Report of the Director: Governance and Partnerships

Agenda Item No: 6
Meeting: 31 October 2019

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

TREASURY MANAGEMENT MID-YEAR REPORT 2019/20

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1. This report provides an overview of the Council's treasury performance in 2019/20.

1.2. The key points are that the Council's:

- Investment activity during the year conformed to the approved strategy, and there were no liquidity difficulties.
- Borrowing remained comfortably within the control levels set.
- Treasury activity was compliant with the Prudential Indicators set for the financial year.

1.3. The report sets out national factors that affect the Council's Treasury activity:

- Political factors added volatility to interest rate and risk environments.
- A slowing growth picture also pushed yields lower as investors factored in a need for future monetary easing. These factors have not yet, as at the time of writing, generally fed through into higher counterparty risk profiles, though we continue to monitor closely using the tools available to us and should the environment further deteriorate materially this may necessitate a revision to our Strategy in future. Should a change to the Treasury Management Strategy be deemed necessary a further report will be submitted for approval of the revisions.

2. BACKGROUND INFORMATION

2.1 This report fulfils the Authority's legal obligation under the Local Government Act to have regard to both the CIPFA Code and the Ministry of Housing, Communities & Local Government (MHCLG) Investment Guidance. The CIPFA Code requires that Full Council receive a report at the start of the financial year, mid-year and year end. The Audit Committee also receive regular updates regarding treasury activity, providing assurance on the effectiveness of the Council's treasury management arrangements.

2.2 The CIPFA Code sets out the following objectives for treasury management:

"It is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield risk, in that order of importance. No treasury management transaction is without risk and management of risks is the key purpose of the treasury management strategy."

2.3 Full Council agreed the Treasury Management Strategy for 2019/20 in February 2019. The Annual Treasury Report (included as an Appendix) provides the detail of the activity and performance against the strategy, including the agreed Prudential Indicators for 2019/20.

3. OPTIONS FOR CONSIDERATION

3.1 This is a report on past performance for Audit Committee to consider the mid-year performance and treasury management activity.

4. ANALYSIS OF OPTIONS

4.1 The key messages are:

- Interest rates remain near all-time lows at 0.75%. The future direction of travel is now a fine balance between gradually upwards (as guided by the Bank of England Monetary Policy Committee) and even lower (as priced by markets). As a result there is more volatility than last year and potential opportunities for reducing our average cost of borrowing.

- The potential for increases in rates has implications for future borrowings the Council will require in order to fund its Capital Programme, although there remains significant uncertainty about future interest rates. With our borrowing rates linked directly to lower market derived rates there is opportunity to reduce our internally borrowed position at potentially attractive rates. There remains a risk however that rates will track even lower as economic slowdowns begin to affect it and so a measured approach is being adopted. One longer-term borrowing transaction of £3m was completed in the period at a rate of 2.14% fixed for 36 years with short term borrowing was also utilised during the year which resulted in a lower interest cost than had been anticipated.

- The Council's investment balances have been kept relatively low, consistent with ensuring the council's liquidity, such that it is always in a position to meet its liabilities, while managing risks associated with carrying cash balances.

- The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

- Budgeted income from investments was over-achieved and so no pressure resulted from low market yields.

- The Council's risk profile remained lower than our peers, as monitored through benchmarking.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 Not applicable

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

6.1 Risk and external factors are considered in the monitoring report.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1. Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9. RECOMMENDATIONS

9.1 That the Audit Committee considers the assurance provided by this report on the effectiveness of arrangements for treasury management, and:

9.2 That the Audit Committee notes the mid-year treasury management performance 2019/20.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Date: 8th October 2019

Background Papers used in the preparation of this report

<u>Council</u>
2019-20 Treasury Management Strategy
2019-22 Capital Programme

CIPFA Publications
Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)
The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

Legislation and Central Government Guidance
Local Government Act 2003
The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
MHCLG Guidance

Appendix 1

Half-yearly Treasury Monitoring Report 2019/20

North Lincolnshire Council

www.northlincs.gov.uk

Contents

Key Messages:

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.

