Northumberland County Council

AUDIT COMMITTEE

29 JULY 2020

Treasury Management Annual Report for the Financial Year 2019-20

Report of Chris Hand, Executive Director of Finance and S151 Officer

Cabinet Member: Councillor Nicholas Oliver – Cabinet Secretary and Portfolio Holder for Corporate Services

---

Purpose of the Report

This report provides details of performance against the Treasury Management Strategy Statement (TMSS) 2019-20, approved by the County Council on 21 February 2018. The report provides a review of borrowing and investment performance for 2019-20, set in the context of the general economic conditions prevailing during the year. It also reviews specific Treasury Management prudential indicators defined by the (CIPFA) Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code), and approved by the Authority in the TMSS.

Recommendations

- Members receive the report and note the performance of the Treasury Management function for 2019-20; and,
- Members recommend the report to County Council.

Link to the Corporate Plan

This report supports the "We want to be efficient, open and work for everyone" priority included in the Council's Corporate Plan 2018-21 "A Council that Works for Everyone".

Key Issues

The Local Government Act 2003 (the Act) and supporting Regulations require the Council to produce an annual review of treasury management activities and present the actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy

(CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The report provides a review of the Treasury Management activities for 2019-20; and, sets out performance against the Treasury Management Strategy Statement for 2019-20.

TREASURY MANAGEMENT ANNUAL REPORT 2019-20

1. INTRODUCTION

1.1. Background

This Treasury Management Annual Report provides a review of the activities of the Treasury Management function for the period 1 April 2019 to 31 March 2020, and shows performance against the Treasury Management Strategy Statement (TMSS) for 2019-20. Its production and submission to Council is a requirement of the CIPFA Code of Practice on Treasury Management.

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."

1.2. Statutory and Regulatory Requirements

The Local Government Act 2003 (the Act) and supporting Regulations require the Council to produce an annual review of treasury management activities and the actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore, important as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.3. Basis and Content of Treasury Management Annual Report for 2019-20

The report covers:

- Overview of and compliance with the Treasury Management Strategy for the financial year 2019-20;
- Economic conditions and interest rates during 2019-20;
- Overview of the treasury position at 31 March 2020;
- Borrowing activity for 2019-20;
- Investment activity for 2019-20;
- Performance against budget; and,
- Treasury management limits and prudential indicators position.

2. TREASURY MANAGEMENT STRATEGY FOR 2019-20

2.1. Overview of the 2019-20 Strategy

The expectation for interest rates within the treasury management strategy for 2019-20 was for Bank Rate (often referred to as Base Rate) to increase from 0.75% at the start of year to 1.25% by March 2020; and for only very gradual rises in medium and longer term fixed borrowing rates during 2019-20. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued economic uncertainty promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

With investment returns anticipated to remain low (at least in the short term), it was proposed to continue with the practise adopted in previous years of wherever possible using investments in lieu of external borrowing – i.e. operating an under-borrowing position. The treasury management strategy for 2019-20 forecast the year end under-borrowing would increase to £162.280 million (from £156.860 million at 31 March 2019).

Whilst the principal strategy of maintaining an under-borrowing position would reduce short term revenue costs, consideration would also be given to increased long-term borrowing whilst interest rates remain low.

2.2. Compliance

All treasury activities met the Treasury indicators set out in the TMSS, and borrowing was within the borrowing limits set by the Council. Throughout the period, all treasury activities have been conducted within the parameters of the TMSS 2019-20, alongside best practice suggested by the CIPFA Treasury Management Code and Central Government.

3. ECONOMIC CONDITIONS AND INTEREST RATES DURING 2019-20

3.1. Economy

Economic growth in 2019 was very volatile with quarter 1 unexpectedly strong at + 0.5%, quarter 2 dire at - 0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, resulting in an overall +1.1% y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the economy fell by 2% in the first quarter of 2020. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the UK economy will see GDP fall by perhaps 20-25% in the second quarter of 2020 (April – June). This is much larger than any quarter during the 2008-09 financial crisis, and a contraction of this magnitude would be comfortably the largest quarterly drop since records began in the 1920s.

What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will

occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to hold rates until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn.

Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

3.2. Borrowing Rates

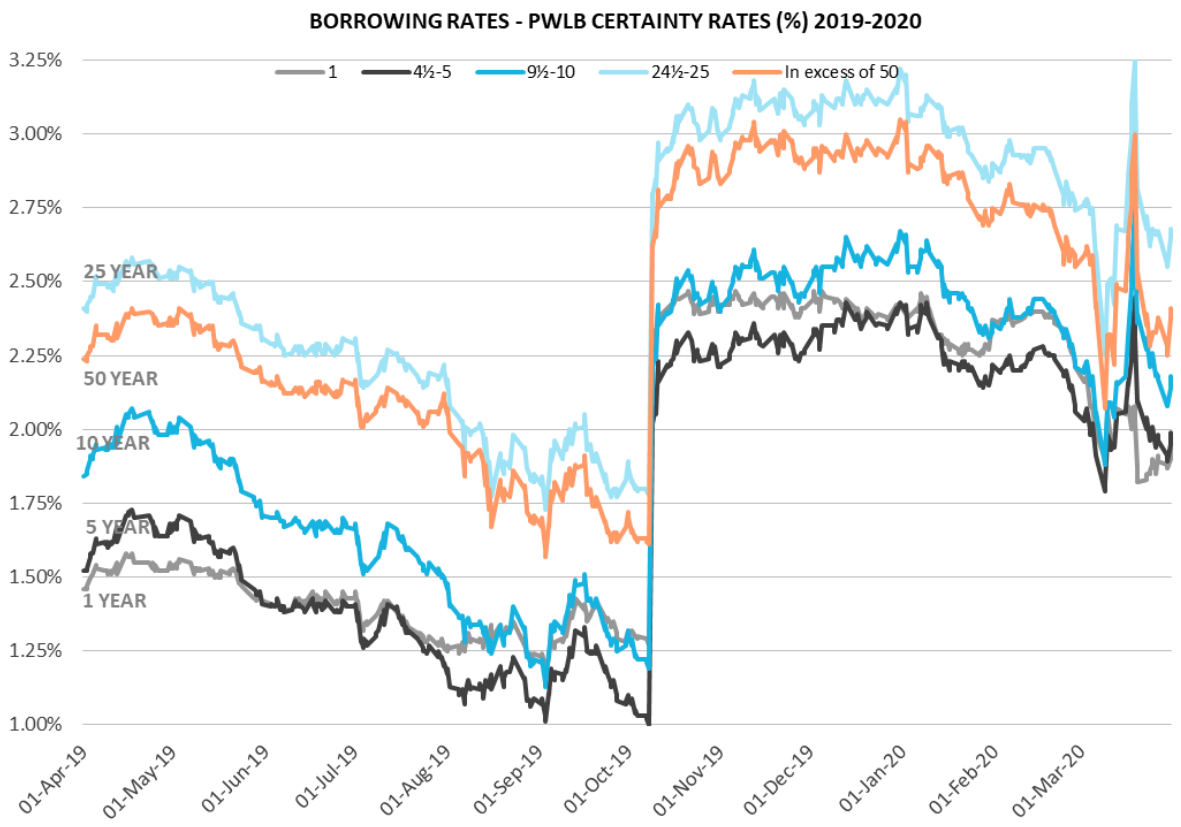
PWLB borrowing rates are driven by gilt yields (the interest rate of government debt), and in turn the inverse relationship between gilt prices and gilt yields – when prices / demand increase, yields fall. Also, demand for ‘safe-haven’ gilts typically strengthens when worries grow about the outlook for the economy.

Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. At the same time major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

However, HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from

the PWLB to purchase commercial property if the aim is solely to generate an income stream.

The following graph shows PWLB (borrowing) rate movements during the year, for a selection of maturity periods.



