

Pecyn Dogfennau Cyhoeddus



Mae'r adroddiadau canlynol yn Eitemau Gwybodaeth ar gyfer y Pwyllgor Craffu Polisi ac Adnoddau.

- 1 Gwasanaethau Corfforaethol a Chyllid Amrywiol 2021/22 – Adroddiad Monitro Cyllideb (Cyfnod 7)
- 2 Dangosyddion Darbodus Rheoli'r Trysorlys a Chyllid Cyfalaf – Adroddiad Monitro Chwarter 2 (1 Ebrill 2021 i 30 Medi 2021).



POLICY AND RESOURCES SCRUTINY COMMITTEE – INFORMATION ITEM

**SUBJECT: CORPORATE SERVICES AND MISCELLANEOUS FINANCE 2021/22
BUDGET MONITORING REPORT (PERIOD 7)**

REPORT BY: DIRECTOR OF EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT

1.1 To inform members of projected revenue expenditure for the Directorate of Corporate Services and Miscellaneous Finance for the 2021/22 financial year.

2. SUMMARY

2.1 The report projects the anticipated final outturn for the Directorate of Corporate Services and Miscellaneous Finance based upon expenditure and income trends for the first seven months of the financial year.

3. RECOMMENDATIONS

3.1 Members are requested to note the contents of the report.

4. REASONS FOR THE RECOMMENDATIONS

4.1 To ensure that Members are informed of the projected financial position for the Directorate of Corporate Services and Miscellaneous Finance.

5. THE REPORT

5.1 Corporate Services

5.1.1 The Directorate of Corporate Services is currently forecasting an underspend of £917k for the 2021/22 financial year, full details of which are provided in Appendix 1.

5.1.2 Members are advised that the projected outturn for Education & Lifelong Learning is a net underspend of £973k, consequently overall the projected outturn position for Education and Corporate Services is an underspend of £1,890k.

5.1.3 There is an anticipated net underspend on Chief Executive and Director of Education & Corporate Services of £4k after the use of agreed reserves to fund the leadership programme.

5.1.4 The anticipated net underspend of £201k in Corporate Finance relates in the main to in-year vacancies, some of which are in the process of being filled, additional one-off grant income, together with the use of reserves to fund an apprentice post and a Finance Officer (Cashless

Catering). It has been agreed via a delegated decision that £52k is earmarked to establish a reserve for PCI Data Security Standard work, this has been factored into the net underspend position.

- 5.1.5 There is an anticipated net underspend of £372k in Digital Services, after taking into account the agreed used of reserves. The underspends will be monitored during the year and may reduce depending on agreed project work. The underspends consist of: -
- A projected underspend of £49k for IT Services which is due in the main to delays in filling vacancies offset by the estimated costs of additional leased Telephone lines, external consultants, agency staff and a reduction in income.
 - A projected net underspend of £150k on Procurement which relates in the main to delays in filling vacant posts.
 - An underspend of £173k for Customer First. This is due in the main to vacant posts still to be filled due to secondments to the Track and Trace programme.
- 5.1.6 Legal & Governance is projecting a net underspend of £43k after allowing for the following to be ring-fenced and transferred to earmarked reserves: -
- Projected underspend on Members related expenditure of £97k. This is due in the main to underspends on Members' Allowances and associated budgets which is partly offset by increased costs on Members' superannuation costs.
 - Projected underspend of £48k on Electoral Services. The Electoral Services underspends in non-election years are ring-fenced to fund overspends in election years.
- 5.1.7 The net underspend of £43k for Legal & Governance is due in the main to reduced income levels offset by staff not reaching the top of their pay scales, some temporary reduced hours and savings associated with working from home. These income levels will be monitored closely during the year. The net underspend is after taking into account the agreed use of reserves for an additional Committee Services Officer.
- 5.1.8 There is a projected net underspend of £148k for People Services mainly consisting of: -
- Human Resources projected net underspend of £86k due in the main to staff being on maternity leave and some temporary reductions in working hours, partially offset by reduced income levels. The net underspend is after taking account of the agreed use of reserves.
 - Health & Safety underspend of £137k due in the main to salary savings arising from delays in recruitment after taking account of the agreed use of reserves for an SLA Support Officer. The underspend is partially offset by reduced internal training income due to Covid-19. There are also small forecast savings on vehicle hire.
 - Occupational Health underspend of £35k due in the main to salary savings due to delays in recruitment
 - The Communications Unit is projecting a net overspend of £80k, due in the main to reduced levels of internal income arising from Covid-19. Income levels will be closely monitored in year. It is anticipated the lost internal income in this budget has resulted in savings in other service division's printing budgets.
 - CMT Support overspend of £31k due to the addition of a new "Support Officer".
- 5.1.9 There is an anticipated £112k net underspend in Business Improvement Services after taking account of the following: -
- Management – Projected net underspend of £109k due to a vacant Head of Service post, which is partially offset by additional temporary costs for an existing Head of Service to cover duties.
 - Projected net underspend of £9k in the Policy Team due to delays in filing a vacant post.

