Appendix A

Treasury Management 6 Month Performance Review

1.0 Introduction

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

The Council's treasury management strategy for 2021/22 was approved at a meeting on 24th 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 remain central to the Council's treasury management strategy.

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 24th February 2021.

2.0 External Context

2.1 Economic background

The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

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. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the

Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

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 latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS) preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

2.2 Financial markets

Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

2.3 Credit review

Credit default swap spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 53bps and Lloyds Banks Plc the lowest at 32bps. The other ringfenced banks were trading between 37-39bps and Nationwide Building Society was 39bps.

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.

Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. 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 now compared to earlier this year and 2020.

At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.

As ever, the institutions and durations on the Authority’s counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

3.0 Local Context

On 31st March 2021, the Council had theoretical net investments of £66.3m (this level may not be reached due to daily cashflows) arising from its revenue income and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.21 Actual £m
General Fund CFR	71.4
Less: *Other debt liabilities	0.6
Total CFR	**70.8**
External borrowing	39.6
Internal borrowing	**31.2**
Less: Usable reserves	72.4
Less: Working capital	25.1
Net (Investing) or New Borrowing	**(66.3)**

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as at 30th September 2021 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £m	Movement £m	30.9.21 Balance £m	30.9.21 Rate %
Long-term borrowing	39.60	(0.50)	39.10	2.82
Short-term borrowing	0.00	0.00	0.00	0.00
Total borrowing	**39.60**	**(0.50)**	**39.10**	
Long-term investments	4.00	0.00	4.00	3.60
Short-term investments	0.00	0.00	0.00	
Cash and cash equivalents	28.08	25.59	53.67	0.10
Total investments	**32.08**	**25.59**	**57.67**	
Net borrowing/Investing ()	**7.52**	**26.09**	**(18.57)**	

The movement in the cash and cash equivalent has been as result of council tax and NNDR receipts and Government cash funding for Covid 19 (reduction of payments to Central Government and increased S31 Grant income); these funds were invested in bank deposits and Money Market Funds for easy access and liquidity reasons.

3.1 Borrowing Strategy during the period

At 30th September 2021, the Council held £39.10m of loans, a decrease of £0.5m from 31st March 2021. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.21 Balance £m	Net Movement £m	30.9.21 Balance £m	30.9.21 Weighted Average Rate %	30.9.21 Weighted Average Maturity (years)
Public Works Loan Board	39.60	(0.50)	39.10	2.82%	23
Local authorities (short-term)	0.00	0.00	0.00	0.00%	0
Total borrowing	**39.60**	**(0.50)**	**39.10**	**2.82%**	**23**

The Council's chief 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.

With short-term interest rates remaining much lower than long-term rates, the Council considered it to be more cost effective in the near term to use internal resources or short-term loans instead. The Council had not used short-term loans facility so far in this financial year.

Although it was anticipated that the Council's CFR would increase due to the capital programme, delays in the capital programme due to the pandemic no new loans have been taken out.

Long-dated Loans borrowed	PWLB Reference	Amount £	Rate %	Period (Years)
PWLB 1	495152	5,000,000	3.91	37
PWLB 2	495153	5,000,000	3.90	36
PWLB 3	502463	327,308	2.24	2
PWLB 4	504487	665,620	3.28	25
PWLB 5	504598	884,429	3.10	25
PWLB 6	504810	383,842	2.91	25
PWLB 7	504922	358,305	3.10	26
PWLB 8	504993	290,191	2.92	26
PWLB 9	505255	573,800	2.31	26
PWLB 10	505372	440,567	2.18	26
PWLB 11	505649	788,039	2.67	26
PWLB 12	506436	5,000,000	2.78	16
PWLB 13	508696	7,291,685	2.49	17
PWLB 14	508931	133,333	1.48	1
PWLB 15	509389	11,963,000	2.18	18
Total borrowing		**39,100,120**	**2.82**	**23**

The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

3.2 PWLB guidance and terms and conditions changes

HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an 'investment asset primarily for yield'.

- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.
- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

The PWLB has made changes to its terms and conditions from 8th September 2021. The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

The Municipal Bonds Agency (MBA) is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities. If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

£4bn has been earmarked for of lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate.

3.3 Treasury Investment Activity

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

The weighted average rate for the investment portfolio up to 30.09.2021 was 0.62%.

	31.3.21 Balance £m	Net Movement £m	30.9.21 Balance £m	30.9.21 Income Return %	30.9.21 Weighted Average Maturity Days
Banks & building societies (unsecured)	14.693	6.974	21.667	0.01	1
Government (incl. local authorities)	0.000	2.000	2.000	0.40	53
Money Market Funds	13.650	16.350	30.000	0.01	1
Loans to other organisation	5.963	(0.751)	5.212	4.24	>365
Other Pooled Funds.					
- Property fund (CCLA)	4.000	0.00	4.000	3.60	>365
Total investments	**38.306**	**24.573**	**62.879**	**0.62**	

Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero, and so this facility has not been used.

3.4 Risk Management

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 treasury investments before seeking the optimum 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.

Given the increasing risk and low returns from short-term unsecured bank investments, the Council has maintained a diversified portfolio of asset classes as shown in table 4 above.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure %	Weighted Average Maturity (days)	Rate of Return %
31.03.2021	4.90	A+	96	18	0.42
30.09.2021	5.04	A+	96	3	0.32
Similar LAs	4.66	A+	69	32	1.20
All LAs	4.69	A+	69	10	0.78

The weighted average maturity includes the CCLA Property Fund, average maturity of investments is 1 day.

£4m of the Council's investments are held in externally managed strategic pooled property funds – CCLA Property Fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. This fund generated a total return of £72,000 (3.60%), for period of 1st April to 30th September 2021 which is used to support services in year.

Because these 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 are regularly reviewed. The council's bail in exposure is higher than average however this is mitigated by the much shorter than average days to maturity (days to when funds can be withdrawn).

Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates. In light of their performance over the medium-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

3.5 Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in DLUHC's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Authority also held £57.0m of such investments in:

- directly owned property £56.9m
- shareholding in subsidiaries £0.1m

Table 6: Property held for investment purposes in £'000

Property	31.3.2020	31.3.2021 Actual*	
	Value in accounts	Gains or (losses)	Value in accounts
Existing Portfolio	21,225		21,225
2 Stonehill	1,800		1,800
80 Wilbury Way	1,870		1,870
Shawlands Retail Park	4,500		4,500
1400 & 1500 Parkway	4,400		4,400
Units 21a, 21b,23a,b,c Little End Road, St Neots	2,900		2,900
Rowley Centre, St Neots	5,750		5,750
Tri-link, Wakefield	12,500		12,500
Alms Close (construction costs)		1,959	1,959
TOTAL	**54,945**	**1,959**	**56,904**

*The properties are in the process of being valued, the valuations as at 31/03/2021 are not available yet, but will be available in the statement of accounts 2020/21 when published.

These investments generated £2.4m of investment income for the Authority from April to September 2021 after taking account of direct costs.

The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan. The current forecast is showing an increase in expected net investment income of £331,000 due to tenants not breaking leases.

Table 7: Proportionality of Investments in £’000

	2019/20 Actual	2020/21 Actual	2021/22 Budget	2022/23 Budget	2023/24 Budget
Gross service expenditure	77,704	71,928*	71,922	60,923	61,511
Investment income	5,469	5,575	5,336	5,293	5,380
Proportion	7.04%	7.75%	7.42%	8.69%	8.75%

*This figure has been adjusted to remove expenditure on covid related grants in order to preserve comparability across years. The grant payments were funded by grants received from government.

