Audit Committee

25th November 2019

Report of: Service Director: Finance

Title: Treasury Management Mid-Year Report 2019/20

Ward: City Wide

Officer Presenting Report: Denise Murray, Service Director: Finance

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Recommendation
That the Mid-Year Treasury Management report for 2019/20 is noted.

Summary
This report meets the treasury management regulatory requirement that the Council receive a Mid-Year Treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans.

The significant issues in the report are:
There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes. The authority has a net borrowing requirement of £245m over the next five years and since April the Council have borrowed £30m to support the delivery of the Capital Programme.

PWLB – Change of Rates
On 9 October 2019 the Treasury and PWLB announced that Local Authorities will be charged an additional 1% on any new borrowings. There was no prior warning that this would happen and it will now require the Council to reassess the financial viability of capital projects supported by borrowing due to this unexpected increase in debt financing costs.

This Council use the PWLB as a source of borrowing. It will continue to consider alternative sources of borrowing in the market place especially as other providers are now expected to be able to offer "cheaper" sources of finance.

Policy

1. There are no policy implications as a direct result of this report.

Consultation

2. **Internal**
   Strategic & Service Directors.
3. **External**
   The Council's Treasury Management advisers

Purpose / Context of the report:

4. This report meets the treasury management regulatory requirement that the Council receive a mid-year treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).
5. That the mid-year report is structured to highlight:
   - The economic outlook;
   - The actual and proposed treasury management activity (borrowing and investment);
   - The key changes to the Council's capital activity (the prudential indicators {PIs}).

Background

6. Treasury management is defined as:
   "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
7. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Treasury management operations aim to ensure that cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
8. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Introduction

9. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised in 2017) has been adopted by this Council. The primary requirements of the Code are:
   - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
   - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

- Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated bodies are Overview and Scrutiny Management Board and Audit Committee.

10. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2019/20 financial year to 30 September 2019;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of any debt rescheduling undertaken or planned during 2019/20;
- The Council's capital expenditure and (prudential indicators);
- A review of compliance with Treasury and Prudential Limits for 2019/20.

Key Changes to the Treasury and Capital Strategies

11. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes.
12. The 2019–2024 Treasury Strategy (approved 26 February 2019) identified a medium term net borrowing requirement of £245m to support the existing and future Capital Programme with the debt servicing costs met from revenue savings from capital investment and the economic development fund. The Council's agreed policy is to defer borrowing while it has significant levels of cash balances (£155m at September 2019, £130m estimated for March 2020).
13. However the Council will undertake long term borrowing when rates are deemed advantageous to reduce the Council's exposure to interest rate risk. The authority took £30m of borrowing in two tranches in August and September, £20m (1.84%) and £10m (1.59%) from the PWLB when rates "dipped" historically low.
14. On 9 October 2019 the Treasury and PWLB announced a 1% increase across all maturities to its new borrowing rates. There was no prior warning that this would happen and the Council will now assess financing their external borrowing needs and market borrowing options / proposals. Due to this unexpected change, awaiting external markets borrowing proposals and along with the high level of investment balances the authority is not planning on borrowing any further funds to support the capital programme during the remainder of the year. The net financing costs arising from the £30m borrowed to date is contained within the existing capital financing budget.

    It is anticipated no further borrowing will be required in the current financial year to maintain liquidity, although borrowing could be taken if:

    - short term investments fall at a higher pace than expected increasing the liquidity risk of the authority and or;

- there is another significant change in markets and long term borrowing is deemed advantageous the authority will borrow over periods determined as the most appropriate to reduce the authorities exposure to interest rate risk.

