ASSEMBLY

20 November 2019

Title: Treasury Management 2019/20 Mid-Year Review	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** Yes
Report Author: David Dickinson, Investment Fund Manager	**Contact Details:** Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	

Summary

Regulation changes have placed greater onus on elected Members in respect of the review and scrutiny of treasury management policy and activities. This mid-year review report provides details of the mid-year position for treasury activities and highlights compliance with the Council's policies previously approved by the Assembly.

The Assembly agreed the Treasury Management Strategy Statement for 2019/20 on 28 February 2019, which incorporated the Prudential Indicators. This report updates Members on treasury management activities in the current year.

The Cabinet was due to consider this report at its meeting on 12 November 2019 (the date of publication of this Assembly agenda). Any issues arising from the Cabinet meeting will be reported at the Assembly meeting.

Recommendation(s)

The Assembly is recommended to:

(i) Approve the revised 2019/20 Minimum Revenue Provision at Appendix 1 to the report;

(ii) Note the Treasury Management Strategy Statement Mid-Year Review 2019/20;

(iii) Note that in the first half of the 2019/20 financial year the Council complied with all 2019/20 treasury management indicators;

(iv) Note the value of the treasury investments as at 30 September 2019 totalled £330.7m;

(iv) Note the value of the commercial and residential loans lent by the Council as at 31 March 2019 totalled £76.6m;

(v) Note the value of long term borrowing as at 30 September 2019 totalled £785.3m. This is split with £275.9m of Housing Revenue Account (HRA) borrowing and £509.4m of General Fund borrowing. This comprised market, Public Works Loan Board (PWLB), Local Authority and European Investment Bank (EIB) loans;

(vi) Note the value of short term borrowing as at 30 September 2019 totalled £130.0m; and

(vi) Note the increase in the interest rates offered on new PWLB loans by 1.0% on top of existing loans terms of 0.8%, which equates to a margin of 1.8% above the relevant gilt yield.

Reason(s)

To accord with the requirements of the Local Government Act 2003.

1. Introduction and Background

1.1 The Council operates a balanced budget whereby cash raised during the year meets the Council's cash expenditure needs. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies invested with counterparties of an appropriate level of risk, providing adequate liquidity before considering maximising investment return.

1.2 The second main function of treasury management is the funding of the Council's capital programme. These capital plans provide a guide to the Council's borrowing need, which is essentially the use of longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging loans, using cash flow surpluses or restructuring previously drawn debt to meet Council risk or cost objectives.

1.3 A third main function of treasury management is the funding and treasury advice that is required for the Council's Investment and Acquisitions Strategy (IAS).

1.4 In accordance with the Chartered Institute of Public Finance Accountancy's (CIPFA) Code of Practice for Treasury Management, there should be a review of that strategy at least half yearly. The principal requirements of the Code include:

I. Maintain a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management.
II. Maintain a Treasury Management Practices which set out the how the Council will seek to achieve those policies and objectives.
III. Receipt by full Council of a Treasury Management Strategy Statement, (TMSS) including the Annual Investment Strategy (AIS) and Minimum Revenue Provision (MRP) Policy for the year ahead; a Mid-Year Review Report; and an Annual Report covering activities during the previous year.
IV. 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.
V. Delegation by the Council to a specific named body, for this Council this is Cabinet, to scrutinise the treasury management strategy and policies.

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

1. Introduction and Background;
2. Economic Update and Interest Rate Forecast;
3. Council's Cash Position as at 30 September 2019;
4. Interest Budget Position as at 30 September 2019;
5. Debt Position at 30 September 2019;
6. Investment Portfolio as at 30 September 2019;
7. Investment Strategy Performance and Benchmarking;
8. Commercial and Reside Loans;
9. IAS Income Forecast;
10. Minimum Revenue Provision (MRP) Review; and
11. The Council's Capital Position (Prudential Indicators).