- Projected underspend of £23k in the Equalities and Welsh Language Team due in the main to some staff not reaching the top of pay scales in the current year.
- Projected small overspend of £5k in the Performance Management Unit.
- Projected net overspend of £5k in the Transformation Team after taking account of the agreed transfer of reserves.
- It has been agreed to establish an Earmarked Reserve for a 1 year Fixed Term Welsh Translator of £20k. The reserve is to cover the remaining months of the fixed term post in 2022-23.

5.1.10 Although Property Services sits within the Economy & Environment Directorate, budget monitoring has traditionally been considered by the Policy and Resources Scrutiny Committee. For Property Services there is a net projected overspend of £34k, consisting of the following: -

- Management - £32k underspend in the main due to staff on temporary reduced hours offset by the estimated appointment of a new post starting in February 2022.
- Energy - £7k underspend, due to a temporary reduction in hours of a member of staff.
- Estates - £15k underspend due mainly to staff vacancies/reduced hours offset by a reduction in the anticipated level of fee income. The income levels will be monitored closely in-year.
- Non – Operational Properties - £8k underspend mainly due to reduced utility costs being incurred.
- Corporate Facilities – a net £57k overspend mainly due to increased electricity costs for Ty Penallta to comply with the Covid-19 guidance, offset by savings in salaries due to some temporary reductions in hours. The net overspend is after the agreed use of reserves of £80k for Ty Penallta Café.
- Maintenance – Projected £32k underspend due in the main to delays in filling vacant posts and increased fee income.
- Building Consultancy – Projected £72k overspend due in the main to reduced fee income arising from the pausing of the Trinity Fields extension project. The creation of a new Project Manager post is partially offset by delays in filling existing posts.

5.1.11 There is a projected underspend of £69k on Housing Services (excluding HRA) which consists of the following: -

- General Fund Housing is expected to show a £99k underspend at this stage, although there are some offsetting over and underspends contributing to this position. This service area includes a statutory duty for Temporary Accommodation which is demand led and difficult to predict, but trends show an annual increase in the need for this service evidenced by the increase in B&B accommodation over the past few years and in particular placements made during the pandemic. There has been a government embargo on evictions, which ended in June 2021, which has therefore restricted the normal flow of homeless activity, but activity for Covid related placements still remains high. Welsh Government have also extended the requirement for landlords to serve notice on tenants to 6 months. We therefore anticipate referrals requiring emergency housing to increase.
- The demand for B&B placements as a result of Covid-19 has been significant with on average 70 cases per month, together with accompanying security costs for the relevant establishments. Welsh Government have funded these costs (net of any housing benefits) from the Covid Hardship Grant and have confirmed this funding will remain in place for the remainder of this financial year. However, once this funding has ceased, the funding commitment will fall on the General Fund. In the long term, however, Welsh Government has set out an ambitious Programme for Government with the aim of making our community a better place to live and work, which will be achieved in part, by reforming homelessness services to focus on prevention and rapid rehousing, which should in theory eradicate the need for B&B placements. Emergency Accommodation will still be required but on a smaller scale and officers are currently undertaking a review to determine what this provision will look like for CCBC in the longer term. In the meantime, the Council is

looking to maximise its Caerphilly Keys Private Rented Sector project and recently launched its own website whilst running a heightened media campaign in December in an attempt to attract more landlords to the project, so that the Housing Solutions Team can maximise move on within that sector.

- Supporting People have also confirmed additional funding in year for the Homeless Prevention Officers which has contributed to the underspend.
- Private Sector Housing is expected to show a £30k overspend at this stage. In previous reports there was concern regarding the under recovery of the Agency Income Fee which has historically been generated from the private housing capital programme. This budget relies on its fee income to be able to fund the service. Unfortunately, due to the Covid-19 restrictions, officers were unable to progress with any works (other than emergencies), and as such have not been able to receive any significant fee income. The reduced activity during the pandemic has created a backlog of work which officers are now trying to manage.
- Welsh Government have offered up a lost income financial assistance grant as a consequence of Covid-19, and claims made for the lost agency fee were fully successful last financial year. The budget therefore now assumes the reduction in lost income will be fully recovered this financial year via the lost income claim. This should ensure the budget remains in a manageable position for this financial year, but officers are reviewing the budget for long term sustainability.
- The projected overspend at this stage can be met from working balances.

