TREASURY MANAGEMENT STRATEGY 2020/21

REPORT OF THE TREASURER

For Approval

1. PURPOSE OF REPORT

1.1 To enable the Audit and Governance Committee to scrutinise the recommended Treasury Management Strategy for 2020/21, before it is referred to the full Fire Authority for approval.

2. RECOMMENDATIONS

It is recommended that Members consider the recommended 2020/21 Treasury Strategy and note that if Members are content the following recommendations will be referred to the Full Authority for approval:

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i) Note the 2018/19 Treasury Management outturn detailed in Section 5 and Appendix A.

ii) Note the 2019/20 Treasury Management mid-year position detailed in section 6.

iii) Approve the prudential indicators outline in Appendix B.

iv) Borrowing Strategy 2020/21
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 2020/21
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.

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3.5 This report covers the following areas:

- Economic background and outlook for interest rates
- Treasury management outturn position for 2018/19
- Treasury Management Strategy 2019/20 mid-year review
- Treasury Management Strategy 2020/21
- Minimum Revenue Provision and Interest Cost and Other Regulatory Information 2020/21.

4. ECONOMIC BACKGROUND AND OUTLOOK FOR INTEREST RATES

4.1 **UK** – The UK economy has faced an extended period of economic and political uncertainty. The Bank of England has recently expressed increased concerns surrounding weak global economic growth and the risk of ongoing uncertainties becoming entrenched and resulting in delayed global and UK economic recovery. Although the Bank of England recently voted to maintain interest rates at 0.75% the Monetary Policy Committee (MPC) warned that if global and UK growth does not pick up then an interest rate cut will become more likely. Conversely if there is a more rapid recovery of growth and risks recede then there will be a gradual and limited rise in interest rates. Should economic growth weaken considerably the MPC would have relatively little room to make an impact owing to the low Bank Interest Rate. Commentators suggest that this would put pressure on government to give the economy a fiscal boost through tax cuts and increase expenditure.

4.2 Inflation has been around the Bank of England target of 2% for much of 2019 but fell to 1.5% in October and forecasts indicate that it will remain around the 2% target over the next two years. However, there are potential risks of imported inflation if the value of pound reduces.

4.3 Unemployment is now at a 44 year low of 3.8% based on the Independent Labour Organisation measure. Private sector wage inflation has been positive and real terms earnings grew by more than inflation. As the UK economy is service driven an increase in household spending power is likely to feed through to providing support to the economy.

4.4 The Office for Budget Responsibility's revised growth forecast up to 2022 are set out in the following table:

Year	March 2019 Growth Forecast	November 2019 Growth Forecast
2019	1.0%	0.75%
2020	1.2%	0.75%
2021	1.75%	1.0%
2022	2.0%	1.25%

4.5 **European Union** (**EU) –** Growth has been slowing from +1.8% during 2018 to around 0.9% in 2019, reflecting lower global demand and more recently the impact of US tariffs on manufacturing exports such as cars.

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4.6 **USA –** The easing of the fiscal policy in 2018 fueled a temporary boost in consumption. However, growth has been falling in 2019 to 1.9% in quarter 3 and is expected to fall further. Following an increase in its interest rate to 2.5% the Federal Reserve has since cut rates by 0.75% to ward off a downturn in growth.

4.7 **Other Economies –** In China economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property. The Coronavirus will have a negative impact on the Chinese economy, which will depend on how long this outbreak takes to address. Japan is still struggling to stimulate economic growth and keep inflation within its 2% target.

4.8 **Interest Rate Forecasts**

4.9 Link Asset Services (the Council's Treasury Management advisors) continue to update their internal rate forecasts to reflect statements made by the Governor of the Bank of England and changes in the economy. Their latest forecast have been based on an assumption that there is an agreed deal with the EU, including agreement on the terms of trade between the UK and EU during 2020. Given the current level of political and economic uncertainty forecasts may need to be reassessed in the light of events over the coming weeks or months.