2. Economic Update and Interest Rate Forecast

2.1 **UK.** After low annual growth of 1.4% in 2018, growth in Q1 was unexpectedly strong at 0.5%. However, this was boosted by stock building ahead of a March Brexit deadline so Q2 was expected to be negative and was at -0.2%, with annual growth of 1.3%

2.2 **The Monetary Policy Committee (MPC)** raised the Bank Rate from 0.5% to 0.75% in August 2018 but there have been no subsequent increases in Bank Rate
and it is unlikely that there will be further action from the MPC until the uncertainties over Brexit clear. If there were a no deal exit, it is likely that the Bank Rate would be cut in order to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.9% in June before edging back to 3.8% in July, (excluding bonuses). Growth in employment fell to only 31,000 in the three months to July, well below the 2018 average, while the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

2.3 **CPI** inflation fell to 1.7% in August and is likely to remain close to 2% over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound. The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 2.1%, i.e. a real term increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

2.4 **USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the rate of growth to 2.9% for 2018, just below his target of 3%. Growth in quarter 1 of 2019 was a strong 3.1% but growth fell back to 2.0% in quarter 2. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. After the Fed increased rates by 0.25% in December 2018 to between 2.25% and 2.50%, it has taken decisive action to reverse monetary policy by cutting rates by 0.25% in each of July and September in order to counter the downturn in the outlook for US and world growth. There are expectations that it could cut again in December.

2.5 **Eurozone**. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 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.

2.6 **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 currently appear to be having a significant impact on growth. Major progress still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

2.7 **World Growth**. The trade war between the US and China on tariffs is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. 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 ammunition 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.

2.8 **Interest Rate Forecast.** The Council's treasury advisor, Link Asset Services, has provided the following forecast:

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

After the August 2018 increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has put any further action on hold, probably until such time as the fog of Brexit might clear and there is some degree of certainty of what the UK will be heading into. The above forecast, and other comments in this report, are based on a central assumption that there will be some form of muddle through agreement on a reasonable form of Brexit. Bank Rate forecasts will have to change if this assumption does not materialise e.g. a no deal Brexit on 31 October could well prompt the MPC to do an immediate cut of 0.5% in Bank Rate back to 0.25%. All other forecasts for investment and borrowing rates would also have to change.

2.9 **PWLB Rate Increase**

On the 9th of October 2019 HM Treasury announced that the they would increase the interest rates offered on new Public Works Loan Board (PWLB) loans by 1.0% on top of existing loans terms of 0.8%, which equates to a margin of 1.8% above the relevant gilt yield.

Over the past few years the Council has predominantly used the PWLB to cover its longer-term borrowing requirements. The increase in the PWLB margin means that there are likely to be other funding options that will be comparatively cheaper, including borrowing from financial institutions and even issuing a bond. The Council has already completed the borrowing it was looking to do for 2019/20 but officers will work to ensure other funding options are available to fund the Council's IAS.

3. Council's Cash Position as at 30 September 2019

3.1 <u>Council Cash Position</u>

Table 1 details the Council's mid-year treasury position. Overall the Council's borrowing has increased since 31 March 2019 due to an increase in short-term borrowing and an increase of £60m of long-term debt from the PWLB. The average cost of General Fund debt is 1.99% for a total of £639.4m of borrowing.

Investment balances remain elevated at £330.7m with an average return of 1.57%. Commercial Loans to subsidiaries and to Reside total £76.6m.

Table 1: Council's Treasury Position at 30 September 2019

	Principal Outstanding £000s	Rate of Return	Average Life (yrs)
Housing Revenue Account Fixed Rate Borrowing			
PWLB	265,912	3.50%	36.31
Market Loans	10,000	3.98%	58.70
Total Housing Revenue Account Debt	**275,912**	**3.51%**	**37.12**
General Fund Fixed Rate Borrowing			
PWLB	390,700	2.17%	27.21
Market Loans	118,669	2.74%	30.70
Short Term Borrowing	130,000	0.77%	0.21
Total General Fund Debt	**639,369**	**1.99%**	**22.25**
Banks and Financial Institutions	(115,018)	1.20%	0.85
Local Authorities	(215,697)	1.66%	0.99
Total Investment Income	**(330,715)**	**1.57%**	**0.94**
Commercial and Reside Loans	**(76,636)**		

3.2 Overall the Council has a significant level of cash available to fund its IAS. Cash levels will be monitored, and additional borrowing taken as and when required.

4. Interest Budget Position as at 30 September 2019

4.1 The funding of the IAS will require a significant amount of borrowing. Pressure on the net interest budget could be from a:

i. Delay in developments becoming operational, which delays interest receivable;
ii. Significant increase in borrowing requiring more interest payable than forecast; and
iii. A significant drop in treasury returns either through lower returns or lower investible cash balances.

