EXECUTIVE **23 NOVEMBER 2020**

SUBJECT:	**TREASURY MANAGEMENT AND PRUDENTIAL CODE UPDATE REPORT – HALF YEAR ENDED 30 SEPTEMBER 2020**
DIRECTORATE:	**CHIEF EXECUTIVE**
LEAD OFFICER:	**COLLEEN WARREN, FINANCIAL SERVICES MANAGER**

1. Purpose of Report

1.1 This report covers the Council's treasury management activity and the actual prudential indicators for the period April 1st to September 30th 2020. This is in accordance with the requirements of the Prudential Code.

2. Executive Summary

2.1 Treasury Management position and performance results for the 6 months ended 30th September 2020.

2.1.1 **Investment portfolio**

The Council held £33million of investments at 30th September 2020. The investment profile is shown in Appendix A.

Of this investment portfolio 100% was held in low risk specified investments, the requirement for the year being a minimum of 25% of the portfolio to be specified investments. During the 6 months to 30th September on average 92% of the portfolio was held in low risk specified investments and an average of 8% of the portfolio was held in non-specified investments (with other local authorities).

Liquidity – The Council seeks to maintain liquid short-term deposits of at least £5 million available with a week's notice. The weighted average life (WAL) of investments for the year was expected to be 0.25 years (91 days). At 30th September 2020 the Council held liquid short term deposits of £23 million and the WAL of the investment portfolio was 0.07 years (24 days). The decrease in the WAL of the investment portfolio is due to a larger proportion of the portfolio being placed in shorter term investments to ensure the council has enough liquid resources available at short notice during the pandemic.

Security - The Council's maximum security risk benchmark for the portfolio as at 30th September 2020 was 0.003%, which equates to a potential loss of £0.001m on an investment portfolio of £33m. This is lower than budgeted maximum risk of 0.009% in the Treasury Management Strategy. It represents a very low risk investment portfolio.

Yield – The Council achieved an average return of 0.32% on its investment portfolio for the 6 months ended 30th September 2020. This compares favourably with the target 7 day average LIBID at 30th September of -0.0555% and is significantly lower than the budgeted yield of 0.85% for 2020/21 in the MTFS 2020-25. This is primarily due to reductions in the Bank of England base rate as a result of the Covid 19 pandemic and the effects on rates available in the market as a result.

2.1.2 **External borrowing**

At 30th September 2020 the Council held £117.551 million of external borrowing, of which 100% were fixed rate loans (Appendix A).

As at 30th September 2020, the average rate of interest paid during quarters 1 and 2 on external borrowing was 3.7%. This is lower than the budgeted rate set in the MTFS 2020-25; there has been a reduction in external borrowing during the first 6 months of the year as some borrowing has been repaid.

3. Background

3.1 The prudential system for capital expenditure is now well established. One of the requirements of the Prudential Code is to ensure adequate monitoring of the capital expenditure plans, prudential indicators (PIs) and treasury management response to these plans. This report fulfils that requirement and includes a review of compliance with Treasury and Prudential Limits and the Prudential Indicators at 30th September 2020. The Treasury Management Strategy and Prudential Indicators were previously reported to and approved by Council on 03 March 2020.

3.2 This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.

3.3 This report highlights the changes to the key prudential indicators, to enable an overview of the current status of the capital expenditure plans. It incorporates any new or revised schemes previously reported to Members. Changes required to the residual prudential indicators and other related treasury management issues are also included.

4. Prudential Indicators

4.1 This part of the report is structured to provide an update on:

- The Council’s capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing.

4.2 Capital Expenditure

The table below summarises the changes to the capital programme that have been approved by or are subject to Executive approval since Council approved the original budget in March 2020.

Capital Expenditure	2020/21 Original Estimate £000	2020/21 Revised Estimate £000	2021/22 Original Estimate £000	2021/22 Revised Estimate £000	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
General Fund	15,586	11,104	2,847	10,971	703	1,160
HRA	25,640	22,287	16,608	21,462	13,761	14,887
Total	**41,226**	**33,391**	**19,455**	**32,433**	**14,464**	**16,047**

4.3 Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above) and the expected financing arrangements for this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council in the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt.

