

Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by this Council on 27th February 2020; Governance and Audit Committee recommendation to Full Council 16th January 2020

The details in this report update the position in light of the updated economic position and budgetary changes already approved.

Prudential Indicator 2020/21	Original £m	Revised Prudential Indicator £m
Authorised Limit	£9.780m	£9,780m
Operational Boundary	£7.780m	£7.780m
Capital Financing Requirement	-	-

The difference between the Authorised limit and the operational boundary is the overdraft which is £2.000m

The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	2020/21 Original Estimate £m	2020/21 Revised Estimate £m	Current Spend @ 31.10.20 £m	2020/21 Forecast Out-turn £m
Commercialisation	9.080	6.603	2.346	5.803
Strategy and Governance	0.305	0.305	0.020	0.193
Place	10.289	6.936	1.514	7.227
Capital Loans	0.386	0.386	0.149	0.386
Total	20.060	14.230	4.029	13.609

The forecast position reflects the latest figures which are being put forward for approval as part of the budget setting process.

Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2020/21 Original Estimate £m	Current Spend @ 31.10.20 £m	2020/21 Revised Estimate £m
Supported	20.060	4.029	14.230
Unsupported	-	-	-
Total spend	20.060	4.029	14.230
Financed by:			
Revenue	3.319		0.774
Capital grants	8.088		6.597
Capital reserves	8.267		6.473
Capital Loans repaid	0.386		0.386
Total financing	20.060		14.230
Borrowing need	Nil		Nil

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – External Debt / the Operational Boundary

	2020/21 Original Estimate £m	Current Position £m	2020/21 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
Total CFR	-	-	-
Net movement in CFR	-	-	-
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	-	-	-
Other long term liabilities*	£7.780m	£7.780m	£7.780m
Total debt 31 March	£7.780m	£7.780m	£7.780m

* On balance sheet PFI scheme.

Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2020/21 Original Estimate £m	Current Position £m	2020/21 Revised Estimate £m
Plus other long term liabilities*	£7.780m	£7.780m	£7.780m
Gross borrowing	-	-	-
CFR* (year end position)	-	-	-

* The leisure PFI scheme is on balance sheet and increases the CFR. This does not affect the Council's debt position (which remains nil) as the debt facility embedded in the PFI will be repaid over the life of the scheme.

The Executive Director Commercialisation & S151 reports that no difficulties are envisaged for the current year in complying with this prudential indicator and future years pressures will be managed through the budget process.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2020/21 Original Indicator	Current Position	2020/21 Revised Indicator
Borrowing (Bank overdraft)	£2.000m	-	£2.000m
Other long term liabilities*	£7.780m	£7.780m	£7.780m
Total	£9.780m	£9.780m	£9.780m

* On balance sheet PFI scheme.

Investment Portfolio 2020/21

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 set out in Appendix A, it is a very difficult investment market in terms of earning interest.

Rates remain low. On 11th March 2020 the base rate changed from 0.75% to 0.25%, reducing to 0.1% on 19th March 2020. Given the risk environment, investment returns are likely to remain low.

The Council held £29.107m of cash/investments as at 31 October 2020 (£23.827m at 31 March 2020) and the investment portfolio yield for the first six months of the year is 0.641% (including capital loans) against a benchmark (3 month LIBID – London Inter-bank Bid rate) of 0.096 %.

The Executive Director Commercialisation & S151 confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2020/21.

The Council's budgeted investment return for 2020/21 is forecast to be £203,830 which is £51k under budget

Investment Counterparty criteria

The Council continues to use Link Asset Services colour coding methodology to select suitable counterparties.

Borrowing

The Council does not currently have any external borrowing, details on the PFI and the CFR are detailed earlier in this appendix.