Analysis of Debt and Investments

15. A summary of the of the Council's debt and Investment position as at 30th September 2019 (including forecast at 31st March 2020) compared with 31st March 2019 is shown in the table below:

Debt & Investments	31st March 2019		31st September 2019		31st March 2020	
	Actual		Actual		Forecast	
	£m	Rate%*b	£m	Rate%*b	£m	Rate%*b
Long Term Debt – PWLB Fixed	311	4.92	341	4.85	341	4.74
Long Term Debt – Market LOBO*a	70	4.09	70	4.09	70	4.09
Long Term Debt – Market Fixed	50	4.04	50	4.04	50	4.04
Short Term Borrowing	-	-	-	-	-	-
Total Debt	**431**	**4.68**	**461**	**4.63**	**461**	**4.56**
Investment	108	0.76	155	0.91	130	0.85
Net Borrowing Position	**323**		**306**		**331**	

*a Lender option Borrower option, *b reflects the average rate for the year taking account of new loans and repayments.

We are currently achieving a return of 0.91% on our investments for the period to 30 September 2019. The return for the year is anticipated to remain broadly the same given there is no anticipated change in base rate of 0.75%. The authority's advisors are forecasting the next rise in base rate to 1.00% around the winter of the next year (December 2020), subject to an orderly "Brexit". Long term interest rates (PWLB) are expected to remain at or around 3% (for 25 – 50 year term) for the remainder of the year.

Economic Update

UK. This first half year has been a time of "uncertainty" on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on the mandate of the UK leaving the EU on or 31 October, with or without a deal. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented which has led to a delay in Brexit to 31 January 2020. Subsequently parliament voted in a favour of a general election on 12 December.

The outcome of the general election will impact on the UK economy and any interest rate forecasts are subject to change as the situation changes. At present, if the UK does achieve an agreed deal on Brexit soon, then it is possible that growth could recover quickly. The Monetary Policy Committee could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation.

On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could fall and the Monetary Policy Committee would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the Monetary Policy Committee would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by way of tax cuts and / or expenditure on infrastructure projects, to boost the economy. However, infrastructure projects generally take a long time to plan and to start up, and so to feed through into the economy; tax cuts would be much quicker in increasing the level of consumption in the economy.

The first half of 2019/20 has seen UK economic growth fall due to Brexit uncertainty. In its Inflation Report of 1 August, the Bank of England was "downbeat" about the outlook for both the UK and major world economies. This mirrored investor confidence around the world which is now expecting a significant downturn or possibly even a recession in some developed economies. It was therefore expected that the Monetary Policy Committee left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off changes until there is some clarity on what is going to happen over Brexit. However, it should be noted that the Prime Minister is making significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, reduce the need of the Bank of England to cut Bank Rate to support growth.

CPI has been around the Bank of England's target of 2% during 2019 and is likely to move only a little upwards over the rest of 2019/20. It does not therefore pose any immediate concern to the Monetary Policy Committee at the current time. However, if there was a no deal Brexit, inflation could rise quickly, primarily from imported inflation as a result of a weakening pound.

The general election could result in a loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

16. **USA.** President Trump's large easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated a strong rate of growth to 2.9% y/y. Growth in 2019 has reduced after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The Federal Reserve finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July and September 2019, it cut rates by 0.25% but flagged that this was not to be seen as the start of a series of cuts to reduce the risk of a downturn in growth. Financial markets are expecting another cut in the second half of the year.

    Investor confidence has been affected by the progressive effects of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth.

17. **EUROZONE.** Growth has been slowed from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019.

    The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that did not help to boost growth. Consequently, it announced a third round of "targeted longer-term refinancing operations" (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021, this course of action is planned to encourage bank lending.

However, since then, the downturn in EZ and world growth has gathered pace so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy.

18. **CHINA**. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. The trade war with the US does not appear to have had a significant effect on GDP growth as yet as some of the impact of tariffs has been offset by falls in the exchange rate and by transhipping exports through other countries, rather than directly to the US.

19. **JAPAN.** Japan has been struggling to stimulate consistent GDP growth and to get inflation up to its target of 2%, despite monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

20. **WORLD GROWTH**. The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will impact on other economies supplying raw materials to China. Concerns are focused on the general weakening of growth in the major economies of the world compounded by fears that there could be a possible recession in the US, though this is probably "unlikely". These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited tools available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

Interest rate forecasts

21. The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

22. The above forecasts have been based on an assumption that there is some form of an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a significant assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

    It is of no surprise that the Monetary Policy Committee has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its recent meetings in August, the Monetary Policy Committee became more dovish due to the outlook for both the global and domestic economies.

