

TREASURY MANAGEMENT STRATEGY 2021/22**REPORT OF THE TREASURER****For Recommendation****1. PURPOSE OF REPORT**

- 1.1 To enable the Audit and Governance Committee to scrutinise the recommended Treasury Management Strategy for 2021/22, before it is referred to the full Fire Authority for approval.

2. RECOMMENDATIONS

It is recommended that Members consider the recommended 2021/22 Treasury Strategy and note that if Members are content the following recommendations will be referred to the Full Authority for approval:

- i) Note the 2019/20 Treasury Management outturn detailed in Section 5 and Appendix A.
- ii) Note the 2020/21 Treasury Management mid-year position detailed in section 6.
- iii) Approve the prudential indicators outline in Appendix B.
- iv) Borrowing Strategy 2021/22
To note that in the event of a change in economic circumstances that the Treasurer may take out additional borrowing in advance of need if this secures the lowest long term interest cost.
- v) Investment Strategy 2021/22
Approve the Counterparty limits as set out in paragraph 9.8.
- i) Minimum Revenue Provision (MRP) Statement
Approve the following MRP statement:
 - For capital expenditure incurred before 1st April, 2008 the Authority's MRP policy is to calculate MRP in accordance with former CLG Regulations. This is 4% of the Capital Financing Requirement except where the Authority makes Voluntary Revenue Payments which is in excess of the amount required by these regulations, based on asset life;
 - From 1st April, 2008 the Authority calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments.

3. BACKGROUND

- 3.1 The Treasury Management Strategy covers:
- The strategy for the Authority's borrowing requirement arising from historic capital expenditure and the element of the approved Asset Management Plan funded from Prudential borrowing; and
 - The annual investment strategy relating to the Authority's cash flow.
- 3.2 The Local Government Act 2003 requires the Authority to 'have regard to' the CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential Code and to set prudential indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.
- 3.3 The Act requires the Authority to set out a Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Secretary of State has issued Guidance on Local Government Investments which came into force on 1st April, 2004, and has subsequently been updated, most recently in 2017.
- 3.4 The Authority is required to nominate a body to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies, before making recommendations to the full Authority. This responsibility has been allocated to the Audit and Governance Committee.
- 3.5 This report covers the following areas:
- Economic background and outlook for interest rates
 - Treasury management outturn position for 2019/20
 - Treasury Management Strategy 2020/21 mid-year review
 - Treasury Management Strategy 2021/22
 - Minimum Revenue Provision and Interest Cost and Other Regulatory Information 2021/22.

4. ECONOMIC BACKGROUND AND OUTLOOK FOR INTEREST RATES

- 4.1 **UK** – The UK economy has faced an extended period of economic uncertainty due to the Covid-19 pandemic. The Bank of England's Monetary Policy Committee (MPC) kept Bank Rate unchanged on 3rd February. At a previous meeting, it revised its economic forecasts to take account of the second national lockdown which is expected to further delay economic recovery. It therefore resolved to undertake a further tranche of Quantitative Easing of £150bn, in early 2021 taking the current programme to nearly £900bn.
- 4.2 The Bank of England does not intend to increase interest until there is clear evidence of a sustained economic recovery.
- 4.3 There remains a risk of a persistent period of increased unemployment as a result of the Covid-19 pandemic. The approval of a vaccine has boosted confidence that economic recovery should begin during the second half of 2021.

