TORBAY COUNCIL

Meeting: Council **Date:** 21st July 2022

Wards affected: All Wards in Torbay

Report Title: Treasury Management Outturn 2021/22 Report

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1. Purpose of Report

1.1 This report is to provide members with an annual report on the treasury management activities undertaken during the year 2021/22, which is compared to the 2021/22 Treasury Management Strategy.

2. Reason for Proposal and its benefits

2.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report

3. Recommendation(s) / Proposed Decision

i) That the Treasury Management decisions made during 2021/22, as detailed in the submitted report be noted.

Appendices

Appendix 1: Economic Commentary

Appendix 2: Revised CIPFA Codes, Updated PWLB Lending Facility Guidance, Levelling Up and Regeneration Bill

Background Documents

Treasury Management Strategy 2021/22

Supporting Information

1. Introduction

1.1 In February 2019 the Authority 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 Authority to approve treasury management semi-annual and annual reports.

1.2 The Authority's treasury management strategy for 2021/22 was approved by Council at a meeting on 11th February 2021. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

2. External Context

2.1 An economic commentary for the year provided by the Council's treasury management advisors, Arlingclose, is provided at Appendix 1 to this report. Bank Rate was 0.1% at the beginning of the year and despite the economy gathering momentum after pandemic restrictions eased, market expectation was for rises to be delayed until 2022. Rising, persistent inflation changed that with Bank Rate rising to 0.75% at the end of the year.

2.2 During 2021 CIPFA published changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes.

2.3 In addition HM Treasury issued, in May 2022, updated guidance on PWLB lending to authorities where there is more than a negligible risk of non-repayment. In the same month the Levelling Up and Regeneration Bill announced in the Queens Speech gives government more oversight of the Prudential Framework.

2.4 The main points of these new Codes, PWLB guidance and Levelling Up and Regeneration Bill are summarised at Appendix 2.

3. Local Context

3.1 At the start of the year, the Council had net borrowing of £314.6m arising from its revenue 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
Total CFR	**419.5**
Less: *Other debt liabilities	(16.7)
Borrowing CFR	**402.8**
External borrowing	391.5
Internal borrowing	11.3
Less: Usable reserves	(82.1)
Less: Working capital and other cash backed balance sheet items	(6.1)
Net treasury position	**314.6**

* PFI liabilities that form part of the Authority's total debt

3.2 The Council is still in the process of compiling its year end position for 2021/22, therefore the Capital Financing Requirement as at 31st March 2022 will be disclosed within the Statement of Accounts 2021/22.

3.3 Low official interest rates have kept the cost low of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, to reduce risk and interest costs.

3.4 The treasury management position on 31st March 2022 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £m	Movement £m	31.3.22 Balance £m	31.3.22 Rate %
Long-term borrowing*	391.5	(2.6)	388.9	2.99
Short-term borrowing	0.0	0.0	0.0	0.0
Total borrowing	**391.5**	**(2.6)**	**388.9**	**2.99**
Long-term investments*	(4.7)	(0.8)	(5.5)	3.85
Short-term investments	(71.4)	(35.2)	(106.6)	0.54
Cash and cash equivalents	(0.8)	(3.4)	(4.2)	0.02
Total investments	**(76.9)**	**(39.4)**	**(116.3)**	**0.68**
Net position	**314.6**	**(42.0)**	**272.6**	**2.45**

*Long term investments include the CCLA Property Fund at market valuation.

4. Borrowing Update

4.1 The Council was not planning to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code (see appendix 2).

4.2 At 31st March 2022 the Authority held £388.9m of loans, (a decrease of £2.6m to 31st March 2021) as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.21 Balance £m	Net Movement £m	31.3.22 Balance £m	31.3.22 Weighted Average Rate %	31.3.22 Weighted Average Maturity (years)
Public Works Loan Board	381.5	(2.6)	378.9	2.946	27.1
Banks (LOBO)	5.0	-	5.0	4.700	56.6
Banks (fixed-term)	5.0	-	5.0	4.395	52.5
Total borrowing	**391.5**	**(2.6)**	**388.9**	**2.987**	**27.8**

4.5 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 Authority's long-term plans change being a secondary objective.