Indicators 1 & 2	**2020/21 Original Estimate £000**	**2020/21 Revised Estimate £000**	**2021/22 Original Estimate £000**	**2021/22 Revised Estimate £000**	**2022/23 Original Estimate £000**	**2022/23 Revised Estimate £000**
Capital Expenditure						
Total Spend	**41,226**	**33,391**	**19,455**	**32,433**	**14,464**	**16,047**
Financed by:						
Capital receipts	2,344	3,183	4,330	3,586	1,374	1,925
Capital grants & contributions	6,414	8,164	3,310	4,079	300	720
Major Repairs Reserve (Depreciation)	10,673	7,568	6,520	9,384	6,099	7,559
Revenue/Reserve Contributions	4,361	2,751	3,344	7,550	3,991	2,736
Net borrowing for the year	17,434	**11,725**	1,951	**7,834**	2,700	**3,107**

The principal changes in the financing, from the original estimates approved in March 2020 are as a result of the re-profiling of expenditure.

4.4 The Capital Financing Requirement and External Debt

The table below shows the Council's Capital Financing Requirement (CFR), which is the Council's underlying need to borrow for a capital purpose. It also shows the expected debt position over the period.

Indicators 3 & 4	2020/21 Original Estimate £000	2020/21 Revised Estimate £000	2021/22 Original Estimate £000	2021/22 Revised Estimate £000	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
General Fund	78,739	73,507	77,335	78,531	75,923	77,153
HRA	68,807	67,297	70,558	68,502	73,058	71,373
Total CFR	147,546	140,805	147,893	147,033	148,981	148,526
Net movement in CFR	**15,757**	**10,069**	**347**	**6,228**	**1,088**	**1,493**
Indicator 5	**2020/21 Original Estimate £000**	**2020/21 Revised Estimate £000**	**2021/22 Original Estimate £000**	**2021/22 Revised Estimate £000**	**2022/23 Original Estimate £000**	**2022/23 Revised Estimate £000**
Borrowing	127,000	127,000	127,000	127,000	125,000	127,000
Other long term liabilities *	Nil	Nil	Nil	Nil	Nil	Nil
Total Debt 31 March	**127,000**	**127,000**	**127,000**	**127,000**	**125,000**	**127,000**

* Other long term liabilities includes Finance leases- a change is accountancy practice will result in finance liabilities in 21/22 onwards which will be reported in the Treasury management Strategy

The Council is currently under-borrowed against the CFR, as, whilst the Council has adequate cash balances and employs internal resources until cash flow forecasts indicates the need for additional borrowing or rates are available that reduce the cost of carrying debt. PWLB borrowing rates have decreased and are currently forecast to remain steady over the next year. Borrowing has been arranged for later in 2020/21 some of which has replaced short term borrowing (£5m) - further borrowing of £2m is anticipated to replace borrowing which is maturing in the forthcoming months.

The HRA borrowing requirement is considered independently from that of the General Fund and a recent change in the rates available have made it advantageous for the HRA to borrow rather than employ internal balances. Further borrowing of £2m is anticipated and will be reported as part of the MTFS and Treasury Management Strategy.

4.5 Limits to Borrowing Activity

The first key control over the Council's borrowing activity is a prudential indicator to ensure that over the medium term, net borrowing will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need, which will be adhered to if this proves prudent.

Indicator 6	2020/21 Original Estimate £000	2020/21 Revised Estimate £000	2021/22 Original Estimate £000	2021/22 Revised Estimate £000	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
Gross Borrowing	127,000	127,000	128,000	128,000	125,000	127,000
Investments	(18,500)	(18,500)	(18,500)	(18,500)	(18,500)	(18,500)
Net Borrowing	108,500	108,500	109,500	109,500	106,500	108,500
CFR	147,546	140,805	147,893	147,033	148,981	148,526
Net borrowing is below CFR	**38,192**	**32,305**	**36,685**	**37,533**	**40,773**	**40,026**

*revised estimates as at 31 March

Due to changes in accounting practice the CFR in future years will include lease liabilities that are currently not recognised on the balance sheet. The council is engaged in establishing the amounts of these liabilities (previously treated as operating leases and treated as rental expenditure) and estimates will be made in the Treasury Management Strategy.

The Chief Finance Officer reports that no difficulties are envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the budget report.

A breakdown of the loans and investments profile is provided in Appendix A.