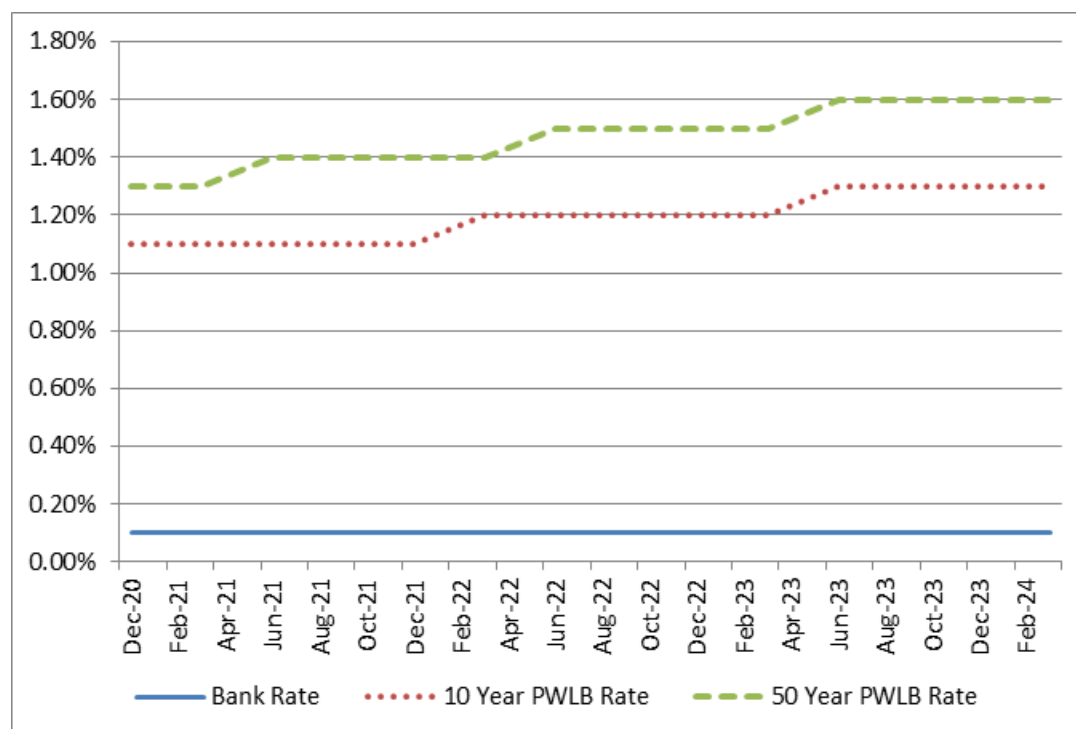
- 4.4 The Chancellor's November 2020 Spending Review highlighted the scale of the economic impact of Covid, which include an increase in Government borrowing of £394 billion – the highest peace time level. The Office for Budget Responsibility's revised economic forecasts shown the depth of the economic contraction in 2020 and revised growth forecast up to 2023 are set out in the following table:

| Year | March 2020 Growth Forecast | November 2020 Growth / (contraction) Forecast |
|------|-------------------------------|---|
| 2020 | 1.1% | (11.3%) |
| 2021 | 1.8% | 5.5% |
| 2022 | 1.5% | 6.6% |
| 2023 | 1.3% | 2.3% |

- 4.5 **European Union (EU)** – The economy has faced similar challenges to the UK from the pandemic suffered a sharp drop in economic activity (i.e. GDP) caused by the virus (France 18.9%, Italy 17.6%). A second wave of the virus has affected many countries and is likely to hit hardest those countries more dependent on tourism.
- 4.6 **USA** – The results of the November elections means that while the Democrats have gained the presidency and a majority in the House of Representatives. It is too early to assess the impact of these change on the USA economy.
- 4.7 **Other Economies** – In China, economic recovery was strong in quarter 2 to 4 of 2020 and these trends appear to be continuing. Japan is struggling to stimulate consistent economic growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus.
- 4.8 **Interest Rate Forecasts**
- 4.9 Link Asset Services (the Authority's Treasury Management advisors) continue to update their interest rate forecasts to reflect statements made by the Governor of the Bank of England and changes in the economy. Given the current level of political and economic uncertainty, forecasts may need to be reassessed in light of events over the coming months.
- 4.10 There is not likely to be any change in the Bank Rate of 0.10% in 2020-21 and 2021-22, whilst there has been considerable uncertainty with the economy arising from Brexit and the Covid pandemic, the trade deal and vaccination programme have both been seen as very positive economic news.
- 4.11 The results of the PWLB consultation were released at the end of November 2020 and the interest rate for borrowing from PWLB has now been reduced by 0.8%. This reverses the increase implemented in October 2019. The PWLB has also restricted lending to fund investment in property with the primary aid of generating investment income. The economic downturn has highlighted the risk of this type of investment – which the Authority has never pursued owing to these risks.
- 4.12 Economic and interest rate forecasting remains difficult with so many influences impacting on the economy. UK gilt yields (i.e. Government borrowing) and PWLB rates. The forecasts made by Link Asset Services may be liable to further

amendment depending on how the political and economic developments transpire over the next year. Further national lockdowns or severe regional restrictions during 2021 are also a risk to the current forecasts.