4.6 In keeping with these objectives, no new borrowing was undertaken, while £2.6m of existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

4.7 LOBO loans: The Authority continues to hold a £5m LOBO (Lender's Option Borrower's Option) loan where 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. The lenders option does not become due until 2028.

5. Other Debt Activity

5.1 After £0.75m repayment of prior years' Private Finance Initiative liabilities, total debt other than borrowing stood at £16.0m on 31st March 2022, taking total debt to £404.9m

6. Treasury Investment Activity

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

6.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £81 million and £118 million due to timing differences between income and expenditure. The Council's cash flow is still significantly influenced by short term cash balances linked to COVID and other funding received but not yet spent or owed to other bodies. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.21 Balance £m	**Net Movement £m**	**31.3.22 Balance £m**	**2021/22 Income Return %**	**2021/22 Weighted Average Maturity days**
Banks & building societies (unsecured)	22.8	(5.6)	17.2	0.27	18
Government (incl. local authorities)	31.0	46.0	77.0	0.60	92
Money Market Funds	14.4	(1.8)	12.6	0.55	1
Other Pooled Funds:					
- *Cash plus fund*	4.0	-	4.0	0.02	
- *Property fund*	4.7	0.8	5.5	3.85	
Total investments	**76.9**	**39.4**	**116.3**	**0.68**	

6.3 Both the CIPFA Code and government guidance require the Authority 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 Authority'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.

6.4 Ultra low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being at, or close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March. At 31st March, the 1-day return on the Council's MMFs ranged between 0.48% - 0.58% p.a.

6.5 Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1% but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity. The average return on the Authority's DMADF deposits in year was 0.08%.

6.7 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 %**
31.09.2021	4.46	AA-	55%	20	0.08
31.03.2022	3.63	AA-	28%	70	0.54
Similar LAs	**4.58**	**A+**	**69%**	**43**	**0.46**
All LAs	**4.39**	**AA-**	**63%**	**14**	**0.46**

6.8 The benchmarking results reflect the Council's cautious risk appetite in terms of counterparties and the maximum sum invested in any one counterparty. Priority has been to keep funds as secure as possible during the early part of the year when returns were not justifying any sort of risk. When rates climbed, the appetite was adjusted to increase duration (and lock into yield) with local authorities. £15M was placed in these deposits during March and the rest of the short-term portfolio is well placed to track further forecast rises in Bank Rate.

6.9 Funds were substantially kept liquid to achieve the Council's policy of internal borrowing and in anticipation of future rate rises. At outturn the capital spend was significantly lower than the original plan contributing to the continuing higher than forecast cash balance.

6.10 **Externally Managed Pooled Funds**: £5m of the Authority's investments are invested in an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an income return of £0.21m (4.01%) and an unrealised capital gain of £0.8m (16.53%).

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

7. Non-Treasury Investments

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

7.2 The outturn position of the Council's non-treasury investments will form part of the Statement of Accounts 2021/22 and will be reported with the usual level of detail within the Treasury Management 2022/23 mid-year review.

8. Treasury Performance

8.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

As at 31st March 2022	Revised Budget 2021/22	Projected Outturn 2021/22	Variation
	£M	**£M**	**£M**
Investment Income	(0.3)	(0.3)	(0.0)
Interest Paid on Borrowing	11.8	11.7	(0.1)
Net Position (Interest)	**11.5**	**11.4**	**(0.1)**
Minimum Revenue Provision	6.9	6.8	(0.1)
Net Position (Other)	**6.9**	**6.8**	**(0.1)**
Net Position Overall	**18.4**	**18.2**	**(0.2)**

9. Compliance

9.1 The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific limits is demonstrated in table 7 below.

Table 7: Debt Limits

	2021/22 Maximum	31.3.22 Actual	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied? Yes/No
Borrowing	£391.5m	£388.9m	£590m	£700m	Yes
PFI & Finance Leases	£16.7m	£16.0m	£20m	£20m	Yes
Total Debt	**£408.2m**	**£404.9m**	**£610m**	**£720m**	Yes

