Report to:	**Audit Committee**
Date:	**9 December 2021**
Title:	**Treasury Management Mid-Year Review**
Portfolio Area:	**Cllr H Bastone – Finance and Assets**
Wards Affected:	**All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **N/A**

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RECOMMENDATION:

It is RECOMMENDED that the Audit Committee resolves to endorse the contents of the report.

1. Executive summary

1.1 To date, the Council has underperformed the industry benchmark by 0.03%. The Council has achieved a rate of return of 0.02%, against the Sterling Overnight Interbank Average (SONIA) rate of 0.05%. The Council's budget for investment interest of £203,000 for 2020/21. The current forecast is £109,810 leaving a shortfall against budget of £93,190.

2. Background

2.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

2.3 Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.4 The Council's Finance Procedure Rules require that a report be taken to the Audit Committee three times a year on Treasury Management. The specific reporting requirements are:

- An annual treasury strategy in advance of the year (Council 25/03/2021 – 51/20)
- A mid-year (minimum) treasury update report (This report)
- An annual review following the end of the year describing the activity compared to the strategy

2.5 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (i.e. Treasury Management Strategy Statement (TMSS), annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.

3. Economics and Interest Rates

Economics Update

3.1 The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

3.2 There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.

3.3 In August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to 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. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

3.4 Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

Interest Rate Forecast

3.5 The Council's treasury advisor, Link Group, has provided the following forecast.

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

3.6 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left the Bank Rate unchanged at its subsequent meetings.

3.7 As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

The balance of risks to the UK

3.8 The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

4. Treasury Management Strategy Statement

4.1 The Treasury Management Strategy Statement (TMSS) for 2021/22, was approved by the Council on 25/03/21 – 51/20. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

4.2 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

4.3 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5. Investment Portfolio 2021/22

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by the interest rate forecasts in section 3.5, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020 until the MPC meeting on 24th September 2021 when 6 and 12 month rates rose in anticipation of Bank Rate going up in 2022. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.

5.2 The Council held £59.191m of investments as at 30 September 2021 (£42.09m at 31 March 2021) and the investment portfolio yield for the first six months of the year is 0.02% against a benchmark (SONIA rate) of 0.05%. The £59.191m of investments is made up of Money Market Funds, Fixed Term Deposits and Property Funds.

A full list of investments held as at 30 September 2021 is shown below:

Money Market Funds

Amount £	**Investment**	**Average Interest rate**
6,000,000	Aberdeen Standard Investments	0.01%
6,000,000	BlackRock ICS-Inst GBP	0.01%
5,500,000	Deutsche	0.00%
6,000,000	LGIM Sterling Liquidity Fund	0.00%
23,500,000	**Total Money Market Funds**	

The Council currently has four Money Market Funds. The money market funds allow immediate access to the Council's funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

Fixed Term Deposits – Current

Counterparty	**Fixed to**	**£**	**Interest Rate**
Barclays Banks Plc	15/10/2021	3,500,000	0.02%
Barclays Banks Plc	17/01/2022	2,500,000	0.02%
Lloyds Bank Plc	04/11/2021	1,000,000	0.10%
Lloyds Bank Plc	06/01/2022	5,000,000	0.02%
Debt Management Office	19/10/2021	4,000,000	0.01%
Debt Management Office	19/10/2021	3,000,000	0.01%
Debt Management Office	23/11/2021	2,200,000	0.01%
Debt Management Office	23/11/2021	2,500,000	0.01%
Debt Management Office	25/10/2021	2,000,000	0.01%
Debt Management Office	23/11/2021	2,500,000	0.01%
Debt Management Office	04/01/2022	4,200,000	0.01%
Total Fixed Term Deposits		**32,400,000**	

5.3 The Council's Investments mid-way through the year are always higher than at the end of the year (at 31st March) due to the cash flow advantage that the Council benefits from part way through the year.

This is, in part, due to the timing differences between the Council collecting council tax income and paying this over to major precepting authorities such as Devon County Council, the Police and the Fire Authority

The Council's current counterparty limit is £6 million (£7 million for Lloyds plc).

Property Funds

Amount £	**Investment**	**Dividend Yield**
1,338,007	CCLA – Property Fund	4.04%
1,942,283	CCLA – Diversified Income Fund	2.53%
3,280,290	**Total Property Funds**	

5.4 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2021/22.