4.13 Interest Rate Forecast up to March 2024



4.14 Since the late 1990s Base Rate averaged 5% until 2009 when the Bank of England reduced it to the historically low 0.5% in response to the financial crisis and increased to 0.75% in August 2018. Over the same period PWLB rates have been significantly higher than they are at present. In August 2018 the Bank of England raised the interest rate for only the second time in a decade. The rates for 10 year loans were on average 5% prior to the financial crisis but subsequently fell to between 3% and 4%. The rates for 50 year loans were also on average 5% although this trend continued throughout the financial crisis. PWLB interest rates fell to historically low levels in early 2015 predominantly as a consequence of falling oil prices. They fell further following the EU referendum to the current levels. In the context of previous interest rates, current rates are at a low historic level.

5. TREASURY MANAGEMENT OUTTURN POSITION 2019/20

5.1 **Capital Expenditure and Financing 2019/20**

5.2 The Authority's approved capital programme was funded from a combination of borrowing, the Capital Investment Programme Reserve and Capital Receipts.

5.3 Actual capital expenditure forms one of the required prudential indicators. As shown at Appendix A, the total amount of capital expenditure for the year was £2.110m, funded by a mix of the Capital Investment Programme Reserve, Capital Receipts and Borrowing.

- 5.4 The Authority's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is the accumulated value of capital expenditure which is not funded from revenue or capital resources. Each year the Authority is required to apply revenue resources to reduce this outstanding balance (termed the Minimum Revenue Provision).
- 5.5 Whilst the Authority's CFR sets a limit on the level of borrowing, the Authority can manage the actual borrowing position by either:
- borrowing externally to the level of the CFR; or
 - choosing to use temporary internal cash flow funds instead of borrowing; or
 - a combination of the two.
- 5.6 The Authority's CFR for the year was £8.471m as shown at Appendix A.
- 5.7 The Authority can also borrow for future planned increases in the CFR up to 3 years in advance, when this is deemed to be appropriate. As previously reported, in line with the approved Treasury Management Strategy, a decision was made in 2014/15 to lock out borrowing to cover the forecast borrowing requirement up to and including 2016/17. At the time interest rates were exceptionally low and allowed the Authority to secure the business case for the Asset Management Plan. Further borrowing in April 2018 funded borrowing required up to March 2020.
- 5.8 The Authority's total long term external borrowing as at 31st March, 2020 was £9.3m, which funds the CFR up to 2021/22.
- 5.9 **Prudential Indicators and Compliance Issues 2019/2020**
- 5.10 Details of each Prudential Indicator are shown at Appendix A. Some of the prudential indicators provide either an overview or specific limits on treasury activity. The key Prudential Indicators to report at outturn are described below
- 5.11 The **Authorised Limit** is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. The Authority does not have the power to borrow above this level. Appendix A demonstrates that during 2019/2020 the Authority has maintained gross borrowing within the Authorised Limit.
- 5.12 **Gross Borrowing and the CFR** – In order to ensure that borrowing levels are prudent, over the medium term the Authority's external borrowing, must only be for a capital purpose. Gross borrowing should not exceed the CFR for 2019/20 plus the expected changes to the CFR over 2020/21 and 2021/22. The Authority has complied with this Prudential Indicator.
- 5.13 **The Treasury position at 31st March 2020**
- 5.14 The table below shows the treasury position for the Authority as at the 31st March, 2020 compared with the previous year:

| Treasury position | 31st March 2019 | | 31st March 2020 | |
|---------------------------------|-----------------|--------------|-----------------|--------------|
| | Principal | Average Rate | Principal | Average Rate |
| Fixed Interest Rate Debt | | | | |
| - PWLB | £7.4m | 2.90% | £7.3m | 2.91% |
| - Market Loans (LOBOs) | £2.0m | 3.95% | £2.0m | 3.95% |
| Total Long Term Debt | £9.4m | 3.13% | £9.3m | 3.13% |
| Total Investments | £9.3m | 0.90% | £7.2m | 0.13% |
| Net Investment Position | (£0.1m) | | (£2.2m) | |

A LOBO (Lender Option, Borrower Option) loan was taken out in March 2007 at which time interest rates for comparative PWLB loans were 4.3%.

- 5.15 A key performance indicator shown in the above table is the low average interest rate for external debt of 3.13% for debt held as at 31st March, 2020, compared to historic PWLB (Public Works Loans Board) rates.
- 5.16 The Authority's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance, which has been implemented in the annual investment strategy approved by Authority.
- 5.17 The Authority does not rely solely on credit ratings and takes a more pragmatic and broad based view of the factors that impact on counterparty risk. As part of the approach to maximising investment security the Authority has also kept investment periods short (i.e. in most cases up to 6 months but to a maximum of 1 year). In practice no investments were made for 1 year. The downside of this prudent approach is that the Authority achieved slightly lower investment returns than would have been possible if investments were placed with organisations with a lesser financial standing and for longer investment periods. However, during 2019/20 the risk associated with these higher returns would not have been prudent.
- 5.18 A prudent approach will continue to be adopted in order to safeguard the Authority's resources.
- 5.19 **Regulatory Framework, Risk and Performance 2019/20**
- 5.20 The Authority's treasury management activities are regulated by a variety of professional codes, statutes and guidance:
- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
 - The Act permits the Secretary of State to set limits either on the Authority or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made since this power was introduced);
 - Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act, and requires the Authority to undertake any borrowing

activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Authority to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the MHCLG has issued Investment Guidance to structure and regulate the Authority's investment activities;
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November, 2007.

5.21 The Authority has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with Treasury Management activities.

6. TREASURY MANAGEMENT STRATEGY 2020/21 MID-YEAR REVIEW

6.1 The 2020/21 Treasury Management Strategy was approved on the 16th, October, 2020. The Authority's borrowing and investment position as at 30th September 2020 is summarised as follows:

| | £m | Average Rate |
|-----------------------|------------|---------------------|
| LOBO Loan # | 2.0 | 3.95% |
| PWLB Loans | 7.2 | 2.91% |
| Gross Debt | 9.2 | 3.14% |
| Investments | 14.3 | 0.06% |
| Net Investment | 5.1 | |

A LOBO (Lender Option, Borrower Option) loan was taken out in March 2007 at which time interest rates for comparative PWLB loans were 4.3%.

6.2 As part of the Treasury Strategy for 2020/21 the Authority set a number of prudential indicators. Compliance against these indicators is monitored on a regular basis and there are no breaches to report.

6.3 The CFR and Capital Expenditure Financed by Borrowing will vary from the original estimate approved by the Fire Authority in October 2020 owing to planned capital expenditure being re-phased between financial years.