Interest Rates are projected to rise over the next few years and the implications for both investment income and borrowing cost will be closely monitored.

This report covers Treasury and it's related financial transactions. Under new Guidance from 2018-19 a separate Capital Strategy is reported separately covering non-treasury related investments

Chief Finance Officer Overview

The Council operates a balanced budget, which broadly means cash raised during the year will meet its non-capital expenditure. A key element of treasury management is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

Our 2019-20 Investment Strategy is tailored to allow the Council to manage it's risks in this order and specifically the risk posed by Bail-in Legislation that could expose the Council to potentially higher and more frequent losses as a result of Bank failures.

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. This 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.

Exit from the EU remains the key driver to economic indicators at the time of writing and work is in hand to consider the impact of various potential outcomes on the products and strategies used by the Treasury Team to ensure continuity of service post 31 October 2019 and through any subsequent Transition Period.

Becky McIntyre, Director of Governance and Partnerships

September 2019

Key Messages:

Forecast outturn at Quarter 2 is to deliver well within our net interest budget. Savings will be used to support service pressures arising elsewhere across the Authority.

No Treasury activity is without risk. These risks include, but are not limited to, Credit Risk, Liquidity Risk, Interest Rate Risk, Inflation Risk and Reputational Risk.

Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

Treasury management is defined as:

> "The management of the local authority's 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."

The Authority's Treasury Management Strategy for 2019/20 was approved by full Council in February 2019 and can be accessed here.

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 first part of the 2019/20 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- 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 during 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

Key Messages:

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

The Council uses in-house knowledge, external advice, treasury management software (Treasury Live) and the CIPFA Treasury Management Code to manage these risks.

External Context

Economics update

UK. Brexit has the potential to impact the near term outlook for the UK economy. However, the medium term may not be too bad, depending on the degree of slowing of the economy and the speed and strength of any policy response to the situation. It is likely that there would be a reduction in interest rates should Brexit happen with no deal. In the meantime, Q2 is likely to see GDP growth marginally avoid a technical recession, as firms looked to get as much stock in ahead of the 31 October leaving date, which boosted Q1 growth.

In its August Inflation Report, the Bank of England was more pessimistic 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. The Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on Brexit.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, (July 2.1%), and is likely to shift only a little upwards over the rest of 2019/20. It does not therefore pose any immediate concern to the MPC at the current time.

In the **US**, the massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back 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 Fed consequently went from signalling further rate increases to a 'mid-term adjustment' cut of 0.25% in July. Markets don't expect this to be a one-off.

Eurozone Growth has been slowing from +1.9% during 2018 to +0.4% q/q (+1.2% y/y) in quarter 1 and then 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 ECB therefore took action and cut its main rate deeper into negative territory. It also announced more quantitative easing to provide further stimulus to economic growth

Key Messages:

The Authority has access to a number of data tools that are used to monitor risk and against which decisions on investments and borrowing can be weighed.

Monthly update meetings are held between the operational Treasury Team and the Chief Finance Officer (or Deputy).

External Context (contd.)

Interest Rate Forecast: The Council's treasury advisor, Link Asset Services (LAS), has provided the following forecasts:

Link Asset Services Interest Rate View	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	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
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

Link Asset Services do not currently think that the MPC will increase Bank Rate before the outcome of Brexit is known. Accordingly, they have moved back their forecast for the first increase from quarter 3 2020 to quarter 4 2020 and the second increase from quarter 1 2021 to quarter 1 2022. This view is based on Brexit happening on 31 October.

There is a strong possibility now of low-for-even-longer rates. This is an environment for which we are well positioned through our lower investment balances and managed borrowing drawdowns.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields

Key Messages:

Over recent years the Authority significantly reduced credit risk by reducing its investment balances through use of reserves to defer borrowing needs and therefore reduce investments at risk.