    Brexit uncertainty has had a dampening effect on UK GDP growth in 2019. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September Monetary Policy Committee meeting is also concerned about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

23. **Bond yields / PWLB rates**. There has been speculation that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain, conditions reflect low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much to have a major impact on consumer spending, inflation, etc.

    This has reduced down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten year yields have fallen below shorter term yields. In the past, this has been an indicator of a recession. The other side is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on higher returns due to ultra-low interest rates on cash deposits.

    What has happened during the half year to 30 September is a near halving of longer term gilt yields to unprecedented historic low levels. There is an expectation that financial markets have gone "too far" about the degree of the downturn in the US and world growth. If, as expected, the US only suffers a mild downturn in growth this would put upward pressure on bond yields.

Japan, for twenty years has been failing to get economic growth and inflation above zero, despite a combination of large monetary and fiscal stimulus by both the central bank and government. Investors could be concerned that this condition might spread to other economies.

Since 2008 unconventional monetary policy has been applied (ultra-low interest rates plus quantitative easing). Low interest rates have encouraged debt which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending.

There has been news recently of a possible credit rating downgrade of the UK. Any such downgrade will likely cause gilt yields to rise increasing the cost of long term borrowing.

27. The overall balance of risks to economic growth in the UK is probably to the downside due to the uncertainties over Brexit, as well as a softening global economic picture. The balance of risks to increases in Bank Rate and shorter term PWLB rates are broad to the downside.

The downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Brexit – if agreement was reached that removed all threats of economic and political disruption between the EU and the UK.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up within the UK economy, which then requires a later series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to higher levels causing an increase in the inflation premium inherent to gilt yields

Investment Portfolio 2019/20

28. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in the "Economic Update" it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are

likely to remain low.

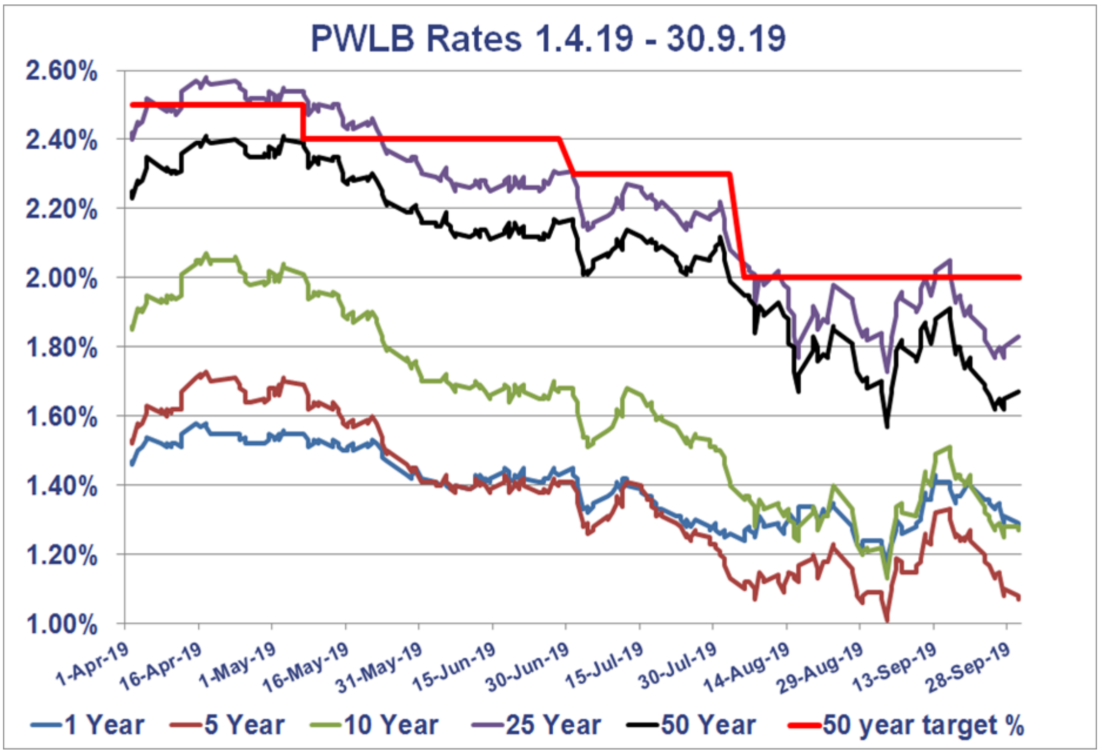
29. The Council held £155m of Treasury investments as at 30th September 2019 (£108m at 31 March 2019) with an average maturity of 86 days. These investments are predominately with local authorities, money market funds and UK banks. The investment portfolio yield for the first six months of the year was 0.91%. The standard comparator for investment performance is the benchmark 7 day rate (LIBID)[1,] which for the period was 0.57%. The benchmark for 1 and 3 month deposits was 0.65% and 0.70% respectively.