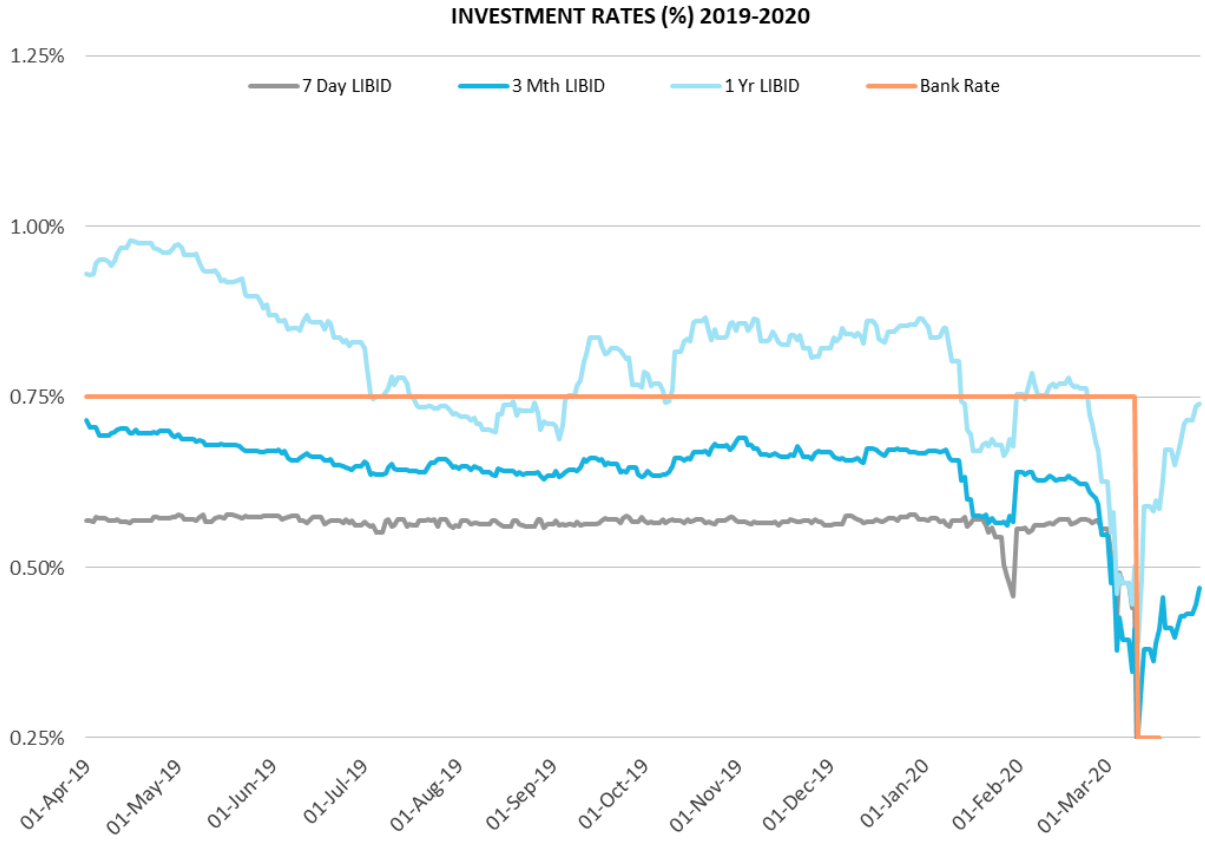
3.3. Investment Rates

For the most part, investments rate movements follow a similar pattern to shorter term borrowing rates and Bank Rate movements.

Investment returns remained low during 2019-20. The expectation for interest rates within the treasury management strategy for 2019-20 was that it is was unlikely the MPC would increase Bank Rate ahead of the (then) Brexit deadline in March 2019, and that (subject to this) the next increase in Bank Rate may have been in May 2019 (to 1%) , followed by another February 2020 (to 1.25%).

Rising concerns over the possibility that the UK could leave the EU on the revised deadline at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March 2020, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets.

The following graph shows a selection of investment rate movements during the year:



4. THE PORTFOLIO POSITION AT 31 MARCH 2020

4.1. Current Borrowing

The Council's debt at 1 April 2019 and 31 March 2020 is shown below:

TABLE 1: BORROWING	Total Principal 1 April 2019 £m	Weighted Average Rate %	Total Principal 31 March 2020 £m	Weighted Average Rate %
Public Works Loan Board Loans	351.872	3.07	468.344	2.65
LOBOs	176.500	3.95	176.500	3.95
Market / Local Authority (>1yr)*	181.100	2.18	170.100	2.35
Market / Local Authority (<1yr)*	22.000	0.95	10.000	1.15
Salix	0.050	-	0.037	-
TOTAL EXTERNAL BORROWING	**731.522**	**3.00**	**824.981**	**2.85**

* Note: above figures are based on the term of loans at their inception.

4.2. Current Investments

The table below summarises the investment position at 1 April 2019 and 31 March 2020:

TABLE 2: INVESTMENTS	Total Outstanding 1 April 2019 £m	Weighted Average Rate %	Total Outstanding 31 March 2020 £m	Weighted Average Rate %
Fixed Term Investments – Long Term (>1yr)*	33.250	3.24	33.250	3.24
Fixed Term Investments – Short Term (<1yr)*	-	-	72.000	0.93
Money Market Funds and Call Accounts	62.750	0.83	85.800	0.47
TOTAL INVESTMENTS (excl. Cash)	**96.000**	**1.66**	**191.050**	**1.13**

* Note: above figures are based on the term of investments at their inception.

5. BORROWING ACTIVITY 2019-20

5.1. Introduction

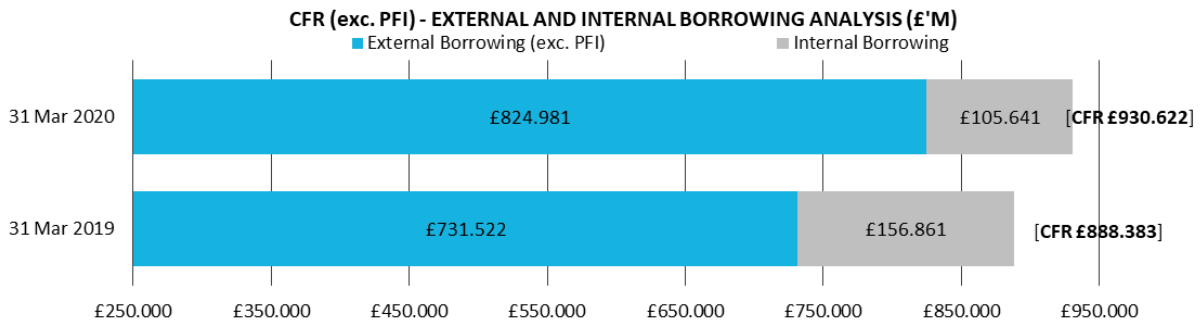
The Council borrows to fund the Capital programme, as well as to fund loans to third parties for policy reasons.

5.2. Borrowing Need – Capital Financing Requirement

The Council's long-term borrowing requirement or need to borrow is measured by the Capital Financing Requirement ("CFR"). The CFR represents total historic outstanding capital expenditure which has not yet been paid for from either revenue or cash-backed capital resources (such as grants and capital receipts). The CFR is repaid over time by an annual charge to revenue, known as the Minimum Revenue Provision (MRP). This charge, which is equivalent to depreciation, effectively spreads the cost of debt associated with capital expenditure over the useful economic life of the underlying assets.

At the same time the Council has significant levels of 'cash-backed' balances that are available for investment. Accordingly, the capital financing requirement (or borrowing requirement) need not always be met or funded externally from physical loans. At least in the short term, investment balances can be 'used' in lieu of borrowing externally; by withdrawing investments (in turn foregoing investment income) and instead using the cash to fund part of the borrowing requirement. This is often referred to as 'internal' or 'under' borrowing.