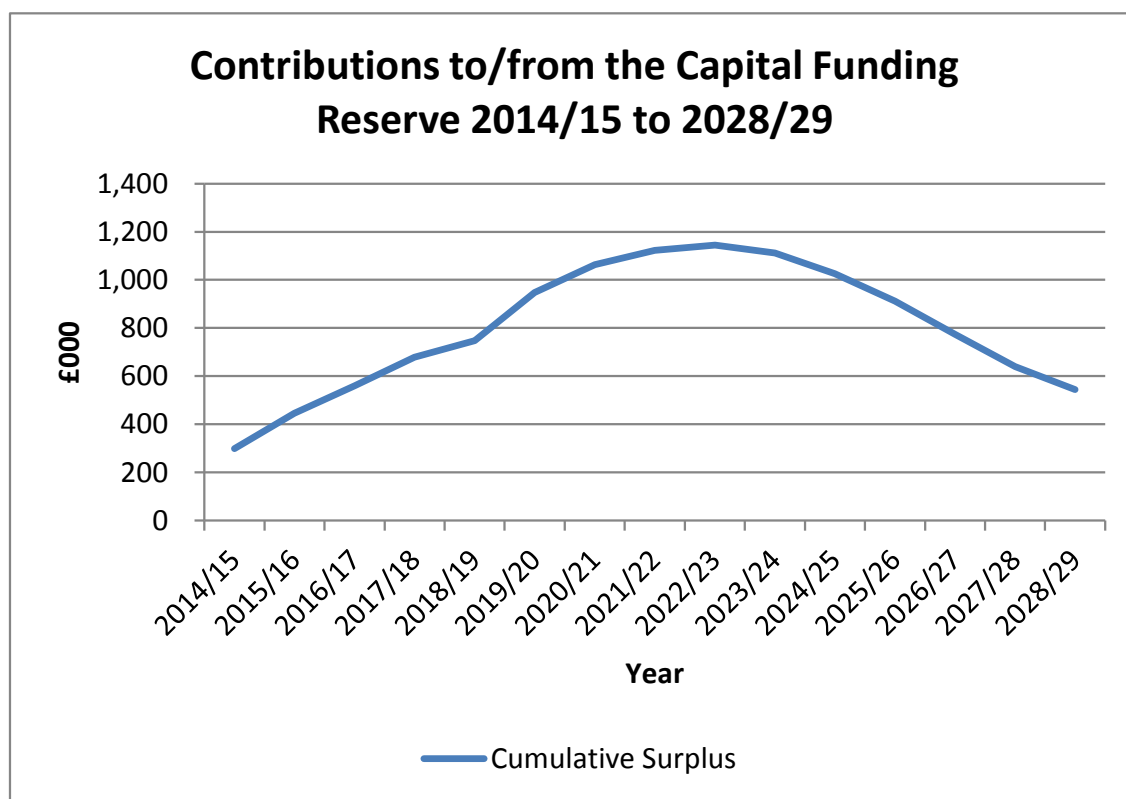
7. TREASURY MANAGEMENT STRATEGY 2021/22

7.1 Prudential Indicators and other regulatory information in relation to the 2021/22 Treasury Management Strategy is set out in Appendix B.

7.2 The key elements of the Treasury Management Strategy which Members need to consider are the Borrowing and Investment Strategies, detailed in section 8 and 9.

8. BORROWING STRATEGY 2021/22

- 8.1 Following the development and implementation of the Asset Management Plan (AMP) the Authority's CFR has risen and is forecast to continue to rise. Therefore it was recognised that a proactive borrowing strategy would need to be adopted to finance the borrowing element of the AMP and to secure historically low interest rates.
- 8.2 As outlined in paragraph 5.7, decisions to borrow to the forecast CFR up to 2019/20 have already been made.
- 8.3 These decisions ensured the borrowing costs associated with AMP are minimised in the long term and can be sustained within the existing revenue budget of £0.8m (including using the recommended Capital Funding Phasing Reserve) over the period of the current Medium Term Financial Strategy and Integrated Risk Management Plan.
- 8.4 Owing to the borrowing decisions in previous years to pre fund the borrowing requirement, no additional borrowing was needed in 2019/20. However in 2021/22 it is anticipated that approximately £1.5m of additional funding will be necessary to fund the current approved AMP. A decision to borrow in advance of need may be taken by the Treasurer if it is in the best interests of the Authority to do so.
- 8.5 Impact of Capital Programme on the Revenue Budget**
- 8.6 As previously reported detailed financial modelling has been undertaken to assess the impact of the capital programme on the revenue budget. This analysis indicated that in the short term, loan repayment costs will be less than the approved budget which reflects the phasing of the capital programme and the exceptionally low interest rates secured.
- 8.7 However, over the period 2023/24 to 2029/30 annual loan repayment costs will exceed the approved revenue budget. As outlined in previously approved Strategy reports this position will be managed using the approved Capital Phasing Reserve which will balance loan repayment costs over the period 2014/15 to 2028/29. The following graph summarises the contributions to/from the Capital Phasing Reserve over the period 2014/15 to 2028/29. The graph shows that the Capital Phasing Reserve enables loan repayment costs to be funded on a sustainable basis.



