

Report to: **Audit Committee**  
Date: **29 October 2019**  
Title: **Treasury Management Mid-Year Review**  
Portfolio Area: **Performance & Resources – Cllr C Edmonds**  
Wards Affected: **All**  
Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **June 2020**

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## **Recommendations:**

It is recommended that the Audit Committee resolves:-

- i. To endorse the contents of the report.
- ii. To recommend to Council an amendment to the Minimum Revenue Provision Policy Statement (MRP).

## **1. Executive summary**

1.1 To date, the Council has outperformed the industry benchmark by 0.15%. The Council has achieved a rate of return of 0.72%, against the 7 day LIBID bid rate (LIBID) of 0.57%. The Council's budget for investment interest of £90,321 for 2019/20 is expected to be on target.

## **2. Background**

2.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow

planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

2.3 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.”

2.4 The Council’s Finance Procedure Rules require that a report be taken to the Audit Committee three times a year on Treasury Management. The specific reporting requirements are:

- An annual treasury strategy in advance of the year (Council 26/03/2019 – CM69)
- A mid-year (minimum) treasury update report (This report)
- An annual review following the end of the year describing the activity compared to the strategy

2.5 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (i.e. Treasury Management Strategy Statement (TMSS), annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.

### **3. Economics and Interest Rates**

#### **Economics Update**

3.1 This first half of the year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level

of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy

3.2 The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

3.3 The As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

### **Interest Rate Forecast**

3.4 The Council's treasury advisor, Link Asset Services, has provided the following forecast.

This forecast includes the increase in margin over gilt yields of 100bps introduced on 9 October 2019 by the Public Work Loans Board (PWLB). This is an increase of 1% on all new borrowing from the PWLB.

Link Asset Services Interest Rate View										
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

3.5 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its last meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.

3.6 The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

### **The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

3.7 One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

**Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

**4. Treasury Management Strategy Statement and Annual Investment Strategy Update**

4.1 The Treasury Management Strategy Statement (TMSS) for 2019/20, was approved by the Council on 26/03/19 – CM69. It sets out the Council’s investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

4.2 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

4.3 The Council’s Minimum Revenue Provision Policy Statement (MRP) previously approved as part of the TMSS requires revision in light of economic and operational movements during the year.

4.4 The MRP Policy Statement aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

4.5 The MRP Policy Statement has been widened to allow both MRP methodologies to be considered when assessing the external borrowing needs on all capital investment types. Previously, the MRP Policy Statement only allowed for the annuity methodology to be applied to commercial property. This amendment will enable the Council to consider different options (such as the asset life method) and find the most cost effective approach when assessing future capital investments.

The MRP policy to be adopted is as below:-

<b>Borrowing</b>	<b>MRP Methodology</b>
<p>All capital investments, including Commercial Investment Strategy (Total Council Borrowing of up to £50 million to include all Council services)</p> <p>Waste Fleet</p> <p>Leisure Investment</p>	<p><b>Annuity Method (over the asset life)</b> Under this calculation, the revenue budget bears an equal annual charge (for principal and interest) over the life of the asset by taking into account the time value of money.</p> <p>Since MRP only relates to the 'principal' element, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing average PWLB rates.</p> <p>Annuity Method – over 9 years (the asset life)</p> <p>Annuity Method – over 22 years (remaining term of the contract)</p>
<p>*Kilworthy Park and Commercial Investment Strategy</p>	<p><b>Asset Life Method</b> MRP is charged using the Asset Life method – based on the estimated life of the asset.</p> <p>This option provides for a reduction in the borrowing need over approximately the assets' life.</p> <p>NB:Kilworthy Park borrowing is a Maturity Loan with annual repayments of the principle of £42,000 being made.</p>

## 5. Investment Portfolio 2019/20

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 3.4, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

5.2 The Council held £15.19m of investments as at 30 September 2019 (£9.79m at 31 March 2019) and the investment portfolio yield for the first six months of the year is 0.72% against a benchmark (7 day LIBID rate) of 0.57%.

A full list of investments held as at 30 September 2019 is shown below:

### **Money Market Funds**

<b>Amount</b>	<b>Investment</b>	<b>Average Interest rate</b>
£3,000,000	Aberdeen Standard Investments	0.74%
£3,000,000	BlackRock ICS-Inst GBP	0.68%
£3,000,000	LGIM Sterling Liquidity Fund	0.69%

The Council currently has four Money Market Funds. The money market funds allow immediate access to the Council's funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

### **Fixed Term Deposits – Current**

<b>Counterparty</b>	<b>Fixed to</b>	<b>£</b>	<b>Interest Rate</b>
Lloyds TSB Bank Plc	15/10/2019	3,000,000	1.00%
Debt Management Office	18/10/2019	3,000,000	0.51%

5.3 The Council's Investments mid way through the year are always higher than at the end of the year (at 31st March) due to the cashflow advantage that the Council benefits from part way through the year.