1LIBID – London Interbank Bid rate is a recognised reference rate to benchmark short-term investment interest rates.

30. The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20.
31. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function

Borrowing

32. The Capital Financing Requirement (CFR) denotes the Council's underlying need to borrow for capital purposes. The Council's CFR at 31 March 2020 is estimated to be £881m. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).
33. The balance of borrowing between external and internal is generally driven by market conditions and forecasts of future cash flows and interest rates. At the 31st March 2019 the Council had external borrowings of £566m and has utilised £324m of internal cash in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require on-going monitoring in the event that upside risk to gilt yields prevails.
34. However, internal borrowing is a temporary measure that takes advantage of low interest rates and will ultimately be replaced by more expensive external borrowing as the cash used is required elsewhere. The timing and amount of new external borrowing is therefore dependent on capital spending decisions, future cash flows and forecasts of interest rates.
35. Due to the underlying need to borrow for capital purposes, and to reduce the Council's internal borrowing position, along with rates dropping to historic low levels, the Council borrowed £30m from the PWLB in two tranches;
    - On 20th August borrowed £20m for 47 years at 1.84%
    - On 5th September borrowed £10m for 46 years at 1.59%
36. Should debt financing costs continue to historic low levels, and with a significant capital programme predominately financed by borrowing the Council will consider further borrowing if rates continue to fall or are anticipated to rise at a higher pace than expected. This will enable the authority to take advantage of a low interest rate environment and reduce the interest rate risk of the authority.
37. The trend in interest rates was a decrease during the first six months of the year across all maturity bands and longer rates have almost halved to reach historic lows. The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%

Increase in the cost of borrowing from the PWLB

38. On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 1% on top of the current margin of 0.8% which this authority has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority has 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.

39. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.

40. Whereas this authority has previously used the PWLB as a “core” source of borrowing, it will continue to consider alternative “cheaper” sources of borrowing. At the current time, this is a developmental and we are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this evolves.

41. It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future and the Council may make use of this new source of borrowing as and when appropriate.

Debt Rescheduling

42. Debt rescheduling opportunities have been limited in the current economic climate given the consequent structure of interest rates. The authority's debt portfolio is made up of long dated loans (PWLB £341m, Market Debt (LOBOS) £70m and Market Debt (Fixed) (£50m) averaging 33 years. The estimated penalty to repay the PWLB loans early is £318m, taking the total cost to £659m. In respect of the market loans, where indicative prices have been provided, a similar level of penalty has been quoted.

43. The total life cycle cost of rescheduling loans on a discounted cash-flow basis has been reviewed with no loans providing a positive cash-flow benefit to the authority. This would in part be due to large early repayment penalties that the authority will incur.

44. For these reasons no debt rescheduling has been undertaken during the first six months of the year and none is anticipated for the remainder of the year.