- 8.8 As detailed in the Medium Term Financial Strategy approved by the Authority on 12th February the Asset Management Plan up to 2026/27 has been updated. Members were advised that the cost of replacing equipment, particularly fire appliance which are used for a minimum of 15 years, have increased since they were previously replaced. This will result in higher prudential borrowing and an increase in repayment costs of £70,000, which has been reflected in the 2022/23 budget forecasts.

9. INVESTMENT STRATEGY 2021/22

- 9.1 The Ministry for Housing, Communities and Local Government (MHCLG) issued investment guidance in 2010, updated in 2017, and this forms the structure of the Authority's policy. The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently and that priority is given to security and liquidity before interest return. The Authority has adopted the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and applies its principles to all investment activity. In accordance with the Code, the Treasurer has produced Treasury Management Practices covering investment counterparty policy which requires approval each year.
- 9.2 The primary objectives of the Authority's investment strategy in order of importance are:
- safeguarding the re-payment of the principal and interest of its investments on time;
 - ensuring adequate liquidity;
 - investment return.

9.3 Counterparty Selection Criteria

- 9.4 The Authority's criteria for providing a pool of high quality investment counterparties uses the credit rating information produced by the three major ratings agencies (Fitch, Moody's and Standard & Poor's) and is supplied by our treasury consultants. All active counterparties are checked against criteria outlined below to ensure that they comply with the criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered on a daily basis before investments are made. For instance a negative rating watch applying to a counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions.
- 9.5 The **lowest common denominator** method of selecting counterparties and applying limits is used. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside the lending criteria.
- 9.6 The Treasurer will continue to adopt a vigilant approach resulting in what is effectively a 'named' list. This consists of a select number of counterparties that are considered to be the lowest risk.
- 9.7 There are no proposed changes to existing counter parties and the table below shows the proposed limits in 2021/22 for the Authority:

| Category | Fitch | Moody's | Standard & Poor's | Proposed Counterparty Limit | Proposed Time Limit |
|----------|--|---------|-------------------|-----------------------------|-------------------------|
| A | F1+/AA- | P-1/Aa3 | A-1+/AA- | £5m | 1 year |
| B | F1/A- | P-1/A3 | A-1/A- | £3m | 1 year |
| C | Debt Management Office/Treasury Bills/Gilts | | | £14m | 1 year |
| D | Nationalised Banks and Banks covered by UK Government Guarantee | | | £5m | 1 year |
| E | Other Local Authorities Individual Limits per Authority: - £3m County, Metropolitan or Unitary Councils - £1.5 District Councils, Police or Fire Authorities | | | £15m | 1 year |
| F | Three Money Market Funds (AAA) with maximum investment of £1.5m per fund | | | £4.5m | Liquid (instant access) |

9.9 Specified and Non-Specified Investments

- 9.10 MHCLG regulations classify investments as either Specified or Non-Specified. Specified Investment is any investment not meeting the Specified definition.
- 9.11 The investment criteria outlined above is different to that used to define Specified and Non-Specified investments. This is because it is intended to create a pool of

high quality counterparties for the Authority to use rather than defining what its investments are.