5.2 Miscellaneous Finance

5.2.1 There is an overall projected underspend of £936k in Miscellaneous Finance.

5.2.2 There is a projected net underspend of £526k on Capital Financing budgets which is due to the following: -

- £827k underspend on Debt Charges due to delays in borrowing requirements.
- Investment income being £301k less than the budgeted level due to the timing of new medium to long term investments due to Covid-19.

5.2.3 There is a projected overspend of £65k on the Trade Union budget. We are currently still in discussions with Trade Union colleagues to review and update our Facilities Agreement to ensure that equitable support arrangements are in place.

5.2.4 The Counsel Fees budget is projected to be breakeven at present, but this is a volatile budget that will be monitored closely in year.

5.2.5 The remaining projected overspends in Miscellaneous Finance consist of the following: -

- £16k on the Class 1A NI savings, this is due in the main to a reduced take-up of the Tusker GASS car scheme.
- £47k on Bank Charges due to the increased costs of processing “faster payments” and increased transaction fees due to the move to “cashless payments”.

5.2.6 The remaining projected underspends for Miscellaneous Finance consists of the following: -

- Subscriptions - £7k
- Carbon Management Scheme - £247k (scheme ended in 2019-20).
- £12k Community Schemes budget due to the cancellation of events.
- £272k due to delays in recruitment to Head of Service posts.

6. ASSUMPTIONS

- 6.1 The projected outturn position is based on actual income and expenditure details to the end of October 2021.
- 6.2 Forecasts have been made following discussions with Managers based on current information available.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

- 7.1 This report is for information only so an IIA is not required.

8. FINANCIAL IMPLICATIONS

- 8.1 As detailed throughout the report.

9. PERSONNEL IMPLICATIONS

- 9.1 There are no direct personnel implications arising from this report.

10. CONSULTATIONS

- 10.1 There are no consultation responses that have not been reflected in this report.

11. STATUTORY POWER.

- 11.1 Local Government Acts 1972 and 2003 and the Council's Financial Regulations.

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Cllr B. Miles, Vice Chair of P&R Scrutiny

Appendices:

Appendix 1 Corporate Services & Miscellaneous Finance 2021/22 Budget Monitoring Report
(Period 7).

Background Papers:

Council (24/02/21) – Budget Proposals for 2021/22 and Medium-Term Financial Outlook