5.5 The Council's budgeted investment return for 2021/22 is £203,000 and based on performance for the year to date a shortfall of £93,190 is expected.

Investment Counterparty Criteria

5.6 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Borrowing Position

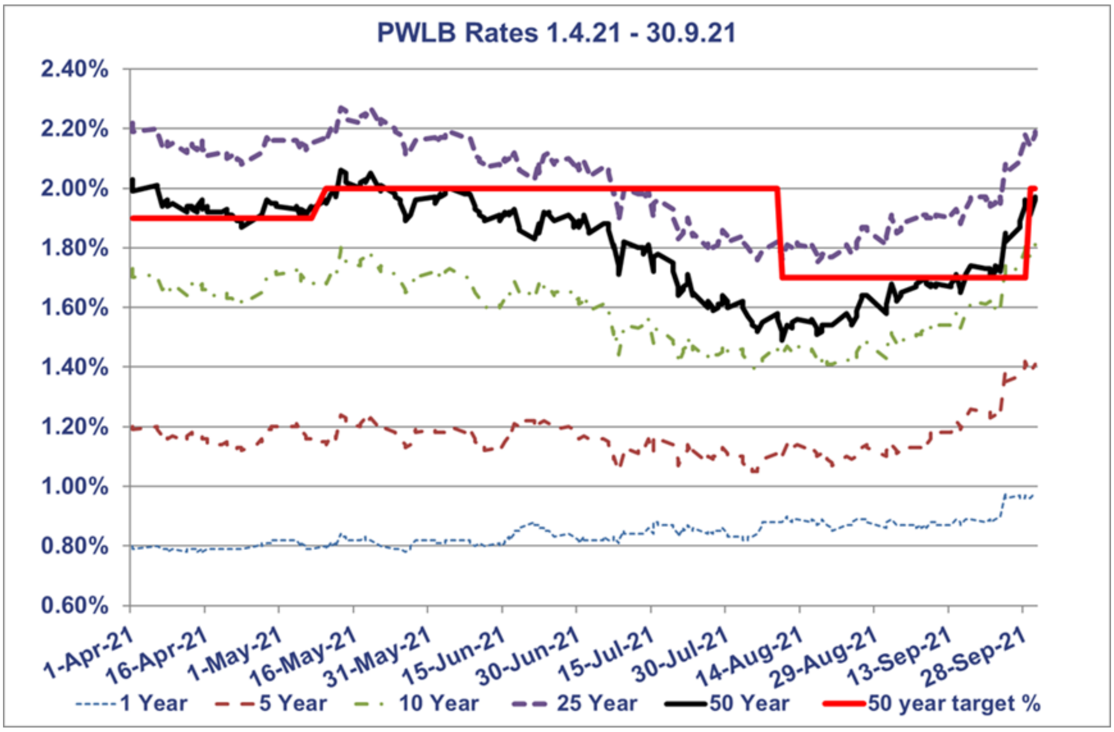
5.7 The Council's capital financing requirement (CFR) for 2021/22 is £17.0million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

A summary of the Council's debt position at 30 September 2021 compared with 31 March 2021 is shown in the table below:

Lender	**Maturity**	**Interest Rate %**	**Principal held at 31 March 2021** **£'000**	**Principal held at 30 Sept 2021** **£'000**
PWLB – Maturity Borrowed in May 2018 (23 maturity loans)	5-19 Years	2.41*	5,490	5,490
PWLB – Annuity Borrowed in September 2019	50 Years	1.97	3,928	3,904
PWLB – Annuity Borrowed in December 2019	50 Years	3.09	5,056	5,034
Total			**14,474**	**14,428**

*Average interest rate

5.8 Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September.
The 50 year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August and returned to 2.00% at the end of September after the MPC meeting of 23rd September.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%

Local Authorities are required to submit a summary of their planned capital spending and PWLB borrowing for the following three years. This is updated on at least an annual basis. In March of each year, Council approves its Capital Strategy, Investment Strategy and Treasury Management Strategy. PWLB borrowing is permitted in the future for the four categories of regeneration, service delivery, housing and refinancing.

