Appendix D

1. Prudential Indicators which relate to the Treasury function and compliance with limits

1.1 The Council is required by the Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set on an annual basis and monitored, they comprise:-:

- Operational and authorised borrowing limits which includes short term borrowing (paragraph 2.1 below)
- Interest rate exposure (paragraph 3.1 below)
- Interest rate on long term borrowing (paragraph 4.1 below)
- Maturity structure of investments (paragraph 5.1 below)
- Compliance with the Treasury Management Code of Practice (paragraph 6.1 below)
- Interest on investments (paragraph 7.1 below)
- Capital Financing Requirement and Minimum Revenue Provision (paragraph 8.1 below)

2. Operational and authorised borrowing limits.

2.1 The tables below sets out the estimate and projected Capital financing requirement and long-term borrowing in 2021/22

	Capital Financing Requirement	**2021/22 Estimate**	**2021/22 Actual**
		£m	**£m**
	Capital Financing Requirement at 1 April 2021	**355**	**335**
add	Capital Expenditure	92	77
add	Impact for IFRS 16 Leases	-	-
less	Capital Financing	(59)	(51)
less	Provision for repayment of debt (MRP)	(11)	(11)
	Capital Financing Requirement at 31 March 2022	**377**	**350**
add	Short Term Borrowing Provision	10	
	Operational Boundary	**387**	
add	Short Term Borrowing Provision	20	
	Authorised Limit	**407**	

	Actual Borrowing	**2021/22 Actual**
		£m
	Long Term Borrowing at 1 April 2021	**237**
less	Loan redemptions	(4)
add	New Borrowing	-
	Long Term Borrowing at 31 March 2022	**233**

2.2 The 2021/22 actual Capital Financing Requirement of £350m included PFI Schemes and Finance Leases totalling £75.4m, excluding these balances the underlying need to borrow was £274.6m.

2.3 The Operational Boundary was consistent with the Council's current commitments, existing plans and the proposals for Capital expenditure and financing, and with its approved treasury management policy statement and practices. It was based on the estimate of most likely, prudent but not worst case scenario. Risk analysis and risk management strategies were taken into account as were plans for Capital expenditure, estimates of the Capital financing requirement and estimates of cash flow requirements for all purposes. The Operational boundary represents a key management tool for in year monitoring and long term borrowing control.

2.4 The Authorised Limit for borrowing was based on the same estimates as the Operational Boundary but includes additional headroom for a short term borrowing to allow, for example, for unusual cash movements or late receipt of income.

2.5 The Authorised limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003 and must not be breached. The Long Term borrowing at 31st March 2021 of £236m is under the Operational boundary and Authorised limit set for 2020/21. The Operational boundary and Authorised limit have not been exceeded during the year.

3. Interest rate exposure

2.1 The Council continued the practice of seeking to secure competitive fixed interest rate exposure 2021/22. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

	2021/22	**2022/23**	**2023/24**
Interest rate exposure	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	15%	15%	15%
Maturity structure of fixed interest rate borrowing 2021/22			
	Lower	**Upper**	**Actual 2021/22**
Under 12 months	0%	25%	2%
12 months and within 24 months	0%	40%	2%
24 months and within 5 years	0%	60%	7%
5 years and within 10 years	0%	80%	15%
10 years and within 20 years	0%	80%	21%
20 years and within 30 years	0%	80%	22%

30 years and within 40 years	0%	80%	31%
40 years and above	0%	80%	0%

3.2 The Council has not exceeded the limits set in 2021/22. Not more than £20m of debt should mature in any financial year and not more than 15% to mature in any two consecutive financial years. Borrowing has been undertaken giving due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority's exposure to the risk of having to replace a large amount of debt in any one year or period when interest rates may be unfavourable. The bar chart in the attached Annex 1 shows the maturity profile.

4. Interest rate on long term borrowing

4.1 The rate of interest taken on any new long term borrowing will be defined with the assistance of Link Asset Services.

5. Maturity structure of investments

5.1 The Investment Guidance issued by the government, allowed local authorities the freedom to invest for more than for one year. All investments over one year were to be classified as Non-Specified Investments. The Council had taken advantage of this freedom and non-Specified Investments are allowed to be held within our overall portfolio of investments and in line with our prudent approach in our strategy.

6. Compliance with the Treasury Management Code of Practice

6.1 East Sussex County Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA), Code of Practice for Treasury Management in the Public Services. In December 2018, CIPFA, issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.
A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. The outcome is a new Capital Strategy document which now forms part of the annual budget papers.

7. Interest on investments 2021/22

7.1 The table below sets out the average monthly rate received on our investments and compares it to the Bank of England Base rate to reflect both the interest rates available in the market and limitation in the use of counterparties.

Month	Amount £'000	Monthly rate	Average Base Rate	Margin against Base Rate
April	103	0.43%	0.10%	+0.33%
May	101	0.37%	0.10%	+0.27%
June	98	0.39%	0.10%	+0.29%
July	100	0.38%	0.10%	+0.28%
August	101	0.37%	0.10%	+0.27%
September	96	0.38%	0.10%	+0.28%
October	91	0.35%	0.10%	+0.25%
November	105	0.40%	0.10%	+0.30%

December	97	0.38%	0.18%	+0.20%
January	95	0.37%	0.25%	-0.12%
February	88	0.39%	0.48%	-0.09%
March	98	0.40%	0.62%	-0.22%
Total for 2021/22	**1,173**	**0.38%**	**0.19%**	**+0.19%**

7.2 The total amount received in short term interest for the year was £1.173m at an average rate of 0.38%. This was above the average of base rates in the same period (0.19%) but ensuring, as far as possible in the financial climate, the security of principal and the minimisation of risk. This Council has continued to follow a prudent approach with security and liquidity as the main criteria before yield.