CORPORATE SERVICES DIRECTORATE	Original Estimate 2021-22	Revised Estimate 2021-22	Anticipated Outturn 2021-22	Anticipated Variance 2021-22
SUMMARY				
CHIEF EXECUTIVE	207,906	207,906	197,869	10,037
DEPUTY CHIEF EXECUTIVE/DIRECTOR CORPORATE SERVICES & EDUCATION	153,816	153,816	208,922	(55,106)
Approved Use of Reserves - Leadership	0	0	(49,501)	49,501
CHIEF EXECUTIVE & DIRECTOR OF EDUCATION & CORPORATE SERVICES	361,722	361,722	357,290	4,432
CORPORATE FINANCE				
Financial services & Internal Audit	1,948,948	1,948,948	1,682,587	266,361
Approved Use of Reserves - Apprentice	(28,490)	(28,490)	(6,791)	(21,699)
Approved Use of Reserves - Finance Officer - Cashless Catering	(32,083)	(32,083)	(28,642)	(3,441)
Approved Use of Reserves	0	0	(12,263)	12,263
Establish an earmarked Reserve for PCI data Security Standard			52,000	(52,000)
	1,888,375	1,888,375	1,686,891	201,484
DIGITAL SERVICES				
IT Services	4,590,957	4,590,957	4,730,691	(139,734)
Approved Use of Reserves - (£500k Underspend Reserve)	0	0	(69,194)	69,194
Approved Use of Reserves - (£500k IT Transition Reserve)	0	0	(13,860)	13,860
Approved Use of Reserves - (£1.4m Strategy Reserve)	0	0	(106,000)	106,000
Procurement	1,269,449	1,269,449	1,105,796	163,653
Approved Use of Reserves - Brexit Funding for Information Governance Po	(36,341)	(36,341)	(34,043)	(2,298)
Approved Use of Reserves - Brexit Funding for Procurement Post	(28,490)	(28,490)	(16,867)	(11,623)
Customer First	1,228,649	1,228,649	1,110,812	117,837
Approved Use of Reserves	0	0	(55,261)	55,261
	7,024,224	7,024,224	6,652,073	372,151
LEGAL & GOVERNANCE SUPPORT				
Legal & Democratic Services	1,113,660	1,113,660	1,089,883	23,777
Approved Use of Reserves - Committee Services Officer	0	0	(19,590)	19,590
Members Allowances	1,768,338	1,768,338	1,671,599	96,739
Ringfenced to Earmarked Reserves	0	0	96,739	(96,739)
Electoral Services	342,613	342,613	294,128	48,485
Ringfenced to Earmarked Reserves	0	0	48,485	(48,485)
	3,224,611	3,224,611	3,181,244	43,367
PEOPLES SERVICES				
Human Resources	1,549,450	1,549,450	1,513,523	35,927
Approved Use of Reserves - Workforce Development	0	0	(49,578)	49,578
Approved Use of Reserves - Managing Attendance Officer	(32,083)	(32,083)	(32,083)	0
Health & Safety	799,700	799,700	655,235	144,465
Approved Use of Reserves - SLA Support Officer	(39,124)	(39,124)	(31,826)	(7,298)
Occupational Health	218,972	218,972	183,480	35,492
Communications Unit	370,033	370,033	426,013	(55,980)
Proposed Use of Reserves Regrade	(23,395)	(23,395)	0	(23,395)
CMT Support	141,499	141,499	166,435	(24,936)
Proposed Use of Reserves for additional Support Officer for 2 Months	(6,057)	(6,057)	0	(6,057)
	2,978,995	2,978,995	2,831,198	147,797
BUSINESS IMPROVEMENT SERVICES				
Management	131,121	131,121	21,657	109,464
Policy	615,931	615,931	624,836	(8,905)
Approved Use of Reserves - Fleet Review Officer	(45,495)	(45,495)	(43,469)	(2,026)
Approved Use of Reserves - Asylum Dispersal Officer	0	0	(20,571)	20,571
Transformation Team	383,877	383,877	311,547	72,330
Approved Use of Reserves - 4 Project Managers	(181,980)	(181,980)	(104,448)	(77,532)
Equalities	409,081	409,081	385,766	23,315
PMU	227,166	227,166	232,250	(5,084)
Establish a Reserve for a 1 yr Fixed Term Welsh Translator Post			20,000	(20,000)
	1,539,701	1,539,701	1,427,569	112,132
TOTAL CORPORATE SERVICES	17,017,628	17,017,628	16,136,265	881,363
PROPERTY SERVICES				
Management	363,633	363,633	331,791	31,842
Energy	144,217	144,217	136,797	7,420
Estates	158,255	158,255	142,803	15,452
Non Operational Properties	100,136	100,136	91,945	8,191
Facilities	2,208,921	2,208,921	2,345,631	(136,710)
Approved Use of Reserves - Ty Penallta Café	0	0	(80,140)	80,140
Maintenance	2,145,690	2,145,690	2,113,974	31,716
Building Consultancy	(172,134)	(172,134)	(100,408)	(71,726)
	4,948,718	4,948,718	4,982,393	(33,675)
HOUSING SERVICES				
General Fund Housing	1,353,825	1,323,825	1,224,995	98,830
Private Housing	302,937	362,937	392,630	(29,693)
	1,656,762	1,686,762	1,617,625	69,137

<i>TOTAL NON- CORPORATE SERVICES</i>	6,605,480	6,635,480	6,600,018	35,462
<i>TOTAL SERVICES</i>	23,623,108	23,653,108	22,736,282	916,826