Debt Rescheduling

5.12 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

6. Outcomes/outputs

6.1 The Council's budget for investment interest of £203,000 for 2021/22 is not expected to be met. A forecast of £109,810 will leave a shortfall of £93,190 against budget.

6.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The average SONIA rate at the end of September was 0.05% which is 0.03% higher than our average return of 0.02% as at 30 September 2021.

7. Options available and consideration of risk

7.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £6m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

7.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

7.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

8. Proposed Way Forward

8.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

8.2 Following the increase in the cost of borrowing from the PWLB (1% increase), work is currently being undertaken to reassess the financial viability of capital projects included in the capital programme and business cases being considered under the Commercial Investment Strategy.

9. Compliance with Treasury Limits and Prudential Indicators

9.1 During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2021/22 are detailed and shown in Appendix B.

10. Future changes being enacted within the 2022/23 Capital Strategy, Investment Strategy and Treasury Management Strategy.

9.1 CIPFA plan to publish new principles in December 2021 that Councils should adopt from 1 April 2022, in their Capital Strategy, Investment Strategy and Treasury Management Strategy for 2022-23.

9.2 The Prudential Code will be strengthened to clarify borrowing in advance of need and that local authorities must not borrow to fund solely yield-generating investments.

9.3 CIPFA will include proportionality as an objective in the Prudential Code. CIPFA is of the view that whilst local authorities should not be investing in assets primarily for yield, it is recognised, for example, that commercial activity is often a component of successful regeneration projects. CIPFA will propose that Local Authorities assess the proportionality of the risk of all projects, including regeneration, to quantify the risk to their resources.

11. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are the Local Government Act 1972 Section 151 and the Local Government Act 2003.
Financial implications to include reference to value for money	Y	To date, the Council has underperformed the industry benchmark by 0.03%. The Council has achieved a rate of return of 0.02%, against the Sterling Overnight Interbank Average rate (SONIA) of 0.05%. The Council's investment income target of £203,000 for 2021/22 is not expected to be met with a shortfall of £93,190.
Risk		The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation. The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.

		The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Executive through the quarterly budget monitoring reports.
Supporting Corporate Strategy		The treasury management function supports all of the Thematic Delivery Plans within ‘ Better Lives for all’.
Climate Change – Carbon/Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

<u>Supporting Information</u>

Appendices:

Appendix A – Lending list as at 01 November 2021
Appendix B – Prudential and Treasury Indicators 2021/22

Background Papers:

None

<u>Approval and clearance of report</u>

Process checklist	Completed
Portfolio Holder briefed/sign off	**Yes**
SLT Rep briefed/sign off	**Yes**
Relevant Heads of Practice sign off (draft)	**Yes**
Data protection issues considered	**Yes**
Accessibility checked	**N/A**

APPENDIX A

Counterparty as at 1st November 2021		Fitch Rating					Moody's Ratings			S&P Ratings			
United Kingdom		Long Term		Short Term	Viability	Support	Long Term		Short Term	Long Term		Short Term	Suggested Duration
AAA Rated and Government Backed Securities	Collateralised LA Deposit*												Y - 60 mths
	Debt Management Office												Y - 60 mths
	Multilateral Development Banks												Y - 60 mths
	Supranationals												Y - 60 mths
	UK Gilts												Y - 60 mths
Banks	Al Rayan Bank PLC						SB	A1	P-1				R - 6 mths
	Bank of Scotland PLC (RFB)	SB	A+	F1	a	5	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a	5	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	SB	A+	F1	a	1	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Close Brothers Ltd	SB	A-	F2	a-	5	NO	Aa3	P-1				R - 6 mths
	Clydesdale Bank PLC	SB	A-	F2	bbb+	5	SB	Baa1	P-2	SB	A-	A-2	G - 100 days
	Co-operative Bank PLC	SB	B+	B	b	5	PO	B2	NP				N/C - 0 months
	Goldman Sachs International Bank	SB	A+	F1		1	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	SB	AA	F1+		1				SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	NO	AA-	F1+	a	1	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	HSBC UK Bank Plc (RFB)	NO	AA-	F1+	a	1	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A+	F1		1	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	SB	A+	F1	a	5	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	National Bank of Kuwait Plc	NO	AA-	F1+		1				NO	A	A-1	O - 12 mths
	NatWest Markets Plc (NRFB)	SB	A+	F1	WD	1	PO	A2	P-1	SB	A-	A-2	R - 6 mths
	Santander Financial Services PLC (NRFB)	SB	A+	F1		1	SB	A1	P-1	SB	A-	A-2	R - 6 mths
	Santander UK PLC	SB	A+	F1	a	2	SB	A1	P-1	SB	A	A-1	R - 6 mths
	SMBC Bank International Plc	NO	A	F1		1	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Standard Chartered Bank	NO	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	R - 6 mths
Building Societies	Coventry Building Society	SB	A-	F1	a-	5	SB	A2	P-1				R - 6 mths
	Leeds Building Society	SB	A-	F1	a-	5	SB	A3	P-2				G - 100 days
	Nationwide Building Society	SB	A	F1	a	5	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Nottingham Building Society						SB	Baa3	P-3				N/C - 0 months
	Principality Building Society	SB	BBB+	F2	bbb+	5	SB	Baa2	P-2				N/C - 0 months
	Skipton Building Society	SB	A-	F1	a-	5	SB	A2	P-1				R - 6 mths
	West Bromwich Building Society						SB	Baa3	NP				N/C - 0 months
	Yorkshire Building Society	SB	A-	F1	a-	5	SB	A3	P-2				G - 100 days
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	SB	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	SB	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	B - 12 mths

