69	
	Ninety One Diversified Income (was Investec)	5,000	3.52	
	Royal London Enhanced Cash Plus Fund	1,000	0.68	
	Schroders Income Maximiser (UK Equity)	6,250	5.65	
	Columbia Threadneedle Strategic Bond	5,000	2.28	
	CCLA Property Fund	6,000	4.84	
	Total	**40,050**		

Non-Treasury Investments

47. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

The Council also held £141.04m of such investments in

- Directly Owned Property - £96.30m
- Loan to Local Businesses - £0.13m
- Loan to Local Authority Partnership - £3.76m
- Loan to Subsidiaries - £40.85m

48. The detail of the Council's total investment in commercial investment property is reported separately. As part of its Commercial Strategy, investment in property has increased significantly in the past three years. Full Council at its meeting in December 2021 however decided not to make any further new investments for commercial purposes from that date.

Borrowing

49. The Council's primary objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

50. The table below summarises the external borrowing position for 2021/22. It details the opening position in respect of external loans, loans repaid, new loans, the average interest rate and the year-end position.

	Amount £'000	Average Interest Rate %
External Loans as at 1 April 2021	**98,000**	
New Loans	238,500	0.13%
Loans Repaid	(208,000)	
Total External Loans as at 31 March 2022	**128,500**	0.09%

51. In keeping with these objectives, new borrowing was kept to a minimum, however external borrowing increased from £98m to £128.5m. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

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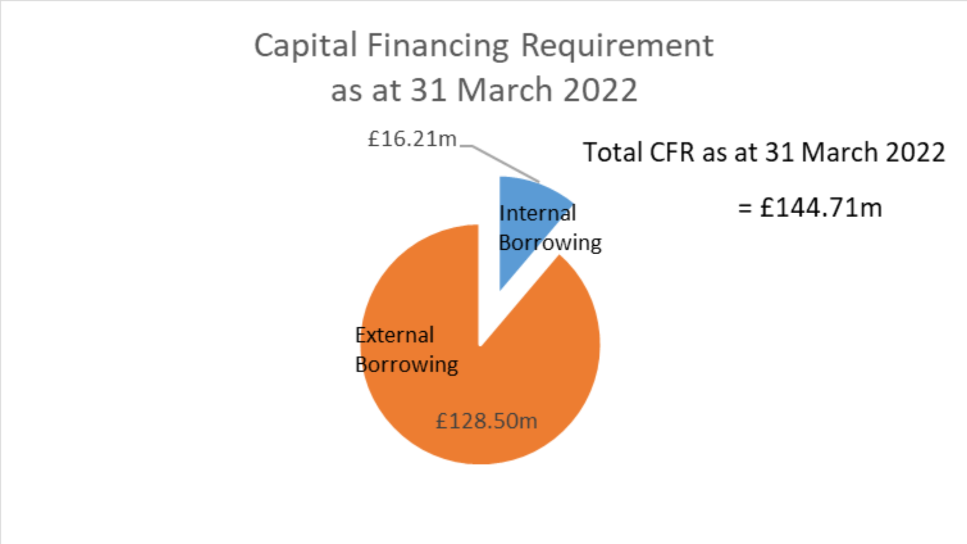
52. Details of the borrowing are included in the table below.