9.2 **Treasury Management Indicators:** The Authority 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/credit score of its investment portfolio. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, …. A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.22 Actual	2021/22 Target	Complied?
Portfolio average credit rating (score)	AA- (4)	A (6)	Yes

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

	31.3.22 Actual	2021/22 Target	Complied?
Total cash available within one month	£41M	£15M	Yes

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

Interest rate risk indicator	31.3.22 Actual	2021/22 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£258,000	£300,000	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£258,000	£300,000	Yes

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.22 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	1%	40%	0%	Yes
12 months and within 24 months	1%	40%	0%	Yes
24 months and within 5 years	4%	30%	0%	Yes
5 years and within 10 years	11%	40%	0%	Yes
10 years and within 20 years	15%	50%	0%	Yes
20 years and within 30 years	7%	60%	0%	Yes
30years and within 40 years	36%	50%	0%	Yes
40 years and over	25%	50%	0%	Yes

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£5m	£5m	£5m
Limit on principal invested beyond year end	£25m	£20m	£20m
Complied?	Yes	Yes	Yes

10. Other

10.1 **IFRS 16**: The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two-year delay to the implementation of this standard, a decision that was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Chief Finance Officer intends for the Council to adopt the new standard on 1st April 2024. (If resources permit adoption from April 2023 will be considered.)

Appendix 1

Economic Commentary (provided by Arlingclose, April 2022)

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

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

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated it plan to reduce its asset purchase programme which could start by May 2022.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of the period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty list to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The 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 was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Appendix 2

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

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

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

The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements and Torbay Council will implement the new Code fully commencing from the 2023/24 financial year.
To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

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

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

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

Public Works Loan Board (PWLB) – updated guidance for applicants

On 12th May 2022 HM Treasury issued an update to PWLB lending guidance, addressing lending to authorities where there is more than a negligible risk of non-repayment.

The update states that where HM Treasury considers that a local authority may be at risk of being unable to repay PWLB lending, it will engage with that local authority to establish the extent of the risk of non-repayment. **Loans will not generally be advanced where there is a more than negligible risk of non-repayment.**

HM Treasury will generally consider that where a local authority is actively and constructively engaged with Government on addressing financial risk, that local authority is sufficiently managing risk of non-repayment. This includes where a local authority is working with the government as part of ongoing financial support measures. In such cases, HM Treasury will work with the relevant department to assess any risks to the PWLB.

The Department for Levelling Up, Housing and Communities (DLUHC) has announced plans to bring forward measures to provide the government with appropriate powers to directly address excessive risk arising from local government investing and borrowing practices. Where DLUHC believes it to be probable that a local authority would fall within the scope of the powers, it will be engaging with them immediately to get a better understanding of their risk positions in advance of the powers coming into force and to reach agreement on any actions needed to address government concerns.

Levelling Up and Regeneration Bill

The Levelling Up and Regeneration Bill that was included in the Queen's Speech in May 2022 proposes to introduce new powers into the Local Government Act 2003 for capital finance risk management. The proposals would represent an increase in the Government's oversight of the Prudential Framework and its ability to intervene.

Under the proposals, the Secretary of State would be able to issue risk mitigating directions to an authority if a trigger event has occurred. A direction will be able to place borrowing limits on an authority or require it to take specified action, which could include disposing of an identified asset.

One such trigger event is if a risk threshold is breached. For the assessment of risk thresholds, there will be a range of capital risk metrics, whose basis of calculation will be specified, as will the thresholds against which breaches are to be measured. The metrics specified in the Bill are:

- the total debt (including credit arrangements) as compared to the financial resources of the authority
- the proportion of the total capital assets which are investments made, or held, wholly or mainly to generate financial return
- the proportion of the total debt (including credit arrangements) in relation to which the counterparty is not central government or a local authority
- the amount of minimum revenue provision charged to a revenue account for a financial year
- any other metric specified by regulations.

The Secretary of State will have the power to appoint an independent expert to review the level of an authority's financial risk. Authorities will be required to co-operate with the expert in any way that they consider necessary or expedient for the purposes of the conduct of the review, as far as this is practicable.