MISCELLANEOUS FINANCE	Original Estimate 2021-22	Revised Estimate 2021-22	Anticipated Outturn 2021-22	Anticipated Variance 2021-22
MISCELLANEOUS FINANCE				
Staff Related Costs				
Pension Contribution - Former Authorities Ongoing	1,155,689	1,125,689	1,125,689	0
Recharge to Education - Former Authorities	(179,629)	(179,629)	(179,629)	0
	976,060	946,060	946,060	0
Statutory Benefit Schemes				
Council Tax RS	16,041,850	16,041,850	15,497,340	544,510
Ringfenced to Earmarked Reserves	0	0	544,510	(544,510)
DHP Rent allowances	34,183	34,183	34,183	0
DHP Rent Rebates	307,649	307,649	307,649	0
DHP Income	(341,832)	(341,832)	(341,832)	0
General Rent Allowances	19,897,202	19,897,202	19,897,202	0
Rent Rebates	25,496,064	25,496,064	25,496,064	0
Rent Allowance War Widow Concessions	25,000	25,000	25,000	0
Housing Benefit Subsidy	(45,393,266)	(45,393,266)	(45,393,266)	0
	16,066,850	16,066,850	16,066,850	0
Levies Upon the Council				
Coroner	289,933	289,933	289,933	0
Archives	220,603	220,603	220,603	0
Fire Service Authority	9,099,329	9,099,329	9,099,329	0
	9,609,865	9,609,865	9,609,865	0
Capital Financing				
Debt Charges (Principal Repaid)	2,736,375	2,736,375	2,613,000	123,375
Debt Charges (Interest Payments)	8,453,374	8,453,374	7,749,737	703,637
Debt Charges (Debt Management Exp's)	41,792	41,792	41,792	0
Income from External Investments:	(1,443,333)	(1,443,333)	(1,142,000)	(301,333)
Earmarked for specific funds/balances	812,500	812,500	812,500	0
CERA (Capital Expenditure funded from Revenue Account)	2,867,891	2,867,891	2,867,891	0
	13,468,599	13,468,599	12,942,920	525,679
Corporate and Democratic Core Costs				
Bank Charges	199,035	199,035	246,000	(46,965)
Income from HRA	(33,477)	(33,477)	(33,477)	0
Income from DLO/DSO	(14,290)	(14,290)	(14,290)	0
External Audit Fees	438,645	438,645	438,645	0
Actuarial Fees	1,846	1,846	1,846	0
Income from HRA	(74,089)	(74,089)	(74,089)	0
Income from DLO/DSO	(31,626)	(31,626)	(31,626)	0
Subscriptions	129,779	129,779	122,911	6,868
	615,823	615,823	655,920	(40,097)
Grants to Voluntary sector				
Assistance to Voluntary sector	188,160	188,160	188,160	0
	188,160	188,160	188,160	0
Private Finance Initiative				
PFI Schools	2,127,887	2,127,887	2,127,887	0
PFI SEW	3,568,084	3,568,084	3,568,084	0
	5,695,971	5,695,971	5,695,971	0
Other				
Free School Meal Grant	309,857	309,857	309,857	0
Counsel Fees	272,096	272,096	272,096	0
Careline	16,290	16,290	16,290	0
Carbon Management Scheme	3,939	3,939	3,939	0
Carbon Energy Tax	246,839	246,839	0	246,839
IT Replacement Strategy	136,121	136,121	136,121	0
PV Panel Maintenance	2,099	2,099	2,099	0
PV Panels Income	(59,018)	(59,018)	(59,018)	0
Risk Management Contribution	(456,511)	(456,511)	(456,511)	0
Class 1A NI	(100,750)	(100,750)	(85,000)	(15,750)
City Deal	443,845	443,845	443,845	0
Matched Funding for Community Schemes	15,369	15,369	3,000	12,369
Targeted Rate Relief Scheme	226,878	226,878	226,878	0
Miscellaneous Items	1,813,715	3,010,302	3,010,302	0
Trade Union Facilities	28,684	28,684	93,933	(65,249)
PFI Review	851,944	851,944	851,944	0
Community Empowerment Fund	328,000	328,000	328,000	0
Transformation Posts	272,158	272,158	0	272,158
	4,351,555	5,548,142	5,097,775	450,367
TOTAL MISCELLANEOUS FINANCE	50,972,883	52,139,470	51,203,522	935,948
EXPENDITURE TO DIRECTORATE SUMMARY	74,595,991	75,792,578	73,939,804	1,852,774



POLICY AND RESOURCES SCRUTINY COMMITTEE – INFORMATION ITEM

**SUBJECT: TREASURY MANAGEMENT AND CAPITAL FINANCING
PRUDENTIAL INDICATORS QUARTER 2 MONITORING
REPORT (1ST APRIL 2021 TO 30TH SEPTEMBER 2021)**

**REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND
CORPORATE SERVICES**

1. PURPOSE OF REPORT

- 1.1 To present Members with details of Treasury Management activities and Capital Financing, together with the related Prudential Indicators for the period 1st April 2021 to 30th September 2021.
- 1.2 To review the Treasury Management Strategy for 2021/22 as set out in the Annual Investment Strategy and Capital Financing Prudential Indicators Report.