The following graph summarises the CFR (excluding PFIs) and external borrowing movements during the year:



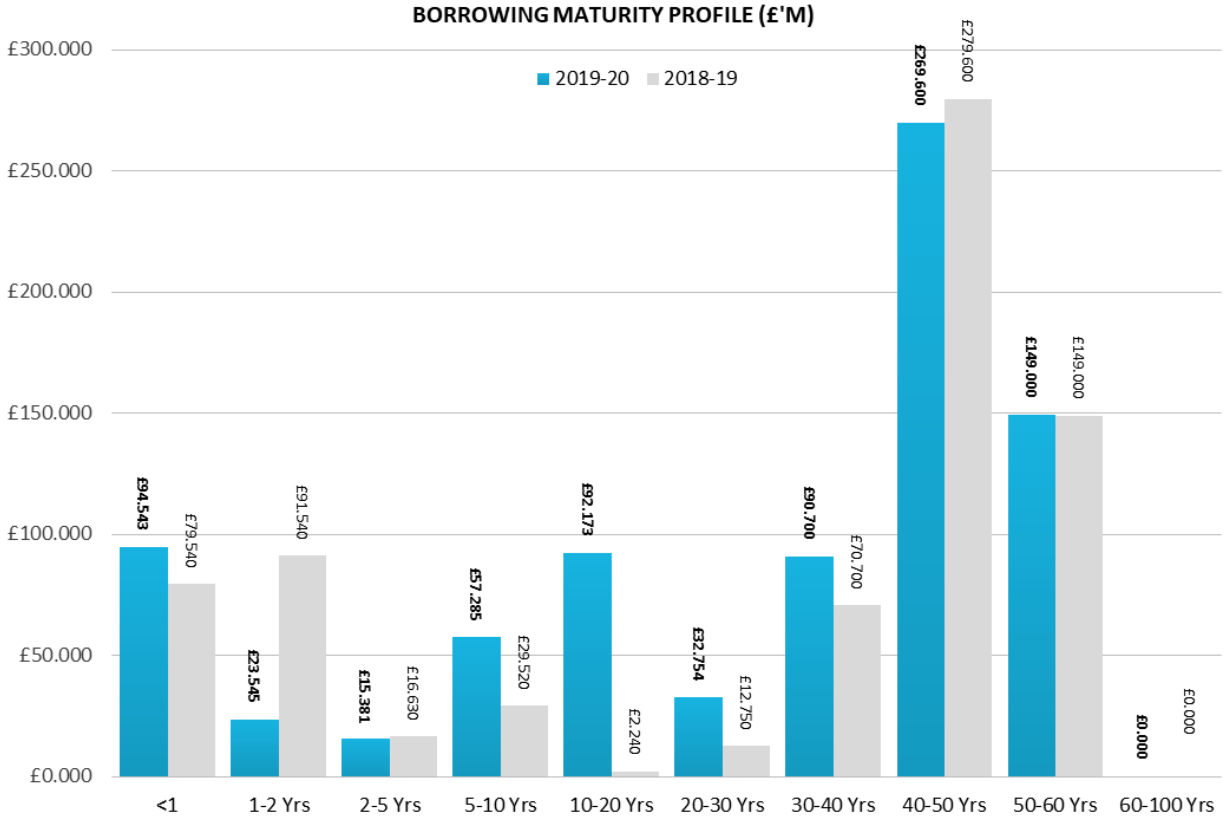
The inter-relationship (and reconciliation) between the CFR, external borrowing and investments is further analysed in the 'Balance Sheet Review' attached at Appendix 1.

The CFR (excluding PFIs) increased by £42.239 million during the year, but was lower than originally budgeted at 31 March 2020 at £930.622 million against an original budget of £976.260 million; due to re-profiling of the capital programme and unscheduled loan repayments from Advance Northumberland.

External borrowing was undertaken during 2019-20 to support the increased borrowing requirement as well as replace maturing existing loans. £81.541 million of loans matured and were repaid during the year and £175.000 million of new or replacement borrowing was taken out over the same period. As a result, total external borrowing increased by £93.459 million, from £731.522 million at the start of year to £824.981 million at 31 March 2020. This in turn led to a decrease in 'internal borrowing' (i.e. the difference between the CFR and actual external borrowing) of £51.220 million, from £156.861 million at the start of year to £105.641 million at 31 March 2020, which is shown in the graph above.

The weighted average maturity (WAM) of all new borrowing during the year was 14.71 years. The new borrowing was made up of 16 long term PWLB loans totalling £150.000 million (3 loans between 7 and 10 years, 10 loans between 10 and 20 years, and 3 beyond 20 years), plus 5 local authority loans totalling £25.000 million (ranging from 1 to 3 years). This resulted in the year-end WAM of the portfolio decreasing from 33.57 to 31.98 years. The weight average rate of all new borrowing in 2019-20 was 1.76%.

The following graph shows the maturity of the loan portfolio at 31 March 2020 by monetary value (£824.981 million in total). LOBOs are shown as held to maturity. In the current climate it is not envisaged that loans would be called for repayment within the next 12 months, as rates are so low.