4.0 Compliance

The Chief Finance Officer (s151 officer) reports that all treasury management activities undertaken during the first half year complied fully with the CIPFA Code of Practice and the Council’s approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 9 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	30.9.21 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied?
General	10.00	70.00	80.00	Yes
Loans	4.85	15.00	20.00	Yes
CIS	24.25	30.00	35.00	Yes
Total debt	**39.10**	**115.00**	**135.00**	

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. Total debt was below the operational boundary all through the half year.

Table 9: Investment Limits

	30.9.21 Actual £m	2021/22 Limit £m	Complied?
Deposit Accounts			
NatWest	18.17	Unlimited*	Yes
Debt Management Office (DMO)	0.00	unlimited	Yes
Barclays	3.50	4.00	Yes
Thurrock Council	2.00	4.00	Yes
Money Market Funds			
Aberdeen Liquidity Fund	5.00	5.00	Yes
BlackRock Institutional sterling liquidity Fund	5.00	5.00	Yes
CCLA Public Sector Deposit Fund	5.00	5.00	Yes
Federated Short Term Prime Fund	5.00	5.00	Yes
Insight Liquidity Funds	2.50	5.00	Yes
Invesco	5.00	5.00	Yes
Legal & General Sterling Liquidity Fund	2.50	5.00	Yes
Total	**53.67**		

*NatWest is the council's transactional bank, the balance held is sufficient for operational needs.

5.0 Treasury Management Indicators

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

Security

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

	30.9.21 Actual	2021/22 Target	Complied?
Portfolio average credit rating	AA	A-	Yes

This excludes the investment with Thurrock Council that does not have a credit rating.

Liquidity

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

	30.9.21Actual £m	2021/22 Target £m	Complied?
Total cash available within 3 months	53.67	2	Yes

Interest Rate Exposures (Discretionary local measure)

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

Interest rate risk indicator	30.9.21 Actual	30.9.21 Theoretical	2021/22 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0	£391,000	£128,000	No*
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0	£391,000	£128,000	No*

*In reality all borrowing is at a fixed interest rate (with PWLB) and so changes in rates will only be relevant when and if the loans need to be refinanced. The loans that may need refinancing (i.e., those linked to asset purchases) have a weighted average years to maturity of 20 years. CIPFA no longer recommends setting limits for interest rate exposure, this is a locally adopted indicator.

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 all borrowing were:

	30.9.21 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	0.3%	80%	0%	Yes
12 months and within 24 months	0.8%	80%	0%	Yes
24 months and within 5 years	0.0%	80%	0%	Yes
5 years and within 10 years	0.0%	100%	0%	Yes
10 years and above	98.8%	100%	0%	Yes

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.

Principal Sums Invested for Periods Longer than a Year

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£10.00m	£10.00m	£10.00m
Complied?	Yes	Yes	Yes

6.0 Outlook for 2021/22 (Provided by Arlingclose)

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.15	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.

Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets. The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead.

While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off fiscal support.

Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.

The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.

Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.
The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

7.0 Revisions to CIPFA Codes

In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation.

In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes. The changes include:

- Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority.
- Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.
- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.
- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
- Prudential Indicators
    - New indicator for net income from commercial and service investments to the budgeted net revenue stream.
    - Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.
    - Excluding investment income from the definition of financing costs.
    - Incorporating ESG issues as a consideration within TMP 1 Risk Management.
    - Additional focus on the knowledge and skills of officers and elected members involved in decision making

Improvements to the Capital Finance Framework: DLUHC published a brief policy paper in July outlining the ways it feels that the current framework is failing and potential changes that could be made. The paper found that "while many authorities are compliant with the framework, there remain some authorities that continue to engage in practices that push the bounds of compliance and expose themselves to excessive risk".

The actions announced include greater scrutiny of local authorities and particularly those engaged in commercial practices; an assessment of governance and training; a consideration of statutory caps on borrowing; further regulations around Minimum Revenue Provision (MRP) and ensuring that DLUHC regulations enforce guidance from CIPFA and the new PWLB lending arrangements. A further consultation on these matters is expected soon.