2. SUMMARY

- 2.1 The Code of Practice on Treasury Management in the Public Services 2009, which was adopted by the Council on 12th October 2010, sets out a framework of operating procedures, which is encompassed in the Treasury Management Practices (TMPs). TMP6 (Reporting Requirements and Management Information Arrangements) which requires the Authority to approve treasury management semi-annual and annual reports.
- 2.2 Under the provisions of the Local Government Act 2003, The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [The Capital Regulations], and the CIPFA's "The Prudential Code for Capital Finance in Local Authorities" [the Code], the Authority is obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management.
- 2.3 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The capital strategy for 2021/22 was submitted to Full Council on the 24th February 2021.
- 2.4 The Authority's Annual Treasury Strategy and Capital Financing Prudential Indicators for 2021/22 were also approved by Council on the 24th February 2021.

3. RECOMMENDATIONS

3.1 Members are asked to note the contents of this report.

4. REASONS FOR THE RECOMMENDATIONS

4.1 Compliance with the CIPFA “Code of Practice for Treasury Management in the Public Services”.

5. THE REPORT

5.1 Treasury Management

5.1.1 Borrowing Activity

The current policy of internal borrowing is not sustainable in the long-term, but where prudent the policy of internal borrowing will be utilised. As at the 31st March 2021 the internal borrowing position was £72m.

The Annual Treasury Management Strategy was approved by Council in February 2021. As part of the strategy approval was given to borrow £37.2m in 2021/22 to part fund the General Fund capital programme if required. A further £52.0m was approved for the HRA to fund the WHQS and Affordable Housing capital programme. During the reported period no external borrowing has taken place and internal funds have been used. There was a further drawdown of £827k from the Salix Loan Facility during the reported period. Total Salix drawn down to date is £4.1m.

During the period covered by this report, PWLB loans to the value of £1.6m were repaid on maturity. Such loans had an average interest rate of 4.43%. £30k of the WRU Loan was also repaid. Total debt outstanding as at 30th September 2021 was £318.8m and comprised of £254.7m PWLB loans; £30m market loans (LOBOs); £10m Bank loan; £20m WG loan, £60k WRU loan; and a £4.1m Salix Energy Finance loan.

With respect to LOBO loans the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. During the reporting period our total LOBO portfolio with a value of £30m had a rate option reviewed, and the lenders chose not to exercise the option. LOBO loans will be further reviewed again later in 2021/22 by lenders, with our total LOBO portfolio of £30m exposed to variable interest rate movement. This represents 9.4% of the Authority's debt portfolio, which is exposed to interest rate risk. The Authority acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

5.1.2 Rescheduling

The Annual Strategy allows for the utilisation of debt rescheduling providing for both in year and future year savings and additional revenue resources. No rescheduling opportunities were utilised during the period covered by this report.

5.1.3 Investments

During the reported period the Authority was holding £36.5m of long-term investments where the maturity date is greater than 365 days. These investments are in accordance with the approved Investment Strategy. The long-term investments comprise of UK Gilts, Loans to Registered Providers, Real Estate Investment Trusts (REITS) and pooled funds. The value of short-term deposits as at 30th September 2021 was £121.2m.

The total investments held as at 30th September 2021 were £157.7m and had a total average rate of return equating to 0.69% which is a significant improvement over placing deposits with the Debt Management Office (DMO) whose rates were typically 0.01% during the reporting period and going into negative territory towards the end of the reporting period. The rate of return is above the target rate, as detailed in the Annual Treasury Management Strategy report to Council, of 0.10%. Investment rates continued to remain low during the reporting period on our traditional style investments e.g. Covered Bonds and Inter-LA lending. As a result of additional monies being received due to Covid-19 most Local Authorities held surplus cash balances and the inter-LA market was virtually non-existent.

During the reporting period, the Authority made a further investment of £7.5m into their pooled funds. These funds allow the Authority to generate enhanced returns and the intention is to hold them for a minimum of five years as per the Treasury Strategy 2021-22. These investments generated an income return of 4.42% during the reporting period.

Due to the low rates on offer it proved more beneficial to the Authority to maintain our cash surpluses to subsidise our capital programme and delay any borrowing during this time of uncertainty. Our overall income return of 0.69% compared to a rate of 0.48% for 9 other Welsh Authorities as per the quarterly figures provided by our Treasury Advisors.