4.2 Table 2 below provides the latest interest receivable and payable budgets for the Council. The current interest forecast is for a small overspend in the interest payable budget. This overspend is as a result of treasury borrowing more during the year but at a much lower rate than forecast. There is a small overachievement forecast for interest receivable as the amount invested is forecast to be higher than originally forecast but the average rate is likely to be the same as the forecast.

4.3 For 2020/21 to 2022/23 the interest forecast is for the interest payable to be lower as average borrowing rates are forecast to be lower and borrowing rates are locked in through increasing the borrowing in 2019/20. However, the interest receivable is also likely to be lower as a result of delays in the IAS and also from lower rates available for treasury investments.

Table 2: General Fund (GF) Interest Budget Forecast 2019/20 to 2022/23

Interest Budget	2019/20 Forecast £'000s	2020/21 Forecast £'000s	2021/22 Forecast £'000s	2022/23 Forecast £'000s
GF Interest Payable Budget	12,500	15,600	21,071	24,513
GF Interest Payable Forecast	12,588	14,384	16,474	18,784
Surplus / (Deficit)	**(88)**	**1,216**	**4,597**	**5,729**
GF Interest Receivable Budget	(7,674)	(8,374)	(13,395)	(16,387)
GF Interest Receivable Forecast	(7,789)	(7,213)	(8,701)	(10,883)
Surplus / (Deficit)	**115**	**(1,161)**	**(4,694)**	**(5,504)**
Net Interest Budget	**4,826**	**7,226**	**7,676**	**8,126**
Net Interest Forecast	**4,799**	**7,170**	**7,772**	**7,901**
Net Surplus / (Deficit)	**27**	**56**	**(96)**	**225**

4.4 As outlined in section 2.9, the increase in the PWLB rate will mean that future borrowing will likely be made from other financial institutions or from the Council either issuing a bond. A summary of the borrowing options will be included as part of the Treasury Management Strategy Review, that will be taken to Members in February 2020.

4.5 Any borrowing decisions will be based on ensuring that the debt repayment is included as an element of the borrowing, that borrowing rates will be fixed and that the rate is competitive.

5. Debt Position at 30 September 2019

5.1 For the first half of the financial year, the treasury section has borrowed £60.0m from the PWLB to fund the IAS at a rate of 1.53% and for an average duration of 23.3 years. Details of the loans are below:

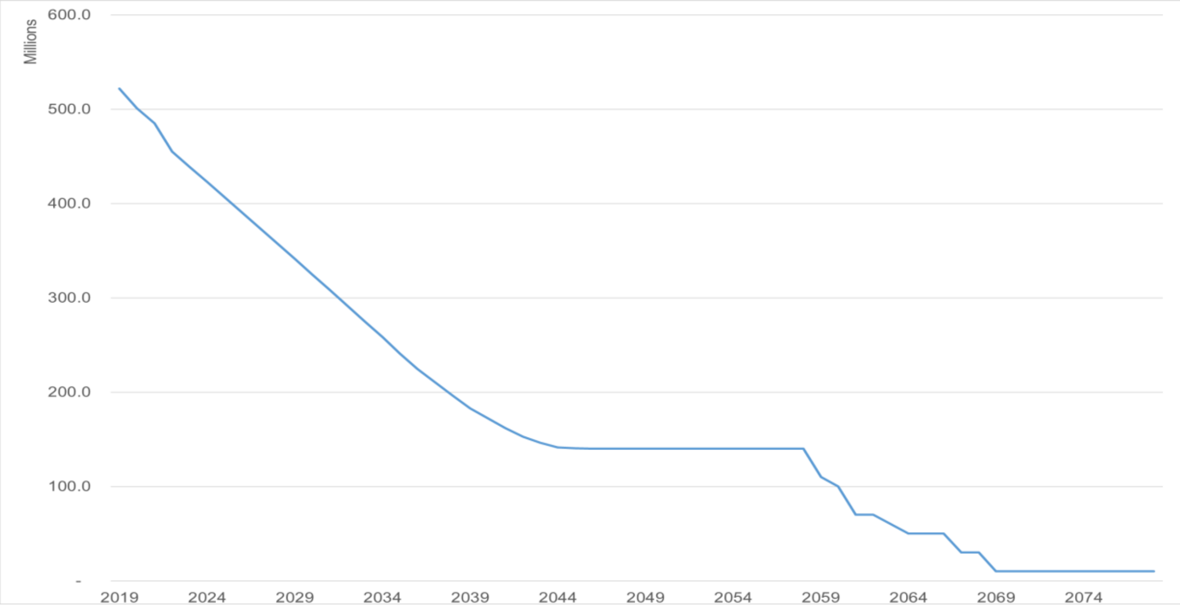
Table 3: Long Term Loans borrowed 1 April to 30 September 2019