As illustrated above, attempts have been made to smooth out the maturity profile and in turn reduce the interest rate exposure of the portfolio by, whenever possible and viable, taking more loans in 10 to 30 year range; although it should be noted that borrowing rates within the 25-30 year range remain more expensive than other maturity periods.

5.3. Borrowing Performance / Benchmarking

The weighted average rate of interest paid on all borrowing during the year was 2.90%, and the average rate on loans at 31 March 2020 was 2.85%, a decrease of 0.15% compared to the start of the year figure of 3.00%.

Comparison data for other local authorities, from CIPFA's benchmarking club, is not yet available but will be provided as part of the next treasury management update to members in the Autumn.

The weighted average and overall borrowing levels were higher than originally budgeted, due to the majority of borrowing being taken in the first half of the year when interest rates were falling, and loans of £40 million for 2020-21 being taken in March 2020 when rates dropped again.

Interest paid on external borrowing was however still £0.835 million below budget at £22.749 million (original budget of £23.584 million). This was largely attributable to the average rate of interest paid over the year being lower than estimated, at 2.90% compared to a budgeted figure of 3.06%.

6. INVESTMENT ACTIVITY 2019-20

6.1. Introduction

The Council has significant levels of ‘cash-backed’ balances that are available for investment; in the form of General Fund and HRA balances, and the numerous earmarked reserves and provisions.

The Council’s investment policy (as set out in the Treasury Management Strategy Statement for 2019-20) is governed by the Ministry of Housing, Communities and Local Government’s Guidance on Local Government Investments (“the Guidance”) and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”). This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

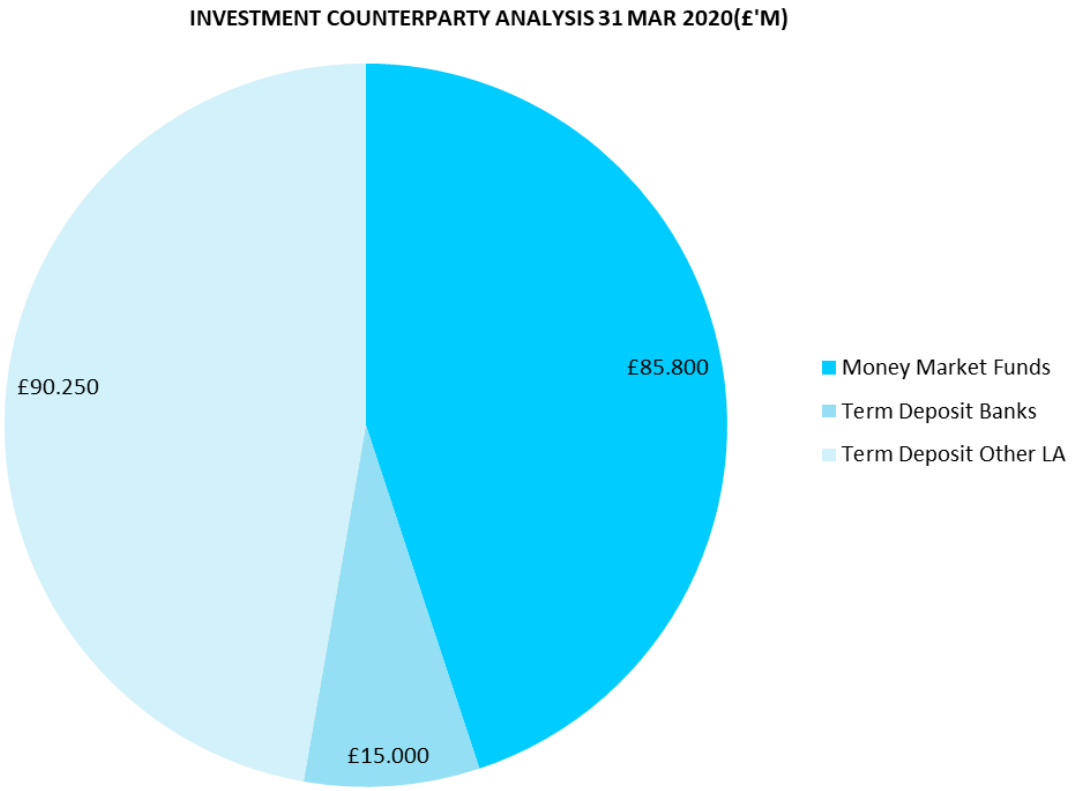
All investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

As identified in section 5 above, a significant proportion of available investment balances were used as ‘internal borrowing’ to support the financing of the CFR. This totalled £105.641 million at 31 March 2020 (a decrease of £51.220 million – as reported above). In addition, over the year the level of available balances increased by £16.796 million, and the net difference between outstanding creditors and debtors (referred to as working capital) increased by £26.842 million. (See Balance Sheet Review at Appendix 1).

As a result, overall external investments (excluding cash and accrued interest) increased during the year from £96.000 million to £191.050 million, and the Council maintained an average balance of £166.734 million of internally managed funds.

The weighted average maturity (WAM) of the £191.050 million of investments held at the year-end was 0.46 years (1.19 years at 31 Match 2019). This is heavily influenced by the £33.25 million of long-term investments which in themselves have a WAM of 2.42 years.

