AUDIT COMMITTEE	AGENDA ITEM No. 6
16 NOVEMBER 2020	PUBLIC REPORT

Report of:	Pete Carpenter, Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Cllr Seaton, Cabinet Member for Finance	
Contact Officer(s):	Pete Carpenter, Acting Corporate Director of Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

TREASURY MANAGEMENT MID YEAR UPDATE

R E C O M M E N D A T I O N S	
FROM: Pete Carpenter, Acting Corporate Director of Resources	**Deadline date:** N/A
It is recommended that Audit Committee: 1. Review current performance against the Prudential Indicators as approved in the Treasury Management Strategy (TMS) contained in the Medium-Term Financial Strategy (MTFS).	

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee following a referral from the Chief Finance Officer (S151).

1.2 The Treasury Management in the Public Services: Code of Practice 2017 recommends that Members receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

1.3 The annual strategy is approved by Council as part of the MTFS. The original strategy was approved on 4 March 2020. The final performance against the revised strategy will be reported to Audit Committee in July 2021 alongside the Statement of Accounts, and as part of the Outturn Report as part financial performance for the year. This report forms the mid-year review against the Prudential Indicators as set out in the TMS.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to report current performance and the forecast outturn position against the Prudential Indicators in the strategy.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.17 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	N/A

4. TREASURY MANAGEMENT STRATEGY PRUDENTIAL INDICATORS

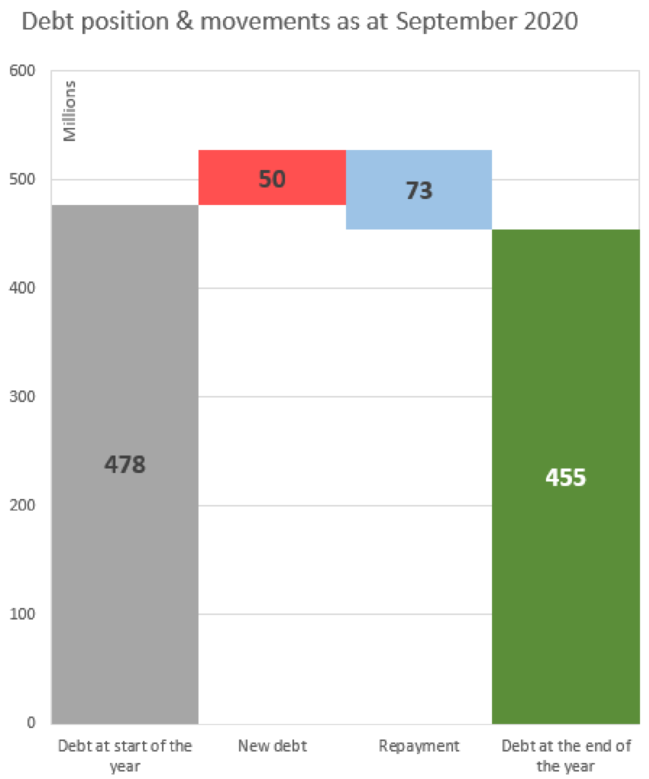
4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in long term and current assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:

a) Capital investment plans are affordable;
b) All external borrowing and other long term liabilities are within prudent and sustainable levels; and
c) Treasury management decisions are taken in accordance with professional good advice.

4.2 The 2020/21 Prudential Indicators are shown in Appendix 1. The Council's performance to date and forecast performance are all within the limits set in the MTFS.

4.3 The Council has continued to operate a restrictive lending list due to the continued economic uncertainty. Surplus cash is only invested for short periods with Barclays and the Churches, Charities and Local Authorities (CCLA) money market fund. The Council also invests with other Local Authorities and the Debt Management Office (DMO).

4.4 The Council forecasts to borrow to fund the capital investment programme. The Council's approach is for loans to be arranged at fixed interest rates to achieve budget certainty and over varying periods to fit in with the Councils debt maturity profile. However, due to cash flow timings following the receipt of additional C-19 related grants and funding, the Council's borrowing has reduced by £23m to date, see chart.



4.5 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100bps to 180 basis points on loans lent to local authorities, every local authority had to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. The Chancellor's Budget on 11 March 2020 clarified some of the rationale behind the rate increase, as well as setting out a consultation with the PWLB on revising the terms of PWLB lending to ensure that Local Authorities continue to invest in housing, infrastructure and public services and not in commercial activities. The consultation closed on 31 July 2020, however to date the outcomes of the consultation have yet to be announced but it is clear that HM Treasury will most likely no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the primary aim is to generate an income stream (assets for yield).