A further two prudential indicators control the overall level of borrowing. These are:

1. **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

2. **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. CIPFA anticipate that this should act as an indicator to ensure the authorised limit is not breached.

Indicator 7	2020/21 Original Estimate £000	2020/21 Revised Estimate £000	2021/22 Original Estimate £000	2021/22 Revised Estimate £000	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
Authorised limit for external debt*						
Borrowing	156,855	120,678	157,605	125,863	154,890	128,498
Other long term liabilities**	1,200	1,380	1,200	1,380	1,200	1,380
Total Authorised limit	**158,055**	**150,648**	**158,805**	**155,833**	**156,090**	**158,468**
Indicator 8	**2020/21 Original Estimate £000**	**2020/21 Revised Estimate £000**	**2021/22 Original Estimate £000**	**2021/22 Revised Estimate £000**	**2022/23 Original Estimate £000**	**2022/23 Revised Estimate £000**
Operational boundary for external debt*						
Borrowing	141,855	134,355	142,605	139,605	139,890	142,240
Other long term liabilities**	1,200	1,200	1,200	1,200	1,200	1,200
Total Operational Boundary	**143,055**	**135,555**	**143,805**	**140,805**	**141,090**	**143,440**

* The highest level of external debt during the first half of 2020/21 was £120.154m.

** Other long term liabilities include Finance leases.

There have been revisions to the capital programme since the Medium Term Financial Strategy was set in March 2020 which have impacted on authority's capital financing requirement and as a result, to the figures calculated for the operational boundary for borrowing. The limits for the Operational Boundary allow for previous use of internal borrowing to be replaced by external borrowing should the Chief Finance Officer decide that it is appropriate and prudent to do so.

Other Prudential Indicators

4.6 Appendix B details the updated position on the remaining prudential indicators and the local indicators.

5. Treasury Management Strategy 2020/21 to 2022/23 Update

5.1 Economic Update

5.1.1

- As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

  - The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
  - The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
  - It forecast that there would be excess demand in the economy by

Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

- It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.
- The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.
- In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.
- Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.
- There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

- One key addition to **the Bank's forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate
- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.
- **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e.following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.
- **Japan.** There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.
- **World growth.** Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

5.1.2 Current medium term interest rate forecasts are shown below:

Link Group Interest Rate View 11.8.20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

5.2 <u>Borrowing activity</u>

5.2.1 The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

5.2.2 Long-term fixed interest rates are currently low, Interest rates are expected to rise slowly over the three-year treasury management planning period. The Chief Finance Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. The approved funding of the current capital programme does require borrowing to be taken during 2020/21 and 2020/21. In addition to this there has been internal borrowing (i.e. using cash balances), to fund previous years' capital expenditure, which may need to be replaced at some point in the future with external borrowing. The current key challenge is anticipating the optimum point at which any future borrowing should be taken. Any future borrowing will increase cash holding at a time when counterparty risk remains high and investment returns are low. In this scenario, borrowing is likely to be postponed until cash flow need is more apparent.

5.2.3 Opportunities for debt restructuring will be continually monitored. Action will be taken when the Chief Finance Officer feels it is most advantageous.

5.3 Investment Strategy 2020/21 to 2022/23

5.3.1 The objectives of the Council's investment strategy are the safeguarding of the re-payment of the principal and interest of its investments on time first, and ensuring adequate liquidity second – the investment return being a third objective. Following on from the economic background above, the current investment climate is one of over-riding risk consideration i.e. that of counterparty security risk. As a result of these underlying concerns, officers continue to implement an operational investment strategy, which tightens the controls already in place in the approved investment strategy.

5.3.2 The Council held £33million of investments at 30th September 2020 and the investment profile is shown in Appendix A.

5.4 Risk Benchmarking

The Investment Strategy for 2020/21 includes the following benchmarks for liquidity and security. Yield benchmarks are contained within section 6.

5.4.1 *Liquidity* – The Council has no formal overdraft facility and seeks to maintain liquid short-term deposits of at least £5 million available with a weeks' notice which has been increased in the light of the pandemic to ensure adequate liquidity.

The weighted average life (WAL) of investments for the year was expected to be 0.25 years (91 days). At 30th September 2020 the Council held liquid short term deposits of £23 million and the WAL of the investment portfolio was 0.07 years (24 days). The shorter length in the WAL of the investment portfolio is due to investments being held in shorter term accounts to service cash flow requirements and a lower return environment.