This is, in part, due to the timing differences between the Council collecting council tax income and paying this over to major precepting authorities such as Devon County Council, the Police and the Fire Authority

The Council's current counterparty limit is £3 million (£4 million for Lloyds plc).

### **Property Funds**

<b>Amount</b>	<b>Investment</b>	<b>Dividend Yield</b>
£491,472	CCLA – Property Fund	4.23%

5.4 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20.

5.5 The Council's budgeted investment return for 2019/20 is £90,321, and performance for the year to date is in line with the budget.

### **Investment Counterparty Criteria**

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

### **Borrowing Position**

5.7 The Council's capital financing requirement (CFR) for 2019/20 is £30,832 million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

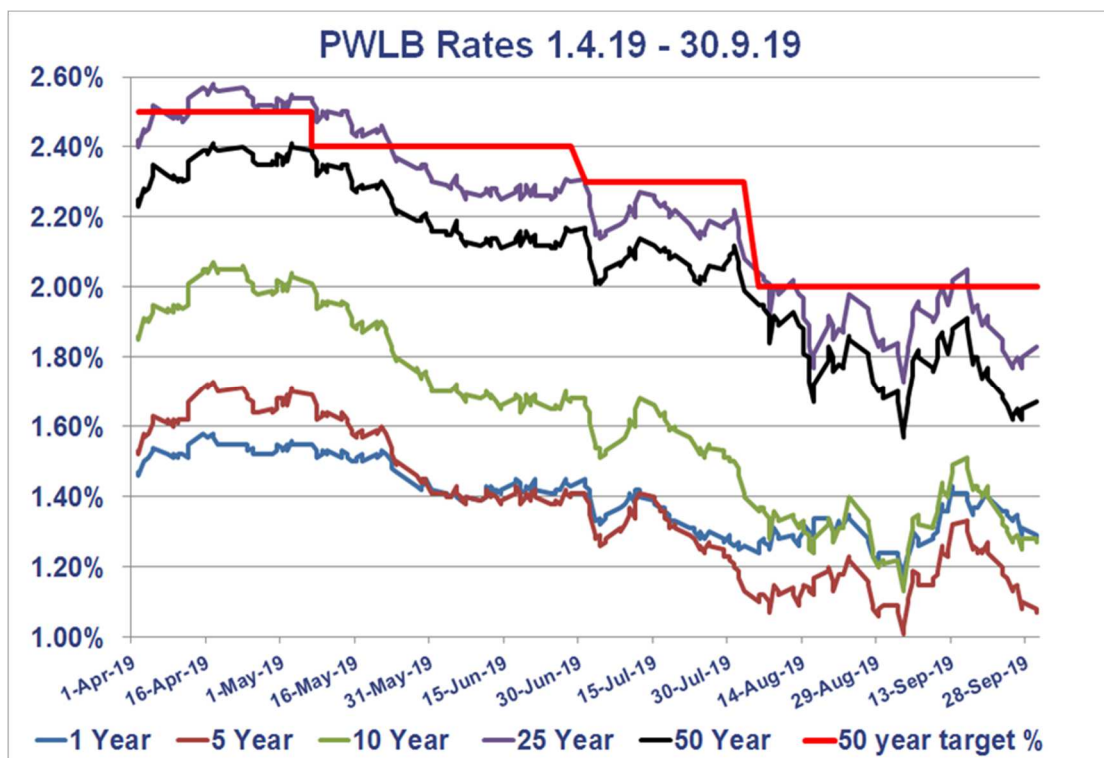
A summary of the Council's debt position at 30 September 2019 compared with 31 March 2019 is shown in the table below:



<b>Lender</b>	<b>Purpose</b>	<b>Maturity</b>	<b>Interest Rate %</b>	<b>Principal held at 31 March 2019 £'000</b>	<b>Principal held at 30 Sept 2019 £'000</b>
PWLB - Maturity	Kilworthy Park	45 Years	4.55	2,100	2,100
PWLB - Annuity	Waste Fleet	9 Years	1.92	2,378	2,239
PWLB - Annuity	Leisure Investment	22 Years	1.95	1,500	1,473
PWLB - Annuity	Commercial Investment	50 Years	2.65	12,628	12,566
PWLB - Annuity	Commercial Investment	50 Years	2.60	3,582	3,564
PWLB - 23 maturity loans	Commercial Investment	49 Years	2.54*	3,592	3,592
PWLB - Annuity	Commercial Investment	50 Years	2.31	1,800	1,790
PWLB - Annuity	Commercial Investment	30 Years	1.73	0	2,500
<b>Total</b>				<b>27,580</b>	<b>29,824</b>