The portfolio as at 30th September 2021 comprised of the following types of investments:

Counterparty	Investment Product	Sector	£m
Banks & Building Societies	Covered bonds	Financial	4.0
Banks	Instant Access	Financial	24.2
Money Market Fund	Cash Pooled Fund	Financial	40.0
UK Government	Gilts	UK Government	10.0
UK Government	Fixed-Term Cash Deposit	UK Government	50.0
Local Authorities and Housing Associations	Fixed-term cash deposits	Local Government	11.0
External Fund Managers	Property Pooled Fund	Property	10.0
External Fund Managers	Bond Pooled Fund	Mixed	2.5
External Fund Manager	Equity Pooled Fund	Mixed	2.5
External Fund Manager	Multi Asset Pooled Fund	Mixed	2.5

REIT	Pooled Fund	Property	1.0
Total Investments as	at 30th September 2021		157.7

5.1.4 Economic Outlook

The economic recovery from the coronavirus pandemic continued to dominate the first half of the financial year. Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

The Bank of England (BoE) held Bank rate at 0.1% throughout the period and maintained its Quantitative Easing Programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent.

The path of CPI inflation is increasing and reached 5.1% in November 2021, due to higher energy prices and core goods inflation.

The easing of restrictions boosted activity during the second quarter of 2021 helping push GDP up by 5.5%. Bank expectations for GDP growth for the third quarter were revised down to 2.1% from 2.9% in part reflecting tighter supply conditions.

Globally, the US economy grew by 6.3% in Q1 2021 and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained the Federal Funds rate at between 0% and 0.25% over the period.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

The 5-year UK bench gilt yield began the financial year at 0.36% but rose to 0.64% by the 30th September 2021. 10 year and 20-year gilt yields were 1.03% and 1.37% respectively at the end of the reporting period.

The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

Arlingclose expects Bank Rates to rise further during 2022 as per table below.

Official Bank Rate	Upside Risk	Arlingclose (Central case)	Downside Risk
2022/23 Q1	0.00	0.50%	-0.25
2022/23 Q2	0.25	0.50%	-0.25
2022/23 Q3	0.25	0.50%	-0.25
2022/23 Q4	0.50	0.50%	-0.25
2023/24	0.50	0.50%	-0.25
2024/25	0.50	0.50%	-0.25

5.1.5 Borrowing Update

Local Authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years with confirmation of the purpose of capital expenditure from the Section 151 Officer. 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 to externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarification predominantly around the definition of 'investment asset primarily for yield'.

Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

The authority is not planning to purchase any investment assets primarily for yield within the next 3 years and so is able to take advantage of the reduction in the PWLB borrowing rate.

The UK Infrastructure Bank, which is wholly owned and backed by HM Treasury, has been set up with £4bn of funding earmarked to lending to Local Authorities. Loans will be available for qualifying projects at gilt yield plus 0.6%, which is 0.2% lower than the PWLB certainty rate.

5.1.6 Counterparty Update

Credit Default Swap (CDS) spreads were flat over the period and are broadly in line with their pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow. Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

The successful vaccine rollout programme is credit positive for the financial services sector in general. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position compared to earlier this year and 2020.

At the end of this period Arlingclose had completed its full review of its credit advice on unsecured deposits. The maximum duration limit for UK bank entities was extended to 100 days whilst Nationwide BS and non-UK institutions remain on 35 days.

5.1.7 Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Such investments can comprise of property; shared ownership housing; loans to local businesses/ subsidiaries; and shareholdings. During the reported period the Authority did not hold any non-treasury related investments.

5.2 **Prudential Indicators**

5.2.1 Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. In practice, the raising and repaying of loans is determined primarily by professional / expert advice and may not necessarily take place in the relevant year. In order to create an operating environment within which the Treasury Manager can legitimately react to appropriate advice, the various authorised limits as identified in Appendix 1 are set at a level in excess of the CFR. In the financial year to date, the Authority has been operating within the approved limits.

Appendix 1 shows a projected CFR value of £390.9m as at 31st March 2022. The actual CFR as at 31st March 2021 was £375.7m. Due to the pandemic certain capital schemes have been delayed or the scheme extended which has resulted in a lower funding requirement than budgeted.

5.2.2 Prudential Indicators – “Prudence”

The Prudential Indicators for Treasury Management are shown in Appendix 1, and the Authority is currently operating within the approved limits.

5.2.3 Prudential Indicators – “Affordability”

There is a requirement to analyse and report the capital financing costs and express those costs as a percentage of the net revenue streams of the Authority. These are identified in Appendix 2 and currently show a projected reduction from the original budget as a consequence of deferred borrowing for the General Fund.

5.2.4 Capital Expenditure and Funding

A summary of capital expenditure and funding is attached at Appendix 3 and shows that there will be an underspend on the core capital budget for HRA due to delays as a result of Covid-19.