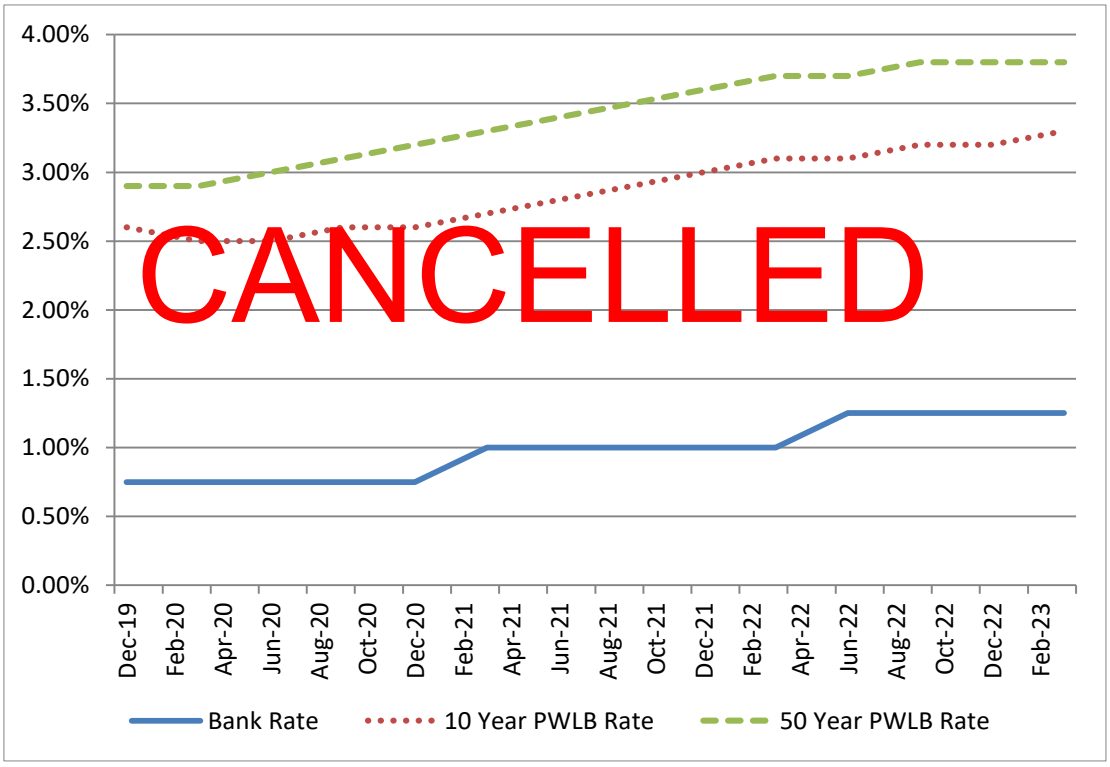
4.10 The Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% due to the ongoing uncertainty.

4.11 Link Asset Services believe that the overall longer run future trend is for PWLB rates to rise, albeit gently. PWLB rates are subject to ad hoc decisions by H.M Treasury to change the margin over gilt yields charged in PWLB rates: such changes can be up or down.

4.12 National borrowing from the PWLB has continued to increase at a rapid rate in recent years due to the historically low rates on offer. However, in October 2019, the Treasury increased the interest rate by one percentage point – meaning the typical rate for a loan is now 2.8% instead of 1.8%.

4.13 Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields (i.e. Government borrowing) and PWLB rates. The forecasts made by Link Asset Services, (and MPC decisions) may be liable to further amendment depending on how the political and economic developments transpire over the next year.

4.14 <u>Interest Rate Forecast up to March 2023</u>



4.15 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. In the context of previous interest rates, current rates are at a low historic level.

5. TREASURY MANAGEMENT OUTTURN POSITION 2018/19

5.1 Capital Expenditure and Financing 2018/19

5.2 The Authority's approved capital programme was funded from a combination of 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 £0.738m, funded by a mix of the Capital Investment Programme Reserve and Capital Receipts.