\*Average interest rate

5.8 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. PWLB rates have been on a falling trend during this period and longer rates have almost halved to reach historic lows. The 50 year PWLB target (certainty) rate for new long term borrowing fell from 2.50% to 2.00% during this period.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%

### **Increase in the cost of borrowing from the PWLB**

5.9 On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps on top of the current margin of 80 bps which the Council has paid prior to this date for new borrowing from the PWLB. This is an increase of 1% on interest on all new borrowing from the PWLB.

There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing.

Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.

5.10 Whereas the Council has previously relied on the PWLB as its main source of funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

5.11 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. This Authority may make use of this new source of borrowing as and when appropriate.

### **Debt Rescheduling**

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

5.13 The 100bps increase in PWLB rates (1% increase in interest rates) from 9 October 2019 only applies to new borrowing rates, not to previous loans already taken out by the Council.

## **6. Outcomes/outputs**

6.1 The Council's budget for investment interest of £90,321 for 2019/20 is expected to be on target.

6.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the 7 day London Interbank Bid Rate (LIBID). The average weighted LIBID rate at the end of September was 0.57% which is 0.15% lower than our average return of 0.72% as at 30 September 2019.

## **7. Options available and consideration of risk**

7.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

7.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

7.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

## 8. Proposed Way Forward

8.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

8.2 Following the increase in the cost of borrowing from the PWLB (1% increase), work is currently being undertaken to reassess the financial viability of capital projects included in the capital programme and business cases being considered under the Commercial Investment Strategy.

## 9. Compliance with Treasury Limits and Prudential Indicators

9.1 During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2019/20 are detailed and shown in Appendix B.

## 10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are the Local Government Act 1972 Section 151 and the Local Government Act 2003.
Financial implications to include reference to value for money	Y	To date, the Council has outperformed the industry benchmark by 0.15%. The Council has achieved a rate of return of 0.72%, against the 7 day LIBID bid rate (LIBID) of 0.57%. The Council's investment income target of £90,321 for 2019/20 is expected to be on target.
Risk		The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.

		<p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Hub Committee through the quarterly budget monitoring reports.</p>
Supporting Corporate Strategy		The treasury management function supports all six of the Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change – Carbon/Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

**Supporting Information**  
**Appendices:**

Appendix A – Lending list as at 30 September 2019  
Appendix B – Prudential and Treasury Indicators 2019/20

**Background Papers:**

Annual treasury strategy in advance of the year (Audit 26/03/19 – CM69)

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed/sign off	<b>Yes</b>
SLT Rep briefed/sign off	<b>Yes</b>
Relevant Heads of Practice sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
Accessibility checked	<b>N/A</b>

## APPENDIX A

Counterparty as at 27th Sept 2019		Fitch Rating				Moody's Ratings		S&P Ratings		Suggested Duration			
		Long Term	Short Term	Viability	Support	Long Term	Short Term	Long Term	Short Term				
<b>United Kingdom</b>													
<b>AAA Rated and Government Backed Securities</b>	Collateralised LA Deposit*									Y - 60 mths			
	Debt Management Office									Y - 60 mths			
	Multilateral Development Banks									Y - 60 mths			
	Supranationals									Y - 60 mths			
	UK Gilts									Y - 60 mths			
<b>Banks</b>	Abbey National Treasury Services PLC	NW	A	F1		1	PO	Aa3	P-1		R - 6 mths		
	Bank of Scotland PLC (RFB)	NW	A+	F1	a	5	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths
	Barclays Bank PLC (NRFB)	NW	A+	F1	a	5	PO	A2	P-1	SB	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	NW	A+	F1	a	1	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Close Brothers Ltd	NW	A	F1	a	5	SB	Aa3	P-1				R - 6 mths
	Goldman Sachs International Bank	SB	A	F1		1	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	SB	AA	F1+		1				SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	NW	AA-	F1+	a+	1	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths
	HSBC UK Bank Plc (RFB)	NW	AA-	F1+	a	1				SB	AA-	A-1+	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	NW	A	F1		1	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	NW	A+	F1	a	5	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths
	NatWest Markets Plc (NRFB)	NW	A	F1	WD	1	PO	Baa2	P-2	SB	A-	A-2	G - 100 days
	Santander UK PLC	NW	A+	F1	a	2	PO	Aa3	P-1	SB	A	A-1	R - 6 mths
	Standard Chartered Bank	SB	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Sumitomo Mitsui Banking Corporation	SB	A	F1		1	SB	A1	P-1	PO	A	A-1	R - 6 mths
<b>Building Societies</b>	Coventry Building Society	NW	A-	F1	a-	5	SB	A2	P-1				R - 6 mths
	Leeds Building Society	NW	A-	F1	a-	5	SB	A3	P-2				G - 100 days
	Nationwide Building Society	NW	A	F1	a	5	NO	Aa3	P-1	PO	A	A-1	R - 6 mths
	Skipton Building Society	NW	A-	F1	a-	5	PO	Baa1	P-2				G - 100 days
	Yorkshire Building Society	NW	A-	F1	a-	5	SB	A3	P-2				G - 100 days
<b>Nationalised and Part Nationalised Banks</b>	National Westminster Bank PLC (RFB)	NW	A+	F1	a	5	PO	A1	P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	NW	A+	F1	a	5	PO	A1	P-1	SB	A	A-1	B - 12 mths