6. **ASSUMPTIONS**

- 6.1 The details set out in the report are based on actuals that have occurred between 1st April 2021 and 30th September 2021 (period 6).

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 This report is for information only and no Integrated Impact Assessment is required.

8. FINANCIAL IMPLICATIONS

8.1 As detailed throughout the report.

9. PERSONNEL IMPLICATIONS

9.1 There are no personnel implications arising from this report.

10. CONSULTATIONS

10.1 There are no consultation responses that have not been reflected in this report.

11. STATUTORY POWER

11.1 Local Government Acts 1972 and 2003.

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Consultees:

S. Harris – Head of Financial Services and S151 Officer

A. Southcombe – Finance Manager, Corporate Finance

R. Edmunds – Corporate Director for Education and Corporate Services

Cllr E. Stenner – Cabinet Member for Performance, Economy & Enterprise

Appendices:

Appendix 1 – Treasury Management Prudential Indicators – Prudence

Appendix 2 – Capital Finance Prudential Indicators – Affordability

Appendix 3 – Capital Expenditure and Funding

**Appendix 1 Treasury Management Prudential Indicators-
Mid Year Report (Quarters 1 and 2)**

	Budget 2021-22	Estimated 2021-22
	£000	£000
Authorised limit for external debt -		
Borrowing	441,284	441,284
Other long term liabilities	26,274	26,274
Total	467,558	467,558
Operational boundary for external debt -		
Borrowing	353,027	318,800
Other long term liabilities	26,274	26,274
Total	379,301	345,074
Capital Financing Requirement	431,942	390,924
Upper limits for interest rate exposure		
Principal outstanding on borrowing	353,027	318,800
Principal outstanding on investments	100,000	157,000
Net principal outstanding	253,027	161,800
Fixed rate limit – 100%	253,027	161,800
Variable rate limit – 30%	75,908	48,540
Upper limit for total invested for over 364 days	60,000	36,500

Maturity structure of fixed rate borrowing	Upper Limit	Lower Limit
Under 12 months	35%	0%
Over 12 months and within 24 months	40%	0%
Over 2 years and within 5 years	50%	0%
Over 5 years and within 10 years	75%	0%
Over 10 years	100%	0%

	Budget 2021-22	Estimated 2021-22
	£000	£000
Gross Debt and Net Debt		

Outstanding Borrowing	353,027	318,800
Other long term liabilities	26,274	26,274
Gross Debt	379,301	345,074
Less investments	100,000	157,000
Net Debt	279,301	188,074

**Appendix 2 Treasury Management Prudential Indicators-
Mid Year Report (Quarters 1 and 2)**

	Budget 2021-22	Estimated 2021-22
Ratio of Financing costs to net revenue stream		
General Fund	£000	£000
Principal repayments	2,736	2,613
Interest costs	8,453	7,750
Debt Management costs	42	42
Rescheduling discount		
Investment income	(1,443)	(888)
Interest applied to internal balances	812	812
Total General Fund	12,042	11,216
Net revenue stream	367,178	367,178
Total as percentage of net revenue stream	3.28%	3.05%
Housing Revenue Account		
Principal repayments	1,951	1,951
Interest costs	5,509	5,504
Rescheduling discount		
Debt Management costs	34	34
Total HRA	7,494	7,489
Net revenue stream	51,273	51,273
Total as percentage of net revenue stream	14.62%	14.61%

	Budget 2021-22	Estimated 2021-22
Capital financing requirement [end of year position]		
	£000	£000
Council Fund	290,419	272,554
Housing Revenue Account	141,523	118,370
Total Authority	431,942	390,924

**Appendix 3 Treasury Management Prudential Indicators-
Mid Year Report (Quarters 1 and 2)**

	Budget 2021-22	Estimated 2021-22
Expenditure	£000	£000
Council Fund	11,349	11,349

Housing Revenue Account	35,200	30,428
Total	46,549	41,777
Funding		
Surplus/ (Deficit) Balance b/f	454	454
Borrowings - Supported (GF)	4,842	4,842
General Capital Grant - WG	4,856	4,856
Internal Borrowing		
RCCO Budget	128	128
Capital underspends frm previous years		
General Fund working balances		
One off funding- MRP Review	1,578	1,578
RCCO- (HRA)	23,850	23,078
Borrowings - Unsupported (HRA)	4,000	
Major Repairs Allowance (HRA)	7,350	7,350
Total	47,058	42,286
Surplus C/f	509	509