- 9.12 Specified Investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within twelve months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:
- The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
 - Other Local Authorities.
 - Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating (AAA) by a credit rating agency.
 - A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society). This covers bodies with a minimum rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies.
- 9.13 Non-specified Investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any investments with:
- Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.
 - Any bank or building society that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

10. **MINIMUM REVENUE PROVISION AND INTEREST COSTS AND OTHER REGULATORY INFORMATION 2021/22**

- 10.1 There are two elements to the Authority annual loan repayment costs – the statutory Minimum Revenue Provision (MRP) and interest costs. The Authority is required to pay off an element of the Capital Financing Requirement (CFR) each year through a revenue charge called the Minimum Revenue Provision (MRP).
- 10.2 MHCLG Regulations require the Authority to approve **an MRP Statement** in advance of each year. This will determine the annual loan repayment charge to the revenue budget.
- 10.3 The budget strategy is based on the following MRP statement and the Authority is recommended to formally approve the existing statement:

- For capital expenditure incurred before 1st April, 2008 the Authority's MRP policy is to calculate MRP in accordance with former CLG Regulations. This is 4% of the Capital Financing Requirement except where the Authority makes Voluntary Revenue Payments which is in excess of the amount required by these regulations, based on asset life;
- From 1st April, 2008 the Authority calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments.

10.4 CIPFA Treasury Management Code of Practice

10.5 The Authority has adopted the CIPFA Treasury Management Code of Practice. Confirmation of this is the first prudential indicator.

10.6 Treasury Management Advisors

10.7 The Authority uses Link Asset Services – Treasury Solutions as its external treasury management advisors.

10.8 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

10.9 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

10.10 Markets in Financial Instruments Directive (MIFID II)

10.11 On 3rd January 2018 an updated version of the European Union's Markets in Financial Instruments Directive (known as MIFID II) came into effect. It is designed to offer greater protection for investors and inject more transparency into financial markets. Under MIFID II all local authorities are classified as "retail" counterparties and had to consider whether to opt up to "professional" status and for which type of investments. The Fire Authority opted up to professional status in order to maintain the Authority's ability to operate effectively under the new regime.

11. CONCLUSION

11.1 Against the uncertain national background and the Authority has secured long term borrowing at historically low interest rates. This has secured the financing of the Asset Management Plan and has protected the authority against increases in longer term interest rates. It is anticipated that further borrowing of approximately £1m will be necessary to fund the current Asset Management Plan and the timing of this borrowing will be managed carefully to minimise the long term cost to the Authority

- 11.2 The report confirms the previously approved strategy for managing interest rate risks with the aim of ensuring the borrowing requirement can be funded from the available revenue budget of £0.87m and use of the Capital Funding Phasing reserve.
- 11.3 In relation to the investment strategy the Authority has adopted an extremely prudent approach over the last few years and this it is recommended this approach continues for 2021/22.

CHRIS LITTLE
TREASURER TO THE AUTHORITY

APPENDIX A**Prudential Indicators 2019/20 Outturn****1. Ratio of Financing Costs to Net Revenue Stream**

This indicator shows the proportion of the total annual revenue budget that is funded by the local tax payer and Central Government, which is spent on servicing debt. This is slightly lower than the estimate owing to a change in the profile of funding sources compared to what was originally forecast.

| 2019/20 Estimate £'000 | | 2019/20 Outturn £'000 |
|------------------------------|--|-----------------------------|
| 2.75% | Ratio of Financing costs to net revenue stream | 2.36% |

2. Capital Expenditure

This indicator shows the total capital expenditure for the year and the outturn reflects the actual phasing of capital expenditure.

| 2019/20 Estimate £'000 | | 2019/20 Outturn £'000 |
|------------------------------|---------------------|-----------------------------|
| 2,770 | Capital Expenditure | 2,110 |

3. Capital Expenditure Financed from Borrowing

This shows the borrowing required to finance the capital expenditure programme.

| 2019/20 Estimate £'000 | | 2019/20 Outturn £'000 |
|------------------------------|---|-----------------------------|
| 904 | Capital Expenditure Financed by Borrowing | 507 |

The actual is lower than estimated owing to the phasing of capital expenditure between years.

4. Capital Financing Requirement (CFR)

CFR is used to determine the minimum annual revenue charge for capital expenditure repayments (net of interest). It is calculated from the Authority's Balance Sheet and is shown below. Forecasts for future years are directly

influenced by the capital expenditure decisions taken and the actual amount of revenue that is set aside to repay debt.

| 2019/20 Estimate £'000 | | 2019/20 Outturn £'000 |
|------------------------------|-------------------------------|-----------------------------|
| 9,189 | Capital Financing Requirement | 8,471 |

The capital financing requirement is lower than estimated owing to the phasing of capital expenditure.