Lender	Date Borrowed	Repayment Date	No of Days	Interest Rate	Amount	2021/22 Interest	Total Interest
Northern Ireland Housing Executive	19/04/2021	14/04/2022	360	0.10%	4,000,000	3,803	3,945
Northern Ireland Housing Executive	20/04/2021	14/04/2022	359	0.10%	5,000,000	4,740	4,918
East Suffolk Council	20/04/2021	20/04/2022	365	0.14%	3,000,000	3,981	4,200
Middlesbrough Borough Council	25/08/2021	24/05/2022	272	0.07%	5,000,000	2,100	2,608
University of Teeside	25/08/2021	25/05/2022	273	0.08%	4,000,000	1,920	2,393
Greater Manchester Combined Authority	27/01/2022	27/04/2022	90	0.10%	3,000,000	526	740
Greater Manchester Combined Authority	23/12/2021	25/04/2022	123	0.04%	3,000,000	325	404
Wigan Metropolitan Borough Council	25/08/2021	25/05/2022	273	0.07%	5,000,000	2,100	2,618
Middlesbrough Borough Council	17/09/2021	07/04/2022	202	0.04%	10,000,000	2,148	2,214
South Lanarkshire Council	20/09/2021	20/05/2022	242	0.05%	2,000,000	529	663
South Lanarkshire Council	24/09/2021	24/05/2022	242	0.05%	2,000,000	518	663
Tendring District Council	29/09/2021	11/04/2022	194	0.04%	5,000,000	1,008	1,063
Greater Manchester Combined Authority	20/12/2021	20/04/2022	121	0.04%	7,000,000	782	928
West Yorkshire Police Authority	19/01/2022	18/01/2023	364	0.15%	10,000,000	2,959	14,959
Basildon Borough Council	17/03/2022	19/09/2022	186	0.15%	5,000,000	308	3,822
West Yorkshire Combined Authority	20/01/2022	20/07/2022	181	0.06%	10,000,000	1,167	2,975
Maldon District Council	18/02/2022	18/08/2022	181	0.10%	2,000,000	230	992
North Northamptonshire Council	31/01/2022	29/07/2022	179	0.16%	5,000,000	1,315	3,923
Nottingham City Council	16/02/2022	16/05/2022	89	0.15%	5,000,000	904	1,829
Northern Ireland Housing Executive	18/03/2022	19/09/2022	185	0.23%	5,000,000	441	5,829
Chichester District Council	21/01/2022	21/07/2022	181	0.14%	5,000,000	1,342	3,471
Mansfield District Council	16/02/2022	16/08/2022	181	0.18%	2,000,000	434	1,785
West Yorkshire Combined Authority	17/03/2022	19/09/2022	186	0.23%	3,000,000	284	3,516
Fermanagh and Omagh DistrictCouncil	28/03/2022	05/08/2022	130	0.40%	2,000,000	88	2,849
Blaenau Gwent County Borough Council	31/03/2022	08/04/2022	8	0.58%	1,500,000	24	191
Gwynedd Council	28/03/2022	11/04/2022	14	0.58%	2,500,000	159	556
Leicester City Council	28/03/2022	06/06/2022	70	0.60%	5,000,000	329	5,753
West Midlands CombinedAuthority	28/03/2022	28/06/2022	92	0.60%	5,000,000	329	7,562
Blaenau Gwent County Borough Council	31/03/2022	08/04/2022	8	0.58%	2,500,000	40	318
				Total	**128,500,000**	**34,833**	**87,688**

53. With short-term interest rates remaining much lower than long-term rates, the Council considered it cost effective in the near term to use internal resources in parallel with short-term loans.

54. The Council's underlying need to borrow is defined as its 'Capital Financing Requirement (CFR)'. The CFR was £134.1m million at the beginning of 2021/22. Capital expenditure during 2021/22 was funded through a combination of capital receipts, revenue reserves, external contributions (e.g. S106 receipts) and borrowing. As a result, the borrowing requirement (CFR) has increased to £144.7 million. However, we have followed a strategy of using our cash reserves to finance this borrowing requirement in the short term – known as "internal borrowing" – as short term investment returns foregone are currently lower than longer term borrowing rates.

Borrowing Type	£'000	%
Internal Borrowing	£16,214	11.20%
External Borrowing	£128,500	88.80%
Total Capital Financing Requirement as at 31 March 2022	**£144,714**	



Treasury Management Indicators

55. The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority 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.

	2021/22 Target	2021/22 Actual
Portfolio average credit rating	5.0	3.1

Liquidity: The Authority 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.

	2021/22 Target	2021/22 Actual
Total cash available within 3 months	£10m	£40m

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

	2021/22 Limit	2021/22 Actual
Upper limit on one-year revenue impact of a 1% change in interest rates	£200,000	£315,381

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

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	2021/22 Upper Limit %	2021/22 Lower Limit %	2021/22 Actual %
Under 12 months	100%	100%	100%
12 months and within 24 months	100%	100%	0%
24 months and within 5 years	100%	100%	0%
5 years and within 10 years	100%	100%	0%
10 years and above	100%	100%	0%

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. Upper and lower limits are set at 100% providing full flexibility to optimise borrowing arrangements.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority'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 were:

Price risk indicator	2021/22
Actual principal invested beyond year end	£0m
Limit on principal invested beyond year end	£30m

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

Other

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into for force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The decision on implementation date for the new standard will be taken by the newly formed Somerset Council.