4.6 The Council's current borrowing strategy has been to take advantage of shorter-term Local Authority loans which are currently available below bank rate, with a view to undertaking some longer term borrowing later in the year. This is because despite the PWLB's long term interest rates having been historically low, they have also been volatile. This approach minimises in-year interest cost and maintains flexibility with regards to options available to be deployed.

5. CONSULTATION

5.1 The Council's Prudential Indicators and Treasury Management Strategy 2020/21 - 2022/23 have undergone full consultation, and been through the scrutiny process, as it forms part of the Annual MTFS.

5.2 The Council continues to liaise with its treasury advisors, Link Asset Services.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 As set out in the report.

7. REASON FOR THE RECOMMENDATION

7.1 This report is given to the Committee to review performance against the Prudential Indicators in the TMS set in the MTFS.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The Treasury Management Strategy 2020/21 – 2022/23 is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2017. This report sets out the performance against the associated prudential indicators. The options are therefore limited.

9. IMPLICATIONS

Financial Implications

9.1 To provide the Committee the opportunity to review current performance against the Prudential Indicators.

Legal Implications

9.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 The Prudential Code for Capital Finance in Local Authorities –2017 Edition, CIPFA; and Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition, CIPFA

11. APPENDICES

11.1 Appendix A - Treasury Management Strategy – Prudential Indicators – Forecast Outturn as at 30 September 2020.

Treasury Management Strategy – Prudential Indicators – Forecast Outturn as at September 2020

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

(a) capital expenditure plans are affordable,
(b) all external borrowing and other long-term liabilities are within prudent and sustainable levels;
(c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to (a) and (c) above, the local authority is accountable by providing a clear and transparent framework.

The Code requires the Council to set a range of Prudential Indicators for the forthcoming financial year and at least the following two financial years.

In the current financial year to date, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy.

The actual and forecast outturn, compared to those contained in the MTFS for the Prudential Indicators for this financial year are detailed below. The indicators include the Invest to Save schemes however the costs of borrowing associated with these schemes will be offset by the income generated by these projects.

1. Indicator 1: Capital Expenditure

This indicator is the estimated capital expenditure for the year based on the Capital Programme for that period. There are some property acquisitions that are anticipated before the end of the year, as well the lag effect on completing construction work following the first C-19 lockdown where payments are still expected this financial year.

Capital Expenditure	**2020/21 Indicator£ m**	**2020/21 Actual at 30.09.2020£ m**	**2020/21 Forecast Outturn £m**
Capital Expenditure	95.6	11.7	86.2
Invest to Save	50.8	1.0	35.6
Total	**146.4**	**12.7**	**121.8**

2. Indicator 2: Capital Financing Requirement (CFR)

The CFR measures the Council's underlying need to borrow money in the long term for capital purposes. Any capital expenditure which has not immediately been paid for will increase the CFR.

Capital Financing Requirement	**2020/21 Indicator£ m**	**2020/21A ctual at 30.09.2020 £m**	**2020/21 Forecast Outturn £m**
CFR b/fwd	598.3	588.4	588.4
Underlying Need to Borrow	79.6	3.8	57.0
Underlying Need to Borrow - Invest to Save	40.0	1.0	35.6
Repayment of debt - Minimum Revenue Provision	(19.0)	(19.0) -	(19.0)
Total CFR C/fwd	**698.9**	**574.2**	**662.0**

3. Indicator 3: Actuals and Estimates of the Ratio of Financing Costs to Net Revenue Budget

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt.

Ratio of gross financing costs to net revenue stream	**2020/21 Indicator£ m**	**2020/21 Actual at 30.09.2020£ m**	**2020/21 Forecast Outturn £m**
Total Ratio	20.6%	14.6%	19.7%

4. **Indicator 4: Proportion of Gross Debt to the Capital Financing Requirement (CFR)**
This indicator shows the proportion of the Council's external borrowings (Gross Debt) against the CFR. In order to ensure that borrowing levels are prudent over the medium term and only for capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

Proportion of Gross Debt to the CFR	**2020/21 Indicator £m**	**2020/21 Actual at 30.09.2020£ m**	**2020/21 Forecast Outturn £m**
Gross Debt	627.6	503.1	599.7
CFR	**698.9**	**574.2**	**662.0**
% of Gross Debt to CFR	89.8%	87.6%	90.6%

This indicator shows that the Council is maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), is not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow is being used. This strategy continues to be prudent as investment returns remain low and counterparty risk continues variable. Whilst the forecast outturn of 90.6% is greater than that estimated in the TMS at 89.8% the indicator relates to the proportion of debt compared to the CFR which is still within the target, £662m against £699m. This indicator shows that the strength of the balance sheet is reducing as the impact of C-19 affect cash flows in terms of the use of reserves, and delays in the payments of debt for items such as business rates and council tax.