This strategy has now been fully worked through and it is expected that the Council will need to undertake external borrowing in future to support the Capital Programme and Reserve drawdowns.

Over the medium term debt should not exceed our Capital Financing Requirement (CFR)

The Director of Governance and Partnerships reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

Local Context

At 31/08/2019 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £253.4m, while usable reserves and working capital which are the underlying resources available for investment were £69.6m.

At 31/08/2019, the Council had £183.8m of borrowing and £16.7m of investments. The current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding investment balances in excess of £10m. The differential between cash balances and usable reserves represents delayed borrowing. As this will have to be externalised (physically borrowed) in the future significant interest rate risk exists and is being closely monitored.

There is an increasing CFR over the next three years due to the capital programme, and with reduced investments will therefore need to borrow up to £34m over the forecast period in addition to refinancing £42m of scheduled repayments.

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 purposes. 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 approved policy enables borrowing in advance of need which will be adhered to if this proves prudent.

Capital Financing Requirement	31.03.19 Actual £m	31.03.20 Estimate £m	31.03.21 Estimate £m	31.03.22 Estimate £m
CFR	239.9	253.4	255.6	257.9
Total Debt	193.6	217.1	216.8	215.5

Key Messages:

When undertaking new borrowing the Council will review both the source and tenure of loans it seeks to take.

The Council's current borrowing portfolio is predominantly of a long-term and fixed nature. Whilst this provides certainty of cost it severely restricts flexibility to restructure debts as plans and finances change.

Borrowing short-term from other local authorities provides a useful alternative below current fixed rates and with the ability to exit loans within a reasonable timeframe. However, we are also mindful of a need to 'term out' a large portion of this at some point against a background of rising rates.

Borrowing Strategy

At 31/08/2019 loans amounted to £184m, (a reduction of £10m on 31/03/2019 (year end borrowing is typically higher) as part of its strategy for funding previous years' capital expenditure and managing liquidity. Eight new loans were taken out in the period as follows:-

Counterparty	Update Date	Start Date	Maturity Date	Principal	Effective Rate
Tameside Metropolitan Borough Council	02/04/2019	10/04/2019	08/04/2020	£6,000,000.00	1.0000%
North West Leicestershire District Council	03/04/2019	18/04/2019	18/10/2019	£3,000,000.00	0.8500%
North East Combined Authority	04/04/2019	29/04/2019	29/10/2019	£5,000,000.00	0.8500%
Corby Borough Council	16/04/2019	18/04/2019	20/01/2020	£2,000,000.00	0.9000%
Fylde Borough Council	16/04/2019	29/04/2019	27/03/2020	£2,000,000.00	1.0000%
Comhairle nan Eilean Siar	25/04/2019	29/04/2019	29/01/2020	£2,000,000.00	0.9000%
South Derbyshire District Council	14/05/2019	03/06/2019	01/06/2020	£2,000,000.00	0.9300%
PWLB	12/07/2019	15/07/2019	15/07/2055	£3,000,000.00	2.1400%
				£25,000,000.00	1.0672%

The main objective when borrowing has been to strike a low risk balance between securing low interest cost and achieving cost certainty over the period for which funds are required, flexibility to renegotiate loans should the long-term plans change being a secondary objective.

Affordability and "cost of carry" remained important influences on the borrowing strategy. The benefits of internal borrowing were monitored regularly against the potential for additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.

Debt Rescheduling: Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

Key Messages:

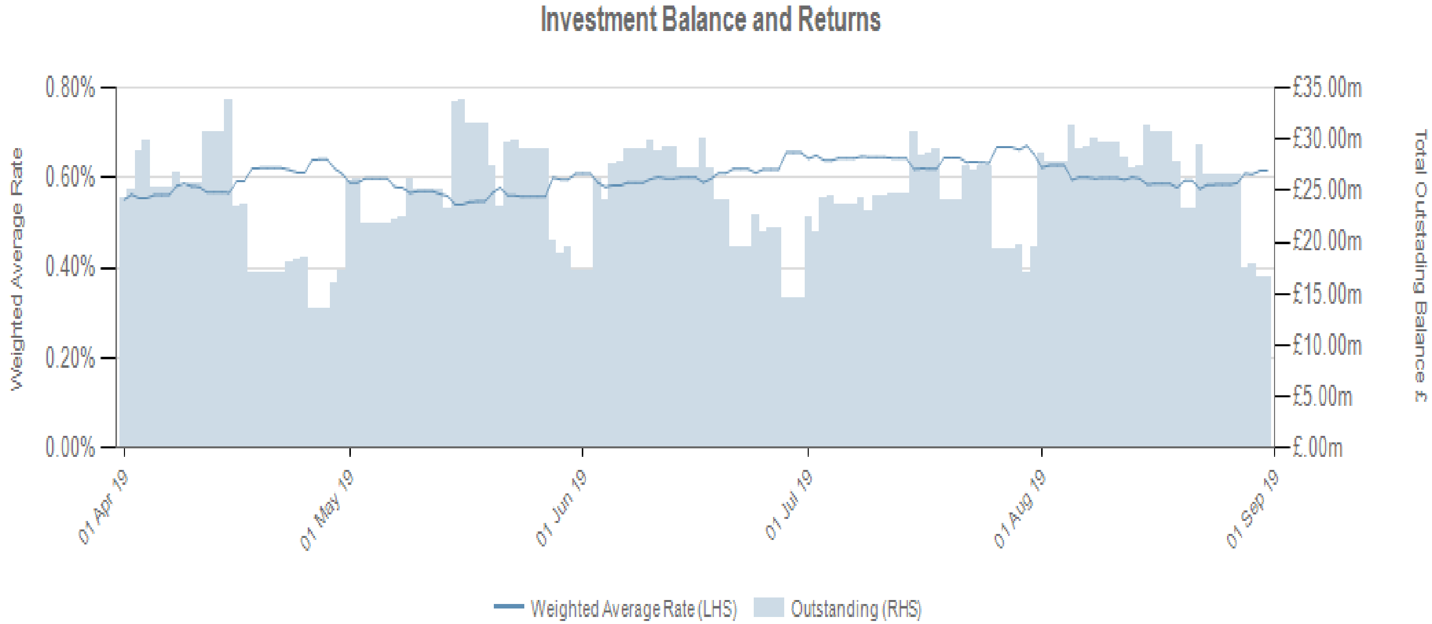
UK/EU legislation places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits including certificates of deposit.

Yields have remained at or close to historic lows since 2016.

At the time of writing the Bank of England policy statement, based on an assumption that there is an agreed deal on Brexit, stated that rates would need to rise at a "gradual pace and to a limited extent" but is now also conditional on "some recovery in global growth.

Investment Activity

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20 investment balances have averaged £24.6m (similar level to last year) while fluctuating between £13.5m and £33.9 million.



The Guidance on Local Government Investments in England gives priority to security and liquidity and the aim locally is to achieve a yield commensurate with these principles.

The investment market continues to be difficult in terms of earning the level of interest rates and the Council's budgeted investment return for 2019/20 reflects this at £0.050m. Performance for the year to date is above budget (see details on next page).

Key Messages:

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

The Director of Governance and Partnerships confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2019/20.

The annual income budget has already been delivered. This will mean any in year pressures are avoided should rates fall from where they are now.