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.

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5.6 The Authority's CFR for the year was £8.462m 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, 2019 was £9.4m, which funds the CFR up to 2020/21.

5.9 Prudential Indicators and Compliance Issues 2018/2019

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 2018/2019 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 2018/19 plus the expected changes to the CFR over 2019/20 and 2020/21. The Authority has complied with this Prudential Indicator.

5.13 **The Treasury position at 31st March 2019**

5.14 The table below shows the treasury position for the Authority as at the 31st March, 2019 compared with the previous year:

Treasury position	31st March 2018		31st March 2019	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt				
- PWLB	£7.6m	2.90%	£7.4m	2.90%
- Market Loans (LOBOs)	£2.0m	3.95%	£2.0m	3.95%
Total Long Term Debt	**£9.6m**	**3.12%**	**£9.4m**	**3.13%**
Total Investments	**£7.6m**	**0.57%**	**£9.3m**	**0.90%**
Net Investment Position	**(£2.0m)**		**(£0.1m)**	

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%.

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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, 2019, 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 2018/19 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 2018/19**

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.

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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 2019/20 MID-YEAR REVIEW

6.1 The 2019/20 Treasury Management Strategy was approved on the 15th, February, 2019. The Authority's borrowing and investment position as at 30th September 2019 is summarised as follows:

	£m	Average Rate
LOBO Loan #	2.0	3.95%
PWLB Loans	7.3	2.91%
Gross Debt	**9.3**	**3.13%**
Investments	16.2	0.71%
Net Investment	**6.9**	

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 2019/20 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 February 2019 owing to planned capital expenditure being re-phased between financial years. Initial assessment indicate that there will be no net impact on the total borrowing forecast for the period of the MTFS although there will be timing differences around individual financial years.

7. TREASURY MANAGEMENT STRATEGY 2020/21

7.1 Prudential Indicators and other regulatory information in relation to the 2020/21 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 2020/21

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 in 2019/20 and then remain broadly stable over the course of the Medium Term Financial Strategy. 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.

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8.2 As outlined in paragraph 5.7, decisions to borrow to the forecast CFR up to 2019/20 have already been made.