8. Capital Financing Requirement and Minimum Revenue Provision (MRP)

8.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the Minimum Revenue Provision - MRP). Ministry of Housing, Communities and Local Government (MHCLG) regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are available to Councils, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

8.2 The Council was recommended to approve the following MRP Statement for 2020/21 onwards:

For borrowing incurred before 1 April 2008, the MRP policy will be:

- Annuity basis over a maximum of 40 years.

From borrowing incurred after 1 April 2008, the MRP policy will be:

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 40 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.

For PFI schemes, leases and closed landfill sites that come onto the Balance Sheet, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

8.3 For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to set aside the repayments of principal as capital receipts to finance the initial capital advance in lieu of making an MRP.

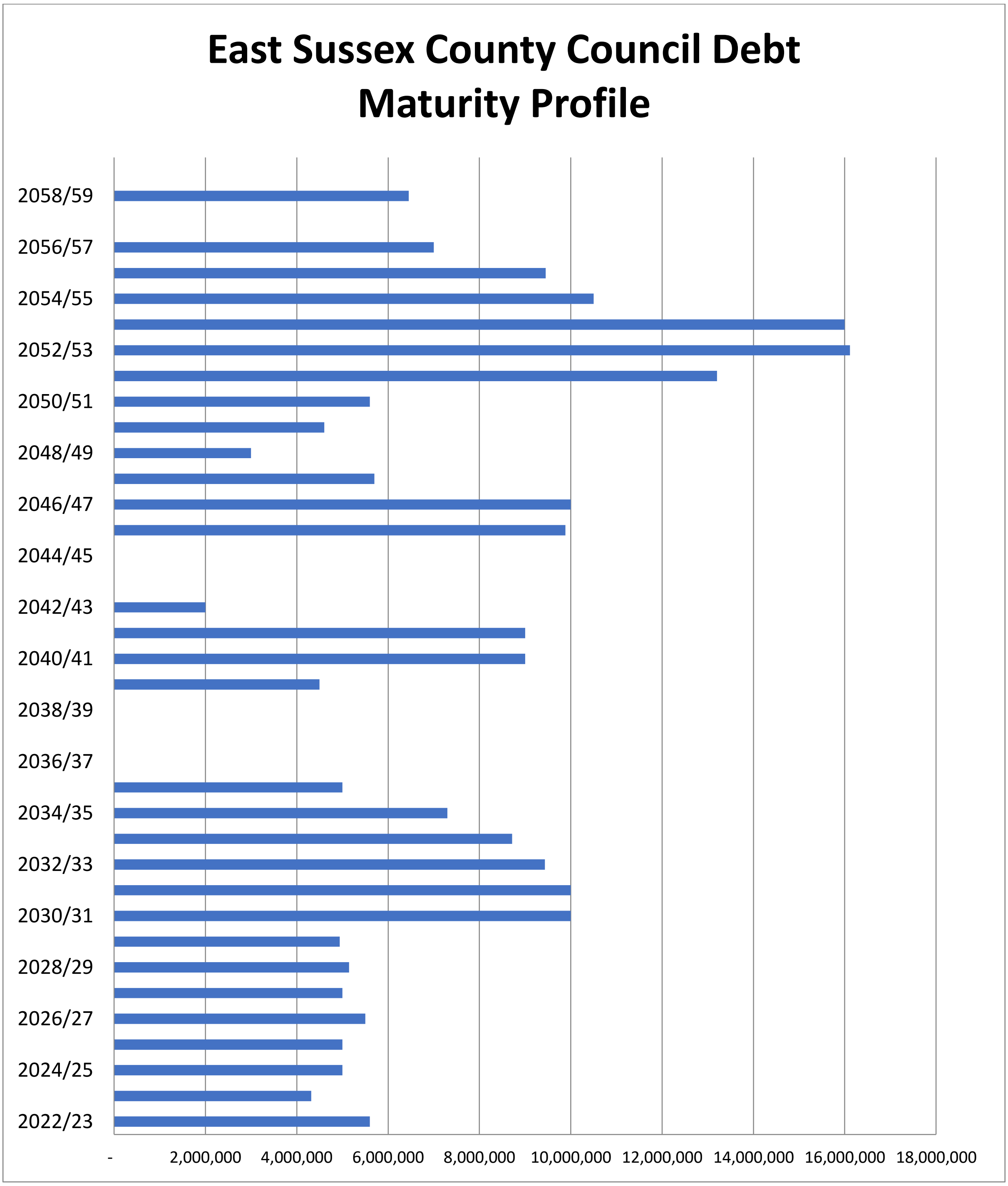
8.4 In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure. This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending.

8.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR including appropriate balances and MRP charges for PFI Schemes and Finance Leases.

	2021/22 Actual	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
	£m	**£m**	**£m**	**£m**
Total CFR	**350**	**403**	**427**	**458**
Movement in CFR	-	53	24	31

Annex 1


East Sussex County Council Debt Maturity Profile
2058/59
2056/57
2054/55
2052/53
2050/51
2048/49
2046/47
2044/45
2042/43
2040/41
2038/39
2036/37
2034/35
2032/33
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