Repayment Type	Counterparty	Start Date	End Date	Amount £000s	Rate %
EIP	PWLB	04/06/2019	04/06/2046	20,000	1.97
EIP	PWLB	08/08/2019	08/08/2039	20,000	1.39
EIP	PWLB	05/09/2019	05/09/2042	20,000	1.23
		Total Borrowed:		**60,000**	1.53

5.2 The total general fund borrowing is £639.4m, with £275.9m of HRA borrowing. The total borrowing as at 30 September 2019 is £915.3m.

5.3 Although the size of the Council's overall borrowing is significant, Members are asked to note that the EIB borrowing of £89m is an annuity repayment, which means that over the 30-year duration of the loan, a proportion of the loan will be repaid each year. In addition, £200m of the long-term borrowing is Equal Instalment Payments (EIP), which involves the repayment of an equal amount of the debt each year for the duration of the loan. As a result, the Council has a loan repayment profile that is similar to its forecast property debt repayment schedule. The Council's current GF long term borrowing repayment schedule is outlined in Chart 1 below:

Chart 1: General Fund Long Term Debt Maturity Profile



5.4 <u>Debt Repayment and Rescheduling</u>

Debt rescheduling opportunities are limited in the current economic climate and no debt rescheduling were undertaken during the first six months of the financial year. Debt repayment for several equal instalment payments loans we made during the same period. It must be noted that although a significant amount has been borrowed, ensuring low cost of carry and debt repayment, is at the forefront of any borrowing decisions.

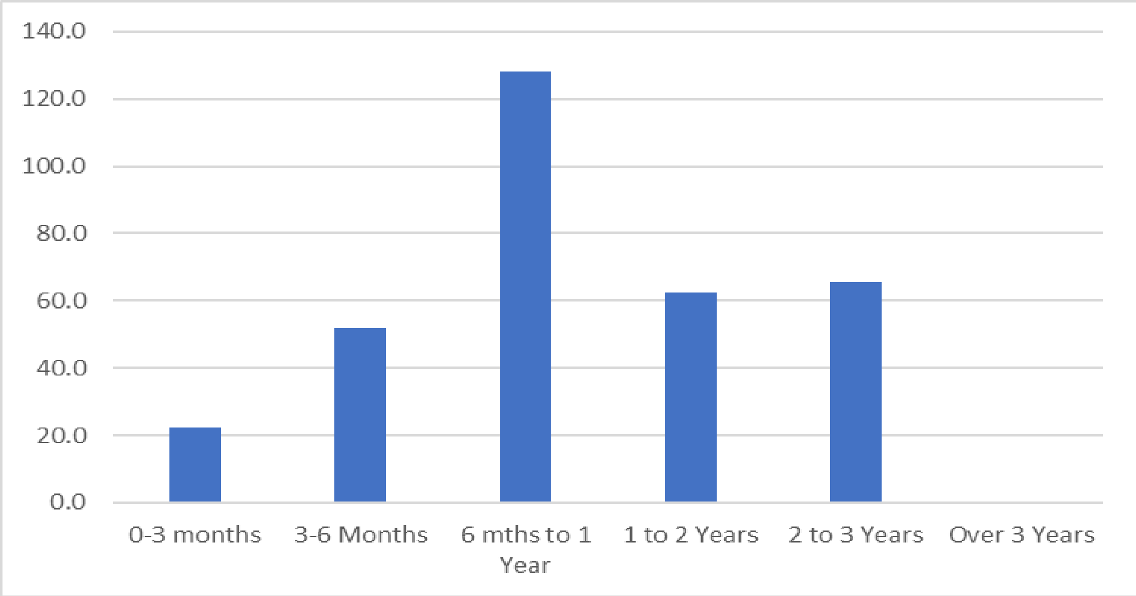
6. Investment Portfolio as at 30 September 2019

6.1 It is the Council's priority to ensure security of capital and liquidity before obtaining an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate, the Council's risk appetite remains relatively low, with the treasury section looking to take advantage of the fluctuations in rates offered by Local Authorities and Financial Institutions to lock in favourable rates without the need to take on significant additional risk.