Investment Activity

Counterparty Name	Deal Type Description	Opening Balance	Investments Made	Maturities / Investments Sold	Closing Balance	Average Rate	Average Term (days)
Bank of Scotland plc	Call	£2,400,000.00	£0.00	(£400,000.00)	£2,000,000.00	0.6500%	0
	Total	£2,400,000.00	£0.00	(£400,000.00)	£2,000,000.00	0.6500%	0
Barclays Bank plc	Call	£1,323,283.28	£21,275,192.17	(£21,609,040.29)	£989,435.16	0.5500%	0
	Total	£1,323,283.28	£21,275,192.17	(£21,609,040.29)	£989,435.16	0.5500%	0
BlackRock ICS Institutional Sterling Liquidity Heritage Dis	MMF	£2,000,000.00	£5,200,000.00	(£5,200,000.00)	£2,000,000.00	0.7155%	0
	Total	£2,000,000.00	£5,200,000.00	(£5,200,000.00)	£2,000,000.00	0.7155%	0
CCLA The Public Sector Deposit 4	MMF	£0.00	£0.00	£0.00	£0.00	0.0000%	0
	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
DMADF (Debt Management Account Deposit Facility)	Fixed	£18,000,000.00	£152,800,000.00	(£166,600,000.00)	£4,200,000.00	0.5032%	7
	Total	£18,000,000.00	£152,800,000.00	(£166,600,000.00)	£4,200,000.00	0.5032%	7
GS Sterling Liquid Reserve Institutional Inc	MMF	£600,000.00	£12,650,000.00	(£11,750,000.00)	£1,500,000.00	0.6927%	0
	Total	£600,000.00	£12,650,000.00	(£11,750,000.00)	£1,500,000.00	0.6927%	0
UK Government	Fixed	£0.00	£37,980,234.70	(£31,983,193.78)	£5,997,040.92	0.6667%	15
	Total	£0.00	£37,980,234.70	(£31,983,193.78)	£5,997,040.92	0.6667%	15
Total	Total	£24,323,283.28	£229,905,426.87	(£237,542,234.07)	£16,686,476.08	0.6005%	7

Given the increasing risk and continued low returns from short-term unsecured bank investments, but having no funds available for longer-term investment, the Council is unable to simply diversify into more secure and/or higher yielding asset classes such as repurchase agreements or covered bonds which are secured on financial assets. Eliminating Credit Risk by maintaining balances at lower than historical levels whilst still ensuring adequate liquidity is therefore a key strand of operational activity.

The Council's budgeted investment return for 2019/20 is £0.050m. Income for the year to date is £0.061m. The anticipated outturn is £0.090m. Our average return of 0.6% with 7 days average liquidity compares satisfactorily with 7-day LIBID of 0.57% for the period, particularly as we are generally avoiding direct bank risk.

Key Messages:

Counterparty credit quality is assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A-);

Additional tools for assessment include credit default swap prices, financial statements, information on potential government support and reports from quality financial news feeds.

Following changes to structures within major UK Banks, the Councils bank accounts with Barclays now sit within their non-ringfenced (NRFB) entity. However, the Council does not currently place investments with Barclays NRFB using it's accounts for operational purposes only.

Investment Activity (contd.)

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating
31/03/2019	3.89	AA-
30/06/2019	3.10	AA
30/09/2019	3.00	AA

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

The table demonstrates how the Authority consistent, high quality profile across it's investment portfolio during the period has been maintained.

Additional credit protection has been achieved through a short-dated investment time horizon.

The effect of these portfolio characteristics are shown in more detail in the Benchmarking section below.

Key Messages:

In an environment where direct unsecured bank deposits present increased risk but no compensating return NLC has sought to avoid this imbalance by utilising predominantly UK Sterling Government based investments or diversified money market funds.

Compared with other UK Authorities we operate lower investment balances (reducing the cost of carry on our borrowing), maintain much higher average liquidity and take less risk. The trade-off is lower return overall.

Investment Activity (contd.)

Benchmarking

- Treasury Live is used for benchmarking analysis. Reports are provided monthly and benefit from being drawn from a cohort across the full sector covering different Treasury Advisor guidance.
- The Tables below show how our investments are spread compared to the Group at period end.