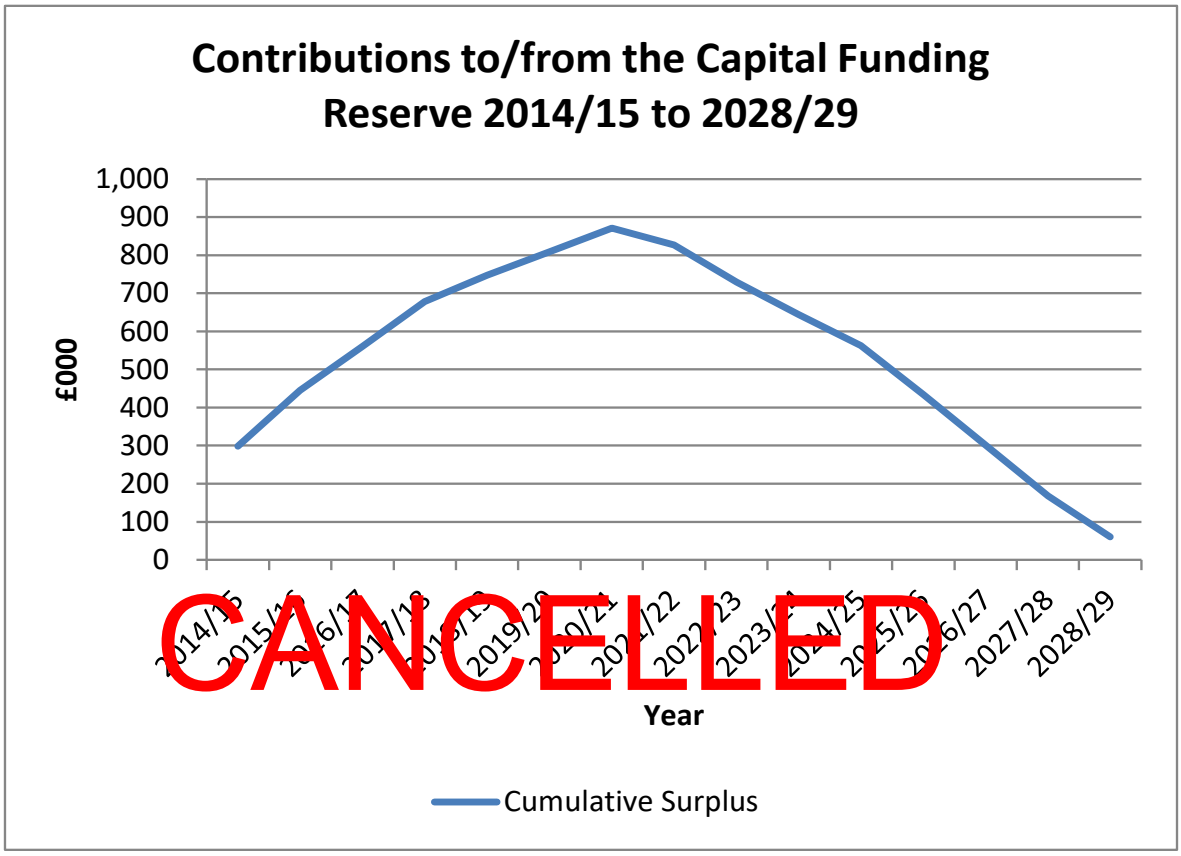
8.3 These decisions ensured the borrowing costs associated with AMP are minimised in the long term and can be sustained within the existing revenue budget of £0.8m (including using the recommended Capital Funding Phasing Reserve) over the period of the current Medium Term Financial Strategy and Integrated Risk Management Plan.

8.4 Owing to the borrowing decisions in previous years to pre fund the borrowing requirement, no additional borrowing is needed in 2019/20. However in 2020/21 it is anticipated that approximately £1m 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 2020/21 to 2028/29 annual loan repayment costs will exceed the approved revenue budget. As outlined in previously approved Strategy reports this position will be manage 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.



9. INVESTMENT STRATEGY 2020/21

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 2020/21 for the Authority:

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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:

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- 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 2020/21

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.

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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 requirement to make significant budget reductions to balance the 2019/20 and 2020/21 budget 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 £0.8m 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 2020/21.

CHRIS LITTLE
TREASURER TO THE AUTHORITY

CANCELLED

APPENDIX A

Prudential Indicators 2018/19 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.

2018/19 Estimate £'000		2018/19 Outturn £'000
2.86%	Ratio of Financing costs to net revenue stream	2.58%

2. Capital Expenditure

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

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2018/19 Estimate £'000		2018/19 Outturn £'000
1,730	Capital Expenditure	738

The Capital Expenditure is lower than estimated as the Asset Management Plan (AMP) was revised and approved by the Authority on 15th February 2019. The revised estimate was £0.910m.

3. Capital Expenditure Financed from Borrowing

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

2018/19 Estimate £'000		2018/19 Outturn £'000
406	Capital Expenditure Financed by Borrowing	-

The Capital Expenditure Financed by Borrowing is lower than estimated as the Asset Management Plan (AMP) was revised and approved by the Authority on 15th February 2019. The revised estimate was £0.

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.

2018/19 Estimate £'000		2018/19 Outturn £'000
9,205	Capital Financing Requirement	8,462

The CFR is lower than estimated as the Asset Management Plan (AMP) was revised and approved by the Authority on 15th February 2019.

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.

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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.

2018/19 Limit £'000		2018/19 Peak £'000
10,000	Operational boundary for external debt	9,529

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.

2018/19 Limit £'000	Upper limits on fixed and variable interest rate exposure	2018/19 Peak £'000
100%	Fixed Rates	79%
75%	Variable Rates	21%

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.

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	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

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