6.2 As at 30 September 2019 the Council held £330.7m in cash, with £215.7m invested with Local Authorities and £115.0m held in deposits with banks.

6.3 The Council's investment maturity profile in Chart 2 below shows that, as at 30 September 2019, 6.8% of the Council's investments had a maturity of 3 months or less, with 61.2% having a maturity of one year or less. Spreading out the maturity of longer dated investments allows the Council to take advantage of improved rates of return while ensuring sufficient liquidity.

Chart 2: Investment Profile (Millions)



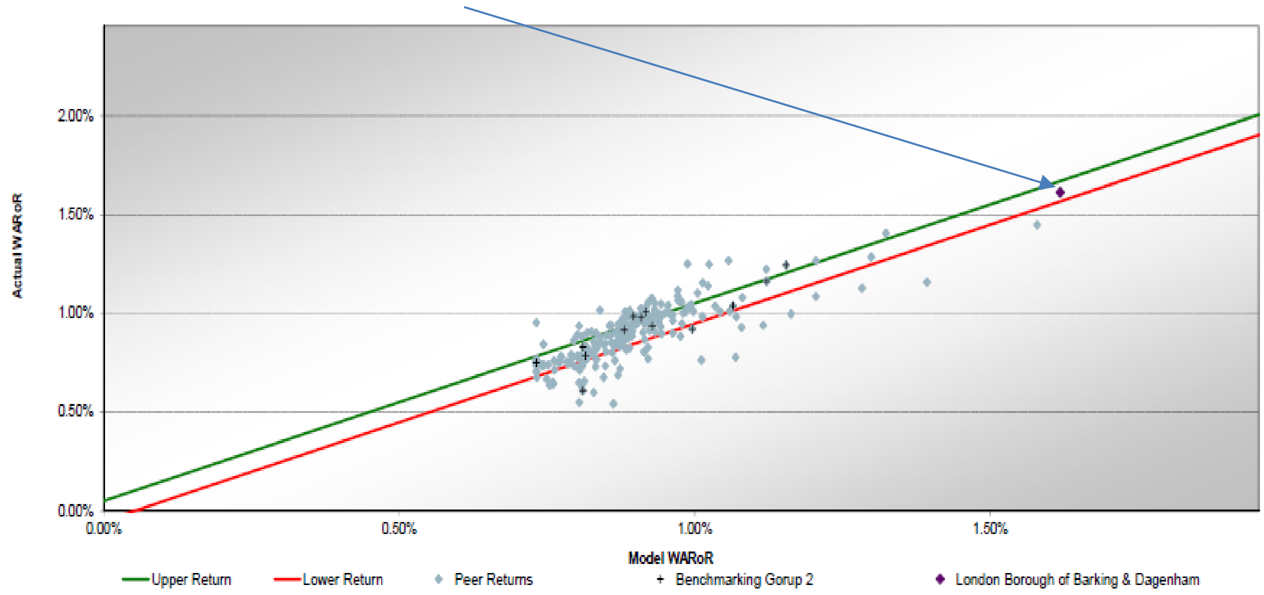
7. Investment Strategy Performance and Benchmarking

7.1 Although yields have reduced to historically low levels over the first half of the financial year, several opportunistic investments have resulted in a stable average rate of return of **1.61%** for the first six months of the year. The rate at 30 September 2019 is **1.57%** indicating that the returns for the second part of the financial year will be similar to those achieved in the first half.

7.2 Due to the Council's increased investment and capital programme, investments will continue to be made to reduce the cost of carry of any borrowing. In addition, investment will be made to match the cashflow requirements to ensure that, where significant expenditure is required, sufficient cash is available to cover this, thereby reducing the need to take out long term borrowing when rates may be elevated.

7.3 The treasury strategy, which excludes direct property investments such as through Reside, continues to significantly outperform its peer group, with a return of 1.61% against an average of 0.98% for London Local Authorities and 0.90% for the total comparable population of 168 authorities. This is highlighted in chart 3 below, where the Council significantly outperforms the other authorities and is within the upper and lower bandings based on the duration taken.