NLC

Risk Study Date	Balance	Rate	Probability Of Default	Time To Maturity
Current	£16,686,476	0.62%	0.00%	9
Previous	£12,998,093	0.59%	0.00%	5
Change	28.38%	0.02%	0.00%	4

Group

Risk Study Date	Balance	Rate	Probability Of Default	Time To Maturity
Current	£6,275,085,191	0.94%	0.19%	155
Previous	£5,720,567,271	0.94%	0.42%	225
Change	9.69%	0.00%	-0.23%	(70)

- The above shows a general picture that the Group investment for much longer periods than NLC and receive a small premium for doing so. Given our lower balances (£16m vs £78m for the group) our strategy is to maintain a liquid portfolio whilst minimising cost of carry. Our average investment term was just 9 days and all our term investments were with UK Government.

Key Messages:

The half yearly position confirms compliance with its Prudential Indicators for 2019/20, which were set in February as part of the Treasury Management Strategy Statement.

Maintaining a spread of maturities across our borrowing portfolio can assist with managing cash flow and re-finance risk (the risk that replacement loans are not available or that interest rate costs differ significantly from the maturing loans).

Our active investment portfolio does not lend itself to longer term investments and in the ordinary course of business deposits over 365 days wouldn't be entertained. However a small limit is maintained in order to allow some flexibility in a fluid market environment

Compliance with Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Upper limits on fixed interest rate exposure.

	2019/20	2020/21	2021/22
Upper Limit on Fixed interest exposure	£288m	£303m	£308m
Actual	£184m	£160m	£147m

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

	Upper	Lower
Under 12 months	60%	18%
12 months and within 24 months	30%	3%
24 months and within 5 years	50%	10%
5 years and within 10 years	50%	24%
10 years and within 20 years	75%	33%
20 years and within 30 years	75%	9%
30 years and more	100%	3%

Principal Sums Invested for Periods Longer than 365 days: The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2019/20	2020/21	2021/22
Limit on principal invested beyond 1 year	£2m	£2m	£2m
Current investments as at 31.8.2019 in excess of 1 year	0	0	0

Key Messages:

The Council seeks to maintain cash balances that balance adequate liquidity with manageable credit risk.

A minimum liquidity level of £10m is set for 2019/20 and there have been no occasions where this limit was breached.

Compliance with Prudential Indicators (contd.)

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

	Target	Actual
Total cash available within 1 month	£10m	£13m

Key Messages:

Borrowing remains comfortably below control levels as a result of continued internal borrowing support for the Capital Programme.