An analysis of the year-end investment balance (excluding cash) by counterparty category is shown in the following chart:



6.2. Investment Performance / Benchmarking

The budget for 2019-20 was based on an estimated weighted average rate of return of 1.93% on average investment balances of £80.344 million. Actual average investment balances were higher than anticipated, at £166.734 million. This was due to taking the borrowing requirement earlier in the year (due to falling interest rates), and as a result of the COVID-19 grant support received at the end of March 2020. However, as these 'additional' sums were invested short term for liquidity reasons, at the prevailing low rates, this in turn impacted on the overall weighted rate of return for the year, reducing it to 1.30%, as a greater proportion of investments were at these low rates.

Income from core treasury management investments exceeded the budget for the year by £0.619 million, totalling £2.169 million against an original estimate of £1.550 million.

Note: the above figures are exclusive of interest received on loans to third parties. These loans are made for policy reasons; and not day-to-day treasury undertakings in relation to the investment of cash flows etc.; and, as a result are not classed as core treasury management activities. Actual returns on these facilities totalled £19.118 million, which was lower than the budgeted by £2.271 million as a result of a reduction in the overall estimated value of loans provided and deferral of interest on the loan notes to Newcastle International Airport – due to COVID 19 implications, which is currently forecast to be recovered over an 8 year period starting in October 2022. The latter was however offset by an unexpected dividend from the Airport earlier in the year of £0.786 million.

The returns achieved of 1.30% were maximised by the longer term investments with other Local Authorities taken out a number of years earlier, and compare favourably against the average London Interbank Bid Rate (LIBID) benchmark indicators of:

- 7 Day - 0.53%
- 3 Month - 0.63%
- 1 Year – 0.80%

As with borrowing, comparison data for other local authorities is not yet available from CIPFA, and again will be provided in the Autumn when the information is available.

However, data from Link Asset Services' investment benchmarking club shows Northumberland compares very favourably. Looking at the weighted average rate on investments held at 31 March 2020, Northumberland's rate of 1.13% was higher than the average for its benchmarking group (0.77%), as well as English Unitary Authorities (0.72%) and overall Link benchmarking group population (0.71%).

7. OVERALL TREASURY MANAGEMENT BUDGET PERFORMANCE

Overall net Treasury Management costs (including Minimum Revenue Provision, amortisation of premiums and discounts and PFI contracts etc.) were £0.400 million lower than budgeted, at £31.534 million in comparison to the budget of £31.934 million. The key variances are summarised in the following table:

	Additional Cost / (Saving) £m
Interest Payable – External Borrowing	(0.835)
Interest Receivable – Treasury Management Activity	(0.619)
Interest Receivable – Loans to Third Parties	2.271
Airport Dividend	(0.786)
Minimum Revenue Provision (MRP)	(0.292)
Other	(0.139)
TOTAL NET UNDERSPEND	**(0.400)**

Notes:

- Contrary to section 6.2, the above figures DO include interest received from loans to third parties; on the basis that the underlying borrowing (and therefore interest payable) in respect of these loans is reflected in the above costs and cannot be separately identified and excluded.
- MRP charges for the year were lower than budget due to the voluntary provision in respect of Advance Northumberland loans – which were lower than estimated in 2018-19.

- The above figures exclude the MRP payments made in respect of other third party loans, which are funded from the principal repayments made by the borrower and therefore have a neutral impact on Council budgets.

8. PRUDENTIAL INDICATORS AND TREASURY LIMITS 2019-20

The Prudential Code has been developed by CIPFA. The Code has a central role in capital finance decision making, including borrowing for capital investment. Its key objectives are to provide a framework for local authority finance that will ensure individual authorities' capital expenditure plans are affordable; all external borrowing is within prudent and sustainable levels; and, that treasury management decisions are taken in accordance with good professional practice.

To ensure compliance with the Code, councils are required to approve a set of Prudential Indicators for the financial year and adhere to these indicators during the course of that year. Details of the Prudential Indicators and Treasury Management Limits for 2019-20 are provided in Appendix 2.

Implications

Policy	The report provides a review of the Treasury Management activities for 2019-20, and sets out performance against the Treasury Management Strategy Statement for 2019-20. It is consistent with "We want to be efficient, open and work for everyone" priority included in the Council's Corporate Plan 2018-21.
Finance and value for money	The financial implications of the 2019-20 investment and borrowing transactions have been taken into account within the revenue budget and outturn for 2019-20. Northumberland County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Capita benchmarking clubs.
Legal	Under Section 1 of the Local Government Act 2003 (the Act) the Council may borrow money for any purpose relevant to its functions under any enactment, or for the purpose of the prudent management of its financial affairs. The Act and supporting regulations also requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010).
Procurement	There are no direct procurement implications for the County Council.
Human Resources	There are no direct staffing implications for the County Council.
Property	There are no direct property implications for the County Council.
Equalities	Not applicable for the County Council.
(Impact Assessment attached) Yes ☐ No ☐ N/A ☐	

Risk Assessment	The report highlights the principal financial risks within the Treasury Management function. The identification, monitoring and control of risk are the prime criteria by which the effectiveness of the County Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. The investment priority is security and liquidity rather than yield, which is a secondary aim.
Crime & Disorder	There are no Crime and Disorder implications for the County Council.
Customer Consideration	There are no Customer Considerations for the County Council.
Carbon reduction	There are no Carbon Reduction implications for the County Council.
Health and Wellbeing	There are no Health and Wellbeing implications for the County Council.
Wards	All.