Chart 3: Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
London Borough Of Barking & Dagenham	1.61%	1.62%	-0.01%	1.57%	1.67%	Inline

7.4 One of the reasons for the Council's outperformance is that its investments are, on average, for a longer duration. The main drivers behind this strategy is to minimise the cost of borrowing and also to match the funding of the Council's IAS, which requires more cash in 2019/20 and onwards when a large part of the construction payments will be made.

8. Commercial and Reside Loans

8.1 In addition to its treasury investments, the Council has several loans to its subsidiary companies and also residential property loans to Reside. These loans all have an agreed loan and a commercial interest repayment schedule agreed. As at 31 March 2019 the Council's commercial loans and loans to Reside totalled £76.6m and are summarised in table 4 below:

Table 4: Commercial and Reside Loans as at 31 March 2019

Reside Company	Loan Type	Value £000s
Be First Ltd	Commercial Loan	4,260
Dagenham and Redbridge Loan	Commercial Loan	115
B&D Energy Limited	Commercial Loan	284
B&D Trading Partnerships	Commercial Loan	21,836
Barking Riverside Limited	Commercial Loan	5,732
B&D Reside Roding	Reside Loan	561
B&D Reside Regeneration	Reside Loan	9,461
B&D Reside Weavers LLP	Reside Loan	34,388
Total		**76,636**

9. IAS Income Forecast

9.1 The current forecast for the IAS net income is for an underperformance of £1.074m as outlined in table 5 below. The underperformance is predominantly from lower than originally forecast income from Commercial Loans, from delays in getting schemes to the operational phase and the use of some of the returns to fund the Reside management structure.

Table 5: IAS Income Forecast as at 30 September 2019

IAS 2019/20 Net Income	2019/20
Budget	**£000s**
Original MTFS Savings Target	3,733
Add £600k Saving for Abbey MRP	600
Total Target	**4,333**
Total Reside Schemes	1,882
Commercial property and Loans	1,377
Total Commercial	**3,259**
Surplus / (Deficit)	**(1,074)**

9.2 Although the forecast for 2019/20 is an underachievement against the IAS budget, a reserve has been established from the prior year's outperformance which will allow this underperformance to be covered.

9.3 Work continues between the Council, Be First and Reside to improve the time it takes to deliver residential and commercial schemes and to ensure that operational schemes are managed efficiently and effectively. Be First continues to seek other regeneration and investment options and there is the potential for these to improve the return during 2019/20.

10. Minimum Revenue Provision (MRP) Review

10.1 Regulations 27 and 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) require that a local authority "shall determine for the current financial year an amount of MRP which it considers to be prudent". MRP is a charge to revenue in relation to capital expenditure financed from borrowing, often referred as a provision for the repayment of debt.

10.2 Prior to 2007 the arrangements for determining debt repayment were prescriptive. In 2007, this was replaced by a system of self-regulation that aligns with the prudential code and accounting codes to allow authorities local discretion based on their own judgement as to what is prudent. The Secretary of State has issued statutory Guidance on determining the "prudent" level of MRP.

10.3 In February 2018 the Ministry of Housing, Communities and Local Government (MHCLG) published revised Guidance on Local Government and Investments and Statutory Guidance on MRP.

10.4 The definition of prudent MRP has been changed to "put aside revenue over time to cover the capital financing requirement". It cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward.

10.5 A review of MRP was completed in 2018 and a further review has now been completed into options available to change the way MRP is calculated on historical MRP provisions.

10.6 The proposed revised MRP will see historical MRP balances, as at 31 March 2019, which have been calculated using a straight-line method, changed to an annuity method. This will reduce the early years of the MRP provision but will increase the MRP provision for latter years.

10.7 Appendix 1 includes the revised MRP, with the amended sections highlighted.

11. The Council's Capital Position (Prudential Indicators)

11.1 Prudential Indicator for Capital Expenditure

Table 6 shows the changes to the original capital expenditure budgets. Table 6 also highlights the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure.

The borrowing need increases the underlying indebtedness of the Council by way of the CFR, although this will be reduced by revenue charges for the repayment of debt (MRP). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements. The increase in revised budget when compared to the original budget is mainly due to the addition to the capital programme of the Investment and Acquisition Strategy.