The Chief Finance Officer can report that liquidity arrangements were adequate during the year to date

5.4.2 *Security* – The Council's maximum security risk benchmark for the portfolio as at 30th September 2020 was 0.003%, which equates to a potential loss of £0.001m on an investment portfolio of £33m. This is lower than the budgeted maximum risk of 0.009% in the Treasury Management Strategy. It represents a very low risk investment portfolio which carries a very much lower level of risk than Link's model portfolio and other local authorities within our benchmarking group.

The target set within the 2020/21 Strategy is that a minimum of 25% of the portfolio must be held in low risk specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this overall benchmark during the year to date. At 30th September 2020, 100% of the investment portfolio was held in low risk specified investments.

6. Yield Benchmarking

6.1 The Council participates in a benchmarking group run by our Treasury Management advisors (Link). For the month ending 30th September 2020 the benchmarking group achieved average yields of 0.28% on an average portfolio of investments of £82m with a weighted average maturity of 69 days compared to City of Lincoln's yield of 0.15% on £33m of investments with a weighted average maturity of 24 days – the results reflect the council's approach to keeping investments shorter term.

7. Strategic Priorities

7.1 High Performing Services - Through its Treasury Management Strategy the Council seeks to reduce the amount of interest it pays on its external borrowing and maximise the interest it achieves on its investments.

8. Organisational Impacts

8.1 Finance - The financial implications are covered in the main body of the report.

8.2 Legal - The Treasury Management Strategy and Prudential Indicators meet the requirements under legislation and code of practice.

9. Recommendations

9.1 It is recommended that the Executive note the Prudential and Local Indicators and the actual performance against the Treasury Management Strategy 2020/21 for the half-year ended 30th September 2020.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	Two
List of Background Papers:	Treasury Management Strategy 2020/21 (Approved by Council March 2020)
Lead Officer:	Colleen Warren, Financial Services Manager Telephone (01522) 873361

Appendix A

Borrowing Profile at 30th September 2020

	Long term borrowing	
	Fixed rate	**Variable rate**
	£ 000	**£ 000**
PWLB loans	91,990	0
Other Market loans	16,000	0
Local Authority loans	9,000	
3% stock	561	0
TOTAL	**117,551**	**0**

Investment Profile at 30th September 2020

	Total Principal invested	Short term	
		Fixed rate	**Variable rate**
	£ 000	**£ 000**	**£ 000**
UK Banks & Building societies (including Call accounts)	**10,000**	10,000	0
UK Money Market Funds	**23,000**	0	23,000
TOTAL	**33,000**	**10,000**	**23,000**

Appendix B

Updated Position on the Remaining Prudential and Local Indicators

Affordability Prudential Indicators

Actual and estimates of the ratio of financing costs to net revenue stream – This indicator identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the net revenue stream.

Table 5. Ratio of Financing Costs to Net Revenue Stream

Indicators 9 & 10	2020/21 Original Estimate £000	2020/21 Revised Estimate £000	2021/22 Original Estimate £000	2021/22 Revised Estimate £000	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
General Fund	24.3%	23.8%	26.3%	26.1%	23.5%	25.2%
HRA	31.0%	30.9%	30.6%	30.5%	30.9%	30.1%

The General Fund ratio is expected to increase in 2020/21 and 2021/22 as a result of additional interest and MRP payments on the borrowing that is taken to finance the capital programme. The HRA ratios have increased in 2020/21 and are expected to decrease slightly in future years as the four year period of a 1% annual reduction in rents comes to an end.

Treasury Management Prudential Indicators

The first treasury indicator requires the adoption of the CIPFA Code of practice on Treasury Management. This Council adopted the Revised Code of Practice on Treasury Management on 1st March 2011, and as a result adopted a Treasury Management Policy & Practices statement (1st March 2011).
There are four further indicators:

Upper Limits On Variable Rate Exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Upper Limits On Fixed Rate Exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

These indicators are complemented by four local indicators:
- Limit on fixed interest rate investments
- Limit on fixed interest rate debt
- Limit on variable rate investments
- Limit on variable rate debt

During the first half of the year the highest and lowest exposure to fixed and variable rates were as follows:

Indicators 11 & 12	**2020/21 Limit (Upper) £million**	**2020/21 Max Q1 & Q2 £million**	**2020/21 Min Q1 & Q2 £million**
Upper limits on interest rate exposures			
Upper limits on fixed interest rates	120	108.2	107.2
Upper limits on variable interest rates	49.9	41.4	16

	2020/21 Limit %	**2020/21 Max Q1 & Q2 %**
Local indicator limits based on debt only		
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	0%
Local indicator limits based on investments only		
Limits on fixed interest rates	100%	22.5%
Limits on variable interest rates	75%	77.52%

The use of variable rate, instant access instruments increased at the beginning of the pandemic to ensure that the council had liquid funds available to meet payments to support businesses and council activities. The 75% limit on variable rate investments was exceeded on 34 days between April and June.

Maturity Structures Of Borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

Indicator 13	2020/21 Original Estimate £000	2020/21 Revised Estimate £000	2021/22 Original Estimate £000	2021/22 Revised Estimate £000	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
Maturity Structure of fixed borrowing (Upper Limits)						
Under 12 months	40%	40%	40%	40%	40%	40%
12 months to 2 years	40%	40%	40%	40%	40%	40%
2 years to 5 years	60%	60%	60%	60%	60%	60%
5 years to 10 years	80%	80%	80%	80%	80%	80%
10 years and above	100%	100%	100%	100%	100%	100%
Maturity Structure of fixed borrowing (Lower Limits)						
Under 12 months	0%	0%	0%	0%	0%	0%
12 months to 2 years	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	0%	0%	0%	0%	0%
10 years and above*	10%	10%	10%	10%	10%	10%

As at 30th September 2020 the maturity structure of borrowing during the first half of the year was as follows:

Indicator 13 Maturity Structure of fixed borrowing	At 30/9/2020 %	At 31/3/2021 %
Under 12 months	8%	7%
2 years to 5 years	5%	5%
5 years to 10 years	9%	9%
10 years to 15 years	10%	13%
15 years to 25 years	21%	19%
25 years to 30 years	4%	4%
30 years to 40 years	17%	18%
40 years and over	25%	25%

Total Principal Funds Invested – These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

Indicator 14	2020/21 Original Estimate £000	2020/21 Revised Estimate £000	2021/22 Original Estimate £000	2021/22 Revised Estimate £000	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
Maximum principal sums invested > 1 year	£5m	£0m	£5m	£0m	£5m	£0m

As at 30th September 2020, there were no principal funds invested over 1 year.

Local Prudential Indicators

In addition to the statutory and local indicators listed above the Director of Resources has set four additional local indicators aimed to add value and assist in the understanding of the main indicators. These are:

1. Debt – Borrowing rate achieved against average 7 day LIBOR

	2020/21 Target %	2020/21 Actual – 30th September %	2021/22 Target %	2022/23 Target %
Debt – borrowing rate achieved (i.e. temporary borrowing of loans less then 1 year)	Less than 7 day LIBOR	No temporary loans taken 7 day LIBOR rate 0.06949%	Less than 7 day LIBOR	Less than 7 day LIBOR

2. Investments – Investment rate achieved against the average 7 day LIBID

	2020/21 Target %	2020/21 Actual – 30th September %	2021/22 Target %	2022/23 Target %
Interest rate achieved	Greater than 7 day LIBID	Achieved average 0.32% compared to -0.05551% LIBID	Greater than 7 day LIBID	Greater than 7 day LIBID

The interest rate achieved on investments compares favourably to the 7 day LIBID due to the use of fixed term, fixed rate investments, plus the greater use of semi-fixed rate call accounts and money market funds which pay a premium over the LIBID rate.

3. Average rate of interest paid on the Council's debt during the year (this will evaluate performance in managing the debt portfolio to release revenue savings).

	2020/21 Target %	2020/21 Average Q1&Q2 %	2021/22 Target %	2022/23 Target %
Average rate of interest paid on Council debt	4.75%	3.7%	4.75%	4.75%

The average rate on debt outstanding at 30 September is 3.69%, the average rate paid during quarters 1 and 2 is 3.7% and the average rate expected for 2020/21 to be paid is 3.67%.

4. The amount of interest on debt as a percentage of gross revenue expenditure. The results against this indicator will be reported at the year-end.