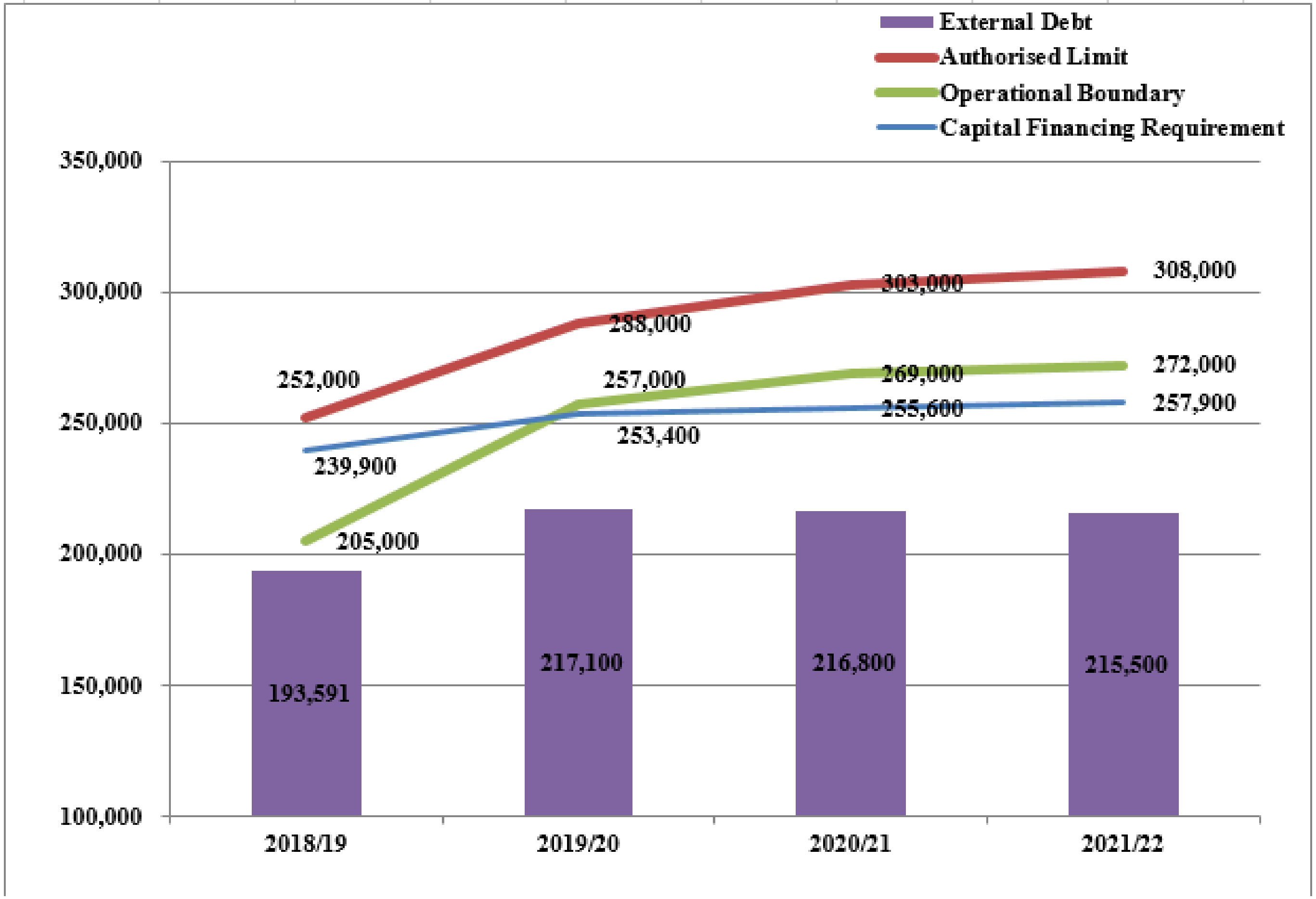
The Operational Boundary for External Debt is based on the estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the operational boundary for unusual cash movements.

Compliance with Prudential Indicators (contd.)

Other Prudential Indicators

The following prudential indicators are relevant to the treasury function as they concern limits on borrowing and the adoption of the CIPFA Treasury Management Code.



Adoption of the CIPFA Treasury Management Code: The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition in March 2018.

Key Messages:

The half yearly position confirms compliance with the Capital Finance Prudential Indicators for 2019/20, which were set in February as part of the Authority's Treasury Management Strategy Statement.

Changes to the 2019/20 and later programmes may occur through the remainder of the year as these are continually reviewed in the coming months.

Compliance with Capital Finance Prudential Indicators

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The planned capital expenditure and financing as at 30 September 2018 may be summarised as follows.

Capital Expenditure and Financing	2019/20 Original £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Total Expenditure	54.5	62.4	24.5	21.0
Capital Receipts	7.1	7.1	3.5	3.0
Government Grants	28.6	31.5	12.3	9.3
Revenue Funding	0.0	0.1	0.0	0.0
Borrowing	18.7	23.7	8.7	8.7
Total Financing	54.5	62.4	24.5	21.0

Key Messages:

The Council has an internal limit on the percentage of net revenue income that is committed to debt servicing costs. This is designed to ensure the Councils capital plans remain prudent, affordable and sustainable. For 2019-2022 this limit is 12% and so the table across shows the Council expects to deliver it's approved capital programme within this limit, albeit with limited additional capacity. Finally, changes in interest rates and/or income levels also impact this indicator.

Compliance with Capital Finance Prudential Indicators (contd.)

Ratio of Financing Costs to Net Revenue Stream
This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Ratio of Financing Costs to Net Revenue Stream	9.52%	11.28%	11.09%