Table 6: Revised Estimate to Capital Programme as at 30 September 2019

Capital Expenditure by Service	Feb 2019 Revised Budget £000	Sep 2019 Forecast £000
Care & Support	2,241	2,241
Community Solutions	210	210
Core	3,392	3,392
Educations Youth & Childcare	45,591	46,003
Enforcement	2,116	2,116
Culture Heritage & Recreation	10,675	8,926
Investment & Acquisitions Strategy	124,000	122,513
My Place	7,185	7,185
Public Realm	7,572	7,572
SDI Commissioning	-	-
Asset Management	37,600	37,892
New Build Schemes	20,000	13,072
Transformation	10,995	5,389
General Fund Capital Spend	**271,577**	**256,511**
HRA Budget	69,100	62,464

Estates Renewals (HRA)	11,500	11,500
Approved Capital Programme	**340,677**	**318,975**
Financed by:		
Capital Grants	38,415	41,796
Section 106	-	-
Revenue Contributions	990	400
Capital Receipts	25,698	28,930
HRA Contributions	79,804	73,964
Sub-Total	**144,907**	**145,090**
Net financing need for the year	**195,770**	**173,885**

11.2 Prudential Indicator – CFR

Table 7 shows that the Council's revised CFR will not exceed the Operational boundary. The COO reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

The Authorised Limit 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.

Table 7: Revised Capital Financing Requirement as at 30 September 2019

	2019/20 Original Revised Estimate £000s	**2019/20 Updated Estimate £000s**
Prudential Indicator – Capital Financing Requirement		
CFR – General Fund	335,872	315,474
Reside Operational Schemes	194,504	194,504
Investment & Acquisitions Strategy	124,000	122,513
CFR – Housing	278,472	278,472
Total CFR	**932,848**	**910,963**
Net movement in CFR	**195,770**	**173,885**
Long Term HRA Debt	275,912	275,912
Long Term General Fund Debt	472,922	509,369
Short Term General Fund Debt	120,000	70,000
Other long-term liabilities	51,891	51,891
Total debt 31 March 2020	**920,725**	**907,172**
Operational Boundary	**1,002,000**	**1,002,000**
Authorised Limit	**1,102,000**	**1,102,000**

11.3 Treasury Indicators: Limits to Borrowing Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance.

The indicators are:

i. Upper limits on variable interest rate exposure: identifies a maximum limit for variable interest rates based upon the debt position net of investments;

ii. Upper limits on fixed interest rate exposure: is similar to the previous indicator and covers a maximum limit on fixed interest rates; and

iii. Maturity structure of borrowing: gross limits to reduce the Council's exposure to large fixed rate sums requiring refinancing.

The COO reports that there were no breaches in any of the limits outlined below:

Interest rate exposures	2019/20	2019/20	2020/21
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	70%	70%	70%
Limits on fixed interest rates:			
• ***Debt only***	100%	100%	100%
• ***Investments only***	90%	90%	90%
Limits on variable interest rates			
• ***Debt only***	70%	70%	70%
• ***Investments only***	80%	80%	80%

Maturity structure of fixed interest rate borrowing 2019/20		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2019/20		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	80%

12. Consultation

12.1 The Chief Operating Officer, in her role as statutory chief finance officer, has been informed of the approach, data and commentary in this report.

13. Financial Implications

Implications completed by Katherine Heffernan, Head of Service, Finance

13.1 This report sets out the mid-year position on the Council's treasury management position and is concerned with the returns on the Council's investments as well as its short and long-term borrowing positions.

14. Legal Implications

Implications completed by Dr. Paul Feild, Senior Governance Lawyer

14.1 The Local Government Act 2003 (the "Act") requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

14.2 The Council also has to 'have regard to' the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out its functions under the Act.

14.3 The Assembly agreed the Treasury Management Strategy Statement for 2019/20 on 28 February 2019. This report is a midyear review of the strategy's application and there are no further legal implications to highlight.

15. Options Appraisal

15.1 There is no legal requirement to prepare a Treasury Management Strategy Statement Mid-Year Review; however, it is good governance to do so and meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

16. Other Implications

16.1 Risk Management - The whole report concerns itself with the management of risks relating to the Council's cash flow. The report mostly contains information on how the Treasury Management Strategy has been used to maximise income during the first 6 months of the year.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- Appendix 1: Minimum Revenue Provision 2019/20 Review
- Appendix 2: Investments as at 30th September 2019