5. **Indicator 5: The Operational Boundary**
The Operational Boundary is a measure of the day to day likely borrowing for the Council. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

This indicator takes into consideration the capital programme over the life of the MTFS and the ability to phase the borrowing over this period. The indicator provides flexibility for the Council to take advantage of favourable interest rates in advance of the timing of the actual capital expenditure.

Operational Boundary	**2020/21 Indicator £m**	**2020/21 Actual at 30.09.2020£ m**	**2020/21 Forecast Outturn £m**
Borrowing	686.9	454.6	551.2
Other Liabilities	70.5	48.5	48.5
Total Operational Boundary	**757.4**	**503.1**	**599.7**

6. **Indicator 6: The Authorised Limit**
The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is "prudent".

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year.

The limits also incorporated margins to allow for exceptional short-term movements in the Council's cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

Authorised Limit	**2020/21 Indicator £m**	**2020/21 Actual at 30.09.2020£ m**	**2020/21 Forecast Outturn £m**
Borrowing	801.4	454.6	571.2
Other Liabilities	70.5	48.5	48.5
Total Authorised Limit	**871.9**	**503.1**	**619.7**

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year. The forecast outturn is lower than the indicator as the Council does not currently anticipate borrowing in advance of need due to the additional cost of holding the funds until required.

7. Indicator 7: Fixed Interest rate exposure

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the majority of borrowing was at fixed rates to provide budget certainty.

Upper limit for fixed rate exposure	2020/21 Indicator £m	2020/21 Actual at 30.09.2020 £m	2020/21 Forecast Outturn £m
Upper Limit	801.4	454.6	571.2
% of fixed interest rate exposure	100%	100%	100%

8. Indicator 8: Variable interest rate exposure

Upper limit for variable rate exposure	2020/21 Indicator £m	2020/21 Actual at 30.09.2020 £m	2020/21 Forecast Outturn £m
Upper Limit	200.4	-	-
% of variable interest rate exposure	25%	0%	0%

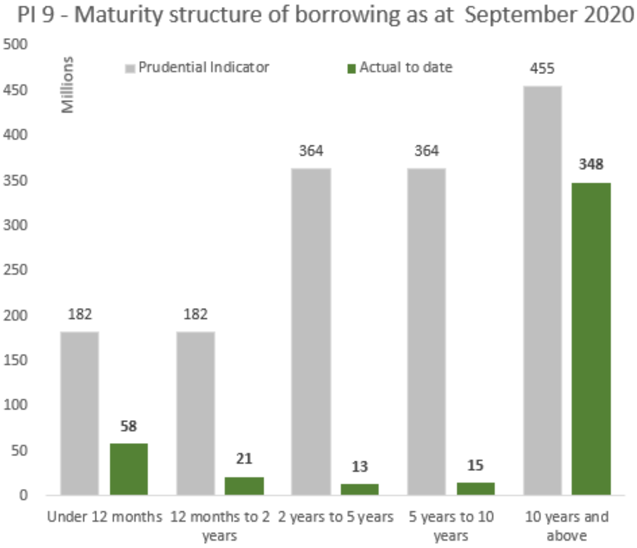
The indicator for actual and forecast outturn is zero due to the current borrowing strategy of borrowing only at a fixed interest rate in the current economic climate of volatile interest rates. Borrowing at fixed interest rates provides budget certainty for the Council.

9. Indicator 9: Maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council's borrowing and reflected the relatively beneficial long-term rates that were expected to be available over the next few years. The borrowing that the Council has actually taken up to the end of September 2020 is £454.6m shown in the indicator below.

Period	Upper Limit	2020/21 Actual at 30.09.2020 (£m)	
Under 12 months*	40%	13%	58.0
1 – 2 years	40%	5%	21.1
3 – 5 years	80%	3%	13.0
6 – 10 years	80%	3%	14.6
Over 10 years	100%	76%	347.9
Total Borrowing			**454.6**

** The borrowing for under 12 months includes £17.5m of Lenders Option Borrowers Option (LOBO) loans.*
Although the loans are due to mature in 21-33 years' time, they are classed as loans repayable within the
financil year due to LOBO's having a call-in date



10. **Indicator 10: Total Investments for periods longer than 365 days**

Authorities are able to invest for longer than 365 days excluding loans. This can be advantageous if higher rates are available. However, it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs.

	2020/21 Indicator£m	**2020/21 Actual at 30.09.2020£m**	**2020/21 Forecast Outturn £m**
Principal sums invested >364 days	10.0	0.0	0.0

This indicator reflects the Council's current lending policy of keeping investments short term for liquidity purposes. Also, the Council has run down its cash balances as an alternative to new borrowing and does not have the available cash balances to invest for long periods.

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