Prudential Indicators – 2021/22

56. In February 2021, through approval of the Treasury Management Strategy Full Council approved the Prudential Indicators for 2021/22, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allows local authorities to determine their own borrowing limits provided they are affordable and that every local Council complies with the Code.

Capital Expenditure: The actual capital expenditure incurred for 2021/22 compared to the revised estimate was:

	2020/21 Outturn £'000	**2021/22 Revised Estimate £'000**	**2021/22 Outturn £'000**	**2021/22 Variance £'000**
Approved capital schemes	41,780	40,540	35,601	(4,939)
Total Expenditure	**41,780**	**40,540**	**35,478**	**(4,939)**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	2020/21 Outturn £'000	**2021/22 Revised Estimate £'000**	**2021/22 Outturn £'000**	**2021/22 Variance £'000**
Financing Costs	1,269	(502)	(655)	(153)
Net Revenue Stream	15,150	17,319	17,483	163
%	**7.8%**	**(2.9%)**	**(3.7%)**	

*figures in brackets denote income through receipts and reserves

The financing costs include interest payable and notional amounts set aside to repay debt less interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for the Council but is relevant since it shows the extent to which the Council is dependent on investment income.

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

	2020/21 Outturn £'000	2021/22 Revised Estimate £'000	2021/22 Outturn £'000	2021/22 Variance £'000	Reason for Variance
Opening CFR	96,973	134,148	134,148	-	
Capital Expenditure	42,177	40,540	35,601	(4,939)	
Capital Receipts*	(2,026)	(19,465)	(18,038)	1,427	
Grants/Contributions*	(2,148)	(10,335)	(6,956)	3,379	
Minimum Revenue Provision (MRP)	(828)	(1,199)	(992)	207	
Additional Leases taken during year	-	-	-	-	
Closing CFR	**134,148**	**143,689**	**143,764**	**74**	

*Figures in brackets denote income through receipts or use of revenue resources.
Total figures are rounded

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose. The Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

	2020/21 Outturn £'000	2021/22 Revised Estimate £'000	2021/22 Outturn £'000	2021/22 Variance £'000
Borrowing	98,000	122,000	128,500	6,500
Finance Leases	20	20	5	(15)
Total Debt	**98,020**	**122,020**	**128,505**	**6,485**
Capital Financing Requirement	134,148	143,689	143,764	74

Total debt is expected to remain below the CFR for the near future.

Credit Risk: The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Actual External Debt: This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2022	**£'000**
Borrowing	128,500
Other Long-term Liabilities (Finance Leases)	
-Vehicles	5
-Photocopiers	-
Total	128,505

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Authorised Limit for External Debt: This limit represents the maximum amount that the Council may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A borrowing requirement was identified in year to finance the capital programme and further borrowing may be undertaken to fund the agreed plans to acquire investment properties.

	2020/21 Actual £'000	2021/22 Original Estimate £'000	2021/22 Actual £'000
Borrowing	98,000	180,000	128,500
Other Long-term Liabilities	20	25,000	5
Total	98,020	205,000	128,505

Operational Boundary for External Debt: The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt.

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

The S151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	2020/21 Actual £'000	2021/22 Original Estimate £'000	2021/22 Actual £'000
Borrowing	98,000	170,000	128,500
Other Long-term Liabilities	20	20,000	5
Total	98,020	190,000	128,505

For information the 2022/23 operational boundary has been set at £180m and the authorised limit £195m. This was approved by full Council in February 2022 as part of the Annual Capital, Investment and Treasury Management Strategy report.

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Compliance

57. The Council operated within all of the Prudential Indicators during 2021/22.

Background Papers:
Treasury Management Strategy Statement 2021/22
Prudential Indicators and MRP Statement 2021/22
Capital Outturn 2021/22