Background Papers:

Treasury Management Strategy Statement for 2019-20.

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance notes (revised 2011).

CIPFA Prudential Code for Capital Finance in Local Authorities.

Guidance on Local Government Investments; The Local Government Act 2003.

Local Authorities (Capital Finance and Accounting) Regulations 2012 (S.I.2012/265).

Report sign off:

Monitoring Officer	Liam Henry
Executive Director	Chris Hand
Chief Executive	Daljit Lally
Portfolio Holder	Nicholas Oliver

Author and Contact Details

Alistair Bennett – Technical Accountant

(01670) 625504
Alistair.Bennett@northumberland.gov.uk

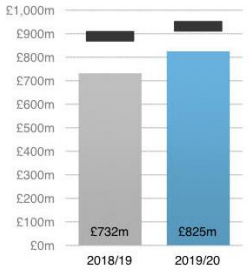
NORTHUMBERLAND COUNTY COUNCIL

2019/20 Desktop Balance Sheet Review

CAPITAL FINANCING AND BORROWING (£'000)

	2018/19	2019/20
Capital Financing Requirement	£960,543	**£1,000,278**
Underlying Borrowing Requirement	£888,382	**£930,622**
External Borrowing	£731,522	**£824,981**
Under Borrowing	£156,860	**£105,641**
Net Borrowing (exc TFR debt)	£633,604	**£632,206**

External Borrowing vs Underlying Borrowing Requirement

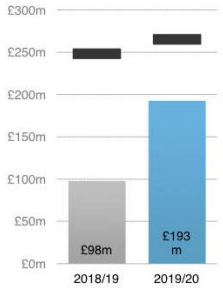


2018/19 (£'000)		2019/20 (£'000)	Change (£'000)
	Capital Financing Requirement (CFR)		
1,347,130	Property, Plant & Equipment	1,378,956	
1,531	Investment Property	1,798	
1,889	Intangible Assets	1,150	
8,075	Assets Held for Sale	2,214	
11,416	Capital Investments (non-TM)	13,375	
418,945	Capital Long-term Debtors	425,198	
(142,207)	Revaluation Reserve	(135,966)	
(679,454)	Capital Adjustment Account	(677,706)	
(6,782)	Financial Instruments Revaluation Reserve (capital)	(8,741)	
960,543	**CFR (as per Prudential Code)**	**1,000,278**	**39,735**
4,185	PFI Prepayment	4,759	
(76,346)	PFI Liability	(74,415)	
888,382	**Underlying Borrowing Requirement**	**930,622**	**42,240**
	External Borrowing		
(71,541)	Short-Term	(94,543)	
(659,981)	Long-Term	(730,438)	
(731,522)	**TOTAL External Borrowing (Principal)**	**(824,981)**	**(93,459)**
156,860	**Under Borrowing**	**105,641**	**(51,219)**

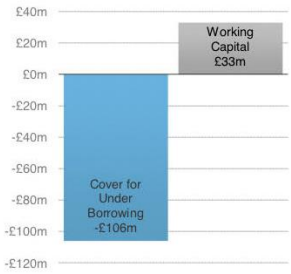
RESERVES / BALANCES AND INVESTMENTS (£'000)

	2018/19	2019/20
Balances Available for Investment	£248,424	**£265,220**
External Investments	£97,918	**£192,775**
(Internal Investments)	£150,506	**£72,445**

Investments vs Balances



Analysis of (Internal Investments)

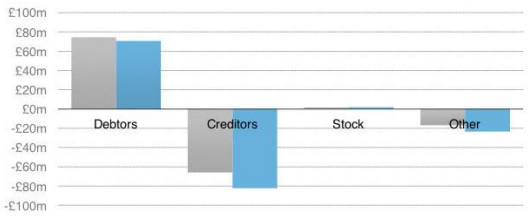


2018/19 (£'000)		2019/20 (£'000)	Change (£'000)
	Reserves / Balances		
(55,433)	General Fund Balance	(56,928)	
(31,706)	Housing Revenue Account Balance (inc MRA)	(31,709)	
(155)	Collection Fund Adjustment Account	(3,174)	
(122,148)	Earmarked reserves / other balances	(127,440)	
(1,606)	Capital Receipts Reserve	(3,102)	
(9,502)	Provisions (exc. any accumulating absences)	(12,072)	
(27,874)	Capital Grants Unapplied	(30,795)	
(248,424)	**Amount Available for Investment**	**(265,220)**	**(16,796)**
	Investments		
-	Short-Term	72,000	
33,250	Long-Term	33,250	
64,668	Cash & Cash Equivalents	87,525	
97,918	**TOTAL Investments**	**192,775**	**94,857**
(150,506)	**(Internal Investments)**	**(72,445)**	**78,061**

WORKING CAPITAL (£'000)