Key	
Watches and Outlooks	Duration
SB Stable Outlook	Yellow - Y 60 Months
NO Negative Outlook	Blue - B 12 Months
NW Negative Watch	Orange - O 12 Months
PO Positive Outlook	Red - R 6 Months
PW Positive Watch	Green - G 100 Days
EO Evolving Outlook	
EW Evolving Watch	

## APPENDIX B

### **PRUDENTIAL AND TREASURY INDICATORS 2019/20**

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

#### **Capital Expenditure**

This prudential Indicator is a summary of the Council's capital expenditure.

	<b>2018/19 Actual £000</b>	<b>2019/20 Budget £000</b>	<b>2019/20 Estimate £000</b>
General Fund services	2,204	2,076	1,749
Community Housing	0	4,700	4,300
Capital investments*	21,379	16,000	1,200
<b>TOTAL</b>	<b>23,583</b>	<b>22,776</b>	<b>7,249</b>

\*Capital investments relate to areas such as capital expenditure on investment properties.

The table below summarises the financing of the Council's capital programme.

	<b>2018/19 Actual £000</b>	<b>2019/20 Budget £000</b>	<b>2019/20 Estimate £000</b>
External sources	429	938	1,561
Own resources	330	546	796
Debt	22,824	21,292	4,892
<b>TOTAL</b>	<b>23,583</b>	<b>22,776</b>	<b>7,249</b>

*NB. Please note that the budget for 2019/20 represents the approved capital programme for that year. However, the estimated capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.*

The Capital expenditure estimate for 2019/20 reflects the recommendations within the commercial property acquisition strategy. Note: The Council has purchased four commercial properties at the time of writing this report.



### **The Council's Borrowing Need (the Capital Financing Requirement)**

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	<b>2018/19 Actual £000</b>	<b>2019/20 Budget £000</b>	<b>2019/20 Estimate £000</b>
General Fund services	5,371	5,638	4,996
Community Housing	0	4,700	4,300
Capital investments	21,199	36,826	21,536
<b>TOTAL CFR</b>	<b>26,570</b>	<b>47,164</b>	<b>30,832</b>

### **The Council's Gross Debt and the Capital Financing Requirement**

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is estimated to be below the CFR by £1.01m in 2019/20.

	<b>2018/19 Actual £000</b>	<b>2019/20 Budget £000</b>	<b>2019/20 Estimate £000</b>
Debt	27,580	46,850	29,824
Capital Financing Requirement	26,570	47,164	30,832

## **AFFORDABILITY PRUDENTIAL INDICATORS**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances.

### **Ratio of financing costs to net revenue stream**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

The financing costs were increased in the 2019/20 budget to reflect the proposals within the commercial property acquisition strategy, and therefore increased this indicator. These proposals will now take place in 2019/20 and 2020/21.

	<b>2018/19 Actual</b>	<b>2019/20 Budget</b>	<b>2019/20 Estimate</b>
Financing costs (£m)	1,004,143	1,756,601	1,422,454
Proportion of net revenue stream	13.7%	24.8%	20.1%

## **TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY**

**The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

<b>Operational Boundary</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£</b>	<b>£</b>
Borrowing	47,500,000	47,500,000
Other long term liabilities	-	-
Total	47,500,000	47,500,000

**The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

<b>Authorised limit</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£</b>	<b>£</b>
Borrowing	50,500,000	50,500,000
Other long term liabilities	-	-
Total	50,500,000	50,500,000

West Devon Borough Council's current level of borrowing as at 30 September 2019 was £29.82 million.