Ethical Policy

45. An Ethical Investment Policy is incorporated within the Treasury Management Practice Statements (TMPS). The City Council currently invest surplus funds with Banks and Building Societies either directly or via the Money Markets in the form of instant access cash deposit accounts, money market funds or on fixed term deposit and with other local authorities. The City Council's ethical investment policy is based on the premise that the City Council's choice of where to invest should reflect the ethical values it supports in public life. The City Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the City Council.

The Council's Capital Position (Prudential Indicators)

46. This part of the report is structured to update:

- 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 activity.

Prudential Indicator for Capital Expenditure

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

47. This table shows the latest estimates for capital expenditure:

Capital Expenditure by Service	2019/20 Approved Programme £m	2019/20 Period 6 Forecast £m
Non-HRA	184	119
HRA	52	51
Total	**236**	**170**

48. The latest capital monitoring report for the end of September 2019 sets out a capital forecast

of £170m detailed within the period 6 monitoring report presented to Cabinet on the 5th November 2019.

Financing of the Capital Programme

49. The table below draws together the capital expenditure plan and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2019/20 Approved Programme £m**	**2019/20 Period 6 Forecast £m**
Total spend	**236**	**170**
Financed by:		
Capital receipts	43	30
Capital grants	64	55
Revenue / Reserves	12	14
HRA – Self Financing	26	26
Prudential Borrowing – Increase in Capital Financing Requirement	91	45
Total financing	**236**	**170**

Capital Financing Requirement (CFR) & Operational Boundary

50. The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose and it also shows the expected debt position over the period. This is termed the Operational Boundary.

Capital Financing Requirement	2019/20 Original Estimate £m	2019/20 Latest Estimate £m
CFR – non housing	701	632
CFR – housing	249	249
Total CFR	**950**	**881**

External Debt (Operational Boundary)	2019/20 Approved Indicator £m
Borrowing	526
Other long term liabilities*	134
Total debt 31 March	**660**

** On balance sheet PFI schemes and finance leases etc.*

51. The revised Capital Financing Requirement is based on the actual CFR as at 31 March 2019 (£847m) increased by in-year capital expenditure financed by borrowing (£45m) and reduced by the minimum revenue provision (MRP) for repayment of debt and the repayment of the debt facilities within other long term liabilities (£11m).

Limits to Borrowing Activity

52. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross 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 2019/20 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.

	2019/20 Original Estimate £m	2019/20 Latest Estimate £m
Gross borrowing	526	461
Plus other long term liabilities*	134	134
Gross borrowing & long term Liabilities	**660**	**495**
CFR* (year-end position)	950	881

** Includes on balance sheet PFI schemes and finance leases etc.*

53. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

54. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which 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.

Authorised limit for external debt	**2019/20 Approved Indicator £m**
Total Borrowing	**970**

Proposal

55. That the Mid-Year Treasury Management report for 2019/20 is noted.

Other Options Considered

56. None

Risk Assessment

57. Borrowing and lending activity is reported to the Mayor.

The principal risks associated with treasury management are:

Risk	**Mitigation**
Loss of investments as a result of failure of counterparties	Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties
Increase in the net financing costs of the authority due to borrowing at high rates of interest / lending at low rates of interest	Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking most long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs)

Public Sector Equality Duties

58. a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:

i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.

ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --

- remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
- encourage persons who share a protected characteristic to participate in public life or in

any other activity in which participation by such persons is disproportionately low.

iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –

- tackle prejudice; and
- promote understanding.

b) There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Legal and Resource Implications

Legal

The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The Council is obliged to comply with these.

(Legal advice provided by Tim O'Gara - Service Director - Legal and Democratic Services)

Financial

(a) Revenue

The financing costs arising from planned borrowing are provided for in the revenue budget and medium term financial plan. Any additional operating costs will have to be contained within the revenue budget of the relevant department.

(Financial advice provided by Jon Clayton -Capital and Investments Manager)

(b) Capital

Not applicable

Land

Not applicable

Personnel

Not applicable

Appendices:

None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None