Key

Watches and Outlooks		Duration	
SB	Stable Outlook	Yellow - Y	60 Months
NO	Negative Outlook	Blue - B	12 Months
NW	Negative Watch	Orange - O	12 Months
PO	Positive Outlook	Red - R	6 Months
PW	Positive Watch	Green - G	100 Days
EO	Evolving Outlook		
EW	Evolving Watch		

APPENDIX B

PRUDENTIAL AND TREASURY INDICATORS 2021/22

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure

This prudential Indicator is a summary of the Council's capital expenditure.

	2020/21 Actual £000	**2021/22 Budget £000**	**2021/22 Estimate £000**
General Fund services	5,645	8,431	7,406
Ivybridge Regeneration	-	510	210
TOTAL	**5,645**	**8,941**	**7,616**

The table below summarises the financing of the Council's capital programme.

	2020/21 Actual £000	**2021/22 Budget £000**	**2021/22 Estimate £000**
External sources	1,400	2,183	1,158
Own resources	2,393	2,277	2,277
Debt	1,852	4,481	4,181
TOTAL	**5,645**	**8,941**	**7,616**

The Council's Borrowing Need (the Capital Financing Requirement)

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	2020/21 Actual £000	2021/22 Budget £000	2021/22 Estimate £000
General Fund services	13,002	18,899	17,003
Community Housing	-	5,187	-
TOTAL CFR	**13,002**	**24,086**	**17,003**

There is a separate report on the December Executive agenda on Housing, which includes an update on housing projects. At Council on 25th November 2021, Members approved a housing project for St Anns Chapel for £4.2million, to deliver up to 8 affordable homes, 3 open market units and 2 serviced plots.

The Council's Gross Debt and the Capital Financing Requirement

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is lower than the CFR by £2.62m in the forecast for 2021/22.

	2020/21 Actual £000	2021/22 Budget £000	2021/22 Estimate £000
Debt	14,474	19,568	14,380
Capital Financing Requirement	13,002	24,086	17,003

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

The financing costs were increased in the 2021/22 budget to reflect the proposals within the investment strategy, and therefore this increased this indicator. There are now limited opportunities for the investment strategy if investment has to be within the South Hams boundary.

	2020/21 Actual	**2021/22 Budget**	**2021/22 Estimate**
Financing costs (£m)	550,144	813,311	735,446
Proportion of net revenue stream	5.85%	8.4%	7.6%

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	**2020/21**	**2021/22**
	£	**£**
Borrowing	70,000,000	70,000,000
Other long term liabilities	-	-
Total	**70,000,000**	**70,000,000**

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

Authorised limit	**2020/21**	**2021/22**
	£	**£**
Borrowing	75,000,000	75,000,000
Other long term liabilities	-	-
Total	**75,000,000**	**75,000,000**

South Hams District Council's current level of borrowing as at 30 September 2021 was £14.43 million.

As part of the Medium Term Financial Strategy, Members approved an overall Borrowing Limit of £75 million.