5. Authorised Limit for External Debt

The authorised limit determines the maximum amount the Authority may borrow at any one time. The authorised limit covers both long term borrowing for capital purposes and borrowing for short term cash flow requirements. The authorised limit is set above the operational boundary to provide sufficient headroom for operational management and unusual cash movements. In line with the Prudential Code, the level has been set to give the authority flexibility to borrow up to three years in advance of need if more favourable interest rates can be obtained.

| 2018/19 Limit £'000 | | 2018/19 Peak £'000 |
|---------------------------|------------------------------------|--------------------------|
| 12,000 | Authorised limit for external debt | 9,529 |

6. Operational Boundary for External Debt

The operational boundary is the most likely prudent, but not worst case scenario, level of borrowing without the additional headroom included within the authorised limit. The level is set so that any sustained breaches serve as an early warning that the Authority is in danger of overspending or failing to achieve income targets and gives sufficient time to take appropriate corrective action.

| 2019/20 Limit £'000 | | 2019/20 Peak £'000 |
|---------------------------|--|--------------------------|
| 10,000 | Operational boundary for external debt | 9,394 |

7. Interest Rate Exposures

This indicator is designed to reflect the risk associated with both fixed and variable rates of interest, but must be flexible enough to allow the Authority to make best use of any borrowing opportunities.

| 2019/20 Limit £'000 | Upper limits on fixed and variable interest rate exposure | 2019/20 Peak £'000 |
|---------------------------|--|--------------------------|
| 100% | Fixed Rates | 78% |
| 75% | Variable Rates | 22% |

8. Maturity Structure of Borrowing

This indicator is designed to reflect and minimise the situation whereby the Authority has a large repayment of debt needing to be replaced at a time of uncertainty over interest rates, but as with the indicator above, it must also be flexible enough to allow the Authority to take advantage of any borrowing opportunities.

| | Upper Limit £'000 | Lower Limit £'000 | Actual by Maturity Date £'000 | Actual by soonest call date £'000 |
|----------------------|----------------------|----------------------|-------------------------------------|--|
| Under 12 months | 8,000 | 0 | 139 | 139 |
| 12 month to 2 years | 10,000 | 0 | 143 | 2,143 |
| 2 years to 5 years | 10,000 | 0 | 316 | 316 |
| 5 years to 10 years | 10,000 | 0 | 541 | 541 |
| 10 years to 20 years | 10,000 | 0 | 1,349 | 1,349 |
| 20 years to 30 years | 10,000 | 0 | 1,802 | 1,802 |
| 30 years to 40 years | 10,000 | 0 | 3,104 | 3,104 |
| 40 years to 50 years | 10,000 | 0 | 0 | 0 |
| 50 years to 60 years | 10,000 | 0 | 0 | 0 |
| 60 years to 70 years | 10,000 | 0 | 2,000 | 0 |

The Authority's current outstanding borrowing includes a LOBO (Lender Option Buyer Option) loan which provide fixed interest rates for defined periods and also defined dates for reviewing interest rates, known as 'call dates'. A change to the Prudential Code requires that the call date is reflected in the Maturity Structure indicator above rather than maturity date. However the likelihood of a LOBO being 'called' at present is very low and both methods are presented above for completeness.

9. Investments over Maturing over One Year

This sets an upper limit for amounts invested for periods longer than 364 days. The limit was not exceeded as a prudent approach to investment has been taken owing to uncertainties in the economy. This is in line with the Treasury Management Strategy. Consequently all investments made during the year were limited to a maximum of one year.

| | 1 year £000 | 2 year £000 | 3 year £000 |
|---------------|----------------|----------------|----------------|
| Maximum Limit | 5,000 | 0 | 0 |
| Actual | 0 | 0 | 0 |