	2018/19	2019/20
TOTAL Working Capital (Surplus)	-£6,354	**-£33,196**

Analysis of Working Capital



2018/19 (£'000)		2019/20 (£'000)	Change (£'000)
	Working Capital		
74,510	Debtors	70,731	(3,779)
(65,842)	Creditors	(82,190)	(16,348)
(6,028)	Capital Grants Receipts In Advance	(4,813)	
(12,897)	Cash Overdrawn	(26,953)	
1,810	Stock / WIP	1,827	
(8,447)	**NET Working Capital (Surplus)**	**(41,398)**	**(32,951)**
	Other		
(6,450)	Balance LT Debtors	36	
8,543	FIAA - Premiums, (Discounts) etc	8,166	
2,093	**Other Long-Term Working Capital**	**8,202**	**6,109**
(6,354)	**TOTAL Working Capital (Surplus)**	**(33,196)**	**(26,842)**

APPENDIX 2

PERFORMANCE AGAINST CAPITAL PRUDENTIAL INDICATORS

Authorised Limit and Operational Boundary for External Debt

These are important indicators, and are part of the Local Government Act 2003 requirements.

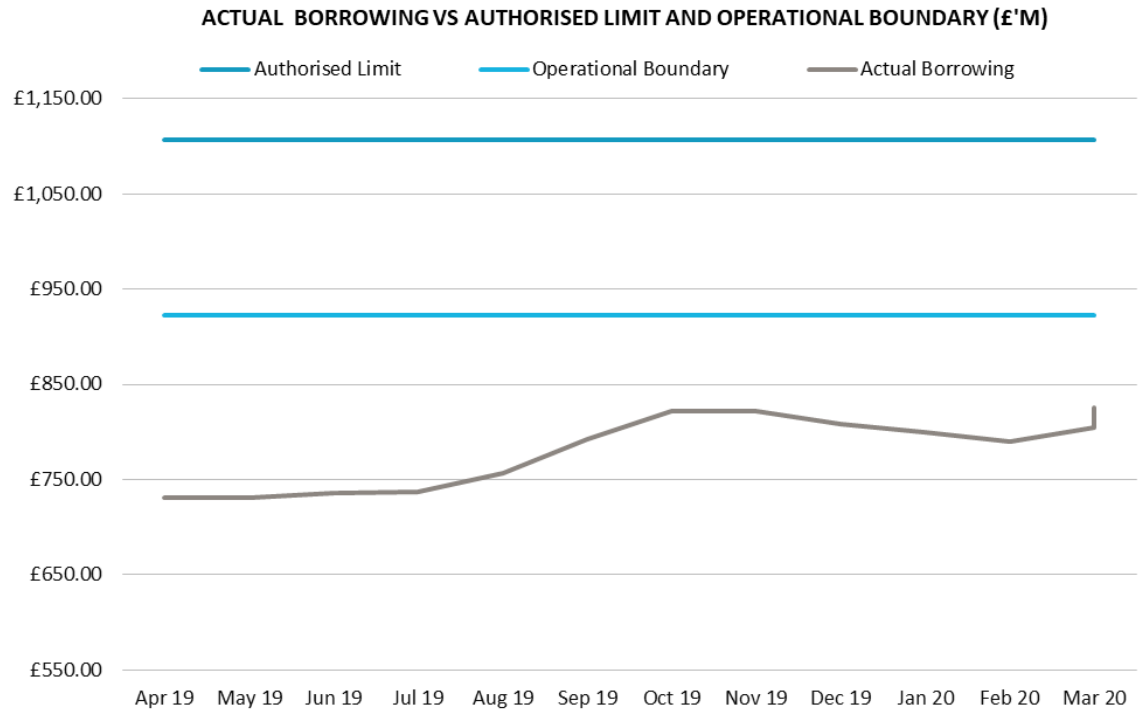
The authorised limit - is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

The table below demonstrates that during 2019-20 the Council has maintained gross borrowing within its authorised limit.

	Authorised Limit for External Debt £m	Operational Boundary £m	Actual 31 March 2020 £m
External Borrowing	1,022.338	851.948	824.981
Other Long Term Liabilities (PFI)	84.757	70.631	69.656
TOTAL EXTERNAL DEBT	**1,107.095**	**922.579**	**894.637**

The following graph shows the external borrowing limits and actual borrowing over the year:



Treasury Management Limits on Activity

The purpose of this is 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.

Lender option, borrower option loans (LOBOs) callable within 12 months are classed as variable; and if the rate is fixed for a longer period they are classed as fixed. At 31 March 2020 the total of variable rate loans was £80.500 million and is within the set limit.

	Limit for 2019-20	Actual 31 March 2020
Fixed Rate Exposure	0% - 100%	90.24%
Variable Rate Exposure	0% - 50%	9.76%

Maturity Structure of Borrowing

Measuring maturity structure of borrowing ensures a reasonable spread of maturing debt as a safety mechanism to ensure significant amounts of debt do not mature at a time when interest rates for refinancing the debt may be high.

The following graph shows maturity of loans by monetary value. LOBOs are shown as held to maturity. In the current climate it is not envisaged that loans would be called for repayment within the next 12 months as rates are low.

Investments for periods longer than 365 days

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	Limit 2019-20 £m	Actual Highest £m	Actual 31 March 2019 £m
Principal sums invested > 364 days	120.000	33.250	33.250