City of BRADFORD
METROPOLITAN DISTRICT COUNCIL

Report of the Director of Finance to the meeting of Governance and Audit to be held on 19 September 2019

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Subject:

Treasury Management Mid Year Review up to 31 August 2019

Summary statement:

This report shows the Council's Treasury Mid Year Review up to 31 August 2019.

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Portfolio:
Leader of the Council and Corporate

Overview & Scrutiny Area:
Corporate

Treasury Management Review up to 27th August 2019

1.1 Background

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 cash being available when it is needed. Surplus monies are invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

> "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) was adopted by this Council.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Governance and Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2019/20 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.

- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the Council's borrowing strategy for 2019/20.
- A review of any debt rescheduling undertaken during 2019/20.
- A review of compliance with Treasury and Prudential Limits for 2019/20.
- A review of the Council's investment portfolio for 2019/20.

2 Economics and interest rates

2.1 Economics update

UK. After only tepid annual economic growth of 1.4% in 2018, growth in quarter 1 was unexpectedly strong at 0.5%. However, this was boosted by stock building ahead of the original March Brexit deadline so quarter 2 is now expected to be zero or slightly negative.

After the Monetary Policy Committee (MPC) raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a no deal exit, it is likely that Bank Rate would be cut in order to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling marginally to 3.4% more recently. Growth in employment fell to only 32,000 in the three months to April, well below the 2018 average, while the unemployment rate remained at 3.8%, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this rose slightly to 2.1% in April before falling back again to 2.0% in May and staying the same in June, and is likely to remain around this level over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.3%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The Conservative minority government has elected Boris Johnson as their new leader and is aiming for Brexit to happen by, or on, 31 October, even if there is no deal. However, it is unclear if there will be majority support in the Commons for any option. If there was a stalemate in the Commons, then that would increase the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the rate of growth to 2.9% for 2018, just below his target of 3%. Growth in quarter 1 of 2019 was a strong 3.1% but current expectations are for this to weaken considerably in quarter 2. The strong growth in employment numbers during 2018 has faded more recently, indicating that the economy is cooling, while inflationary pressures are also weakening. After the Fed increased rates by 0.25% in December to between 2.25% and 2.50%, market expectations have swung to

now expecting the Fed to cut rates by 1.0% - 1.25% in total to counter the expected downturn in growth. The Fed did cut rates by 0.25% on the 31st July.

The US tariff war with China has increased over the last few days. This is not good news for China which is already facing a slowdown in its rate of economic growth. Many forecasters are not expecting that this will be the last increase in tariffs as China is likely to dig its heels in even more. It will also impact on the US economy and especially on developing economies dependent on exporting commodities to China.

EUROZONE. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of Targeted Long Term Refinancing Operations (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, the downturn now appears to be gathering momentum so market expectations have moved on to expecting possibly a small increase in the deposit rate from -0.4% to -0.5% and a resumption of quantitative easing, but possibly more focused on purchases of corporate debt than government debt.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN. It has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. The trade war between the US and China on tariffs is a major concern not only to financial markets and China itself, but also for world growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019, which has then caused equity prices to rise. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks.

2.2 Interest rate forecasts

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

Link Asset Services Interest Rate View											
	Sep19	Dec19	Mar20	Jun20	Sep20	Dec20	Mar21	Jun21	Sep21	Dec21	Mar22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3mth LIBID	0.70	0.70	0.70	0.70	0.8	0.9	1.00	1.00	1.00	1.10	1.20
6mth LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12mth LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

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After the August 2018 increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has put any further action on hold, probably until such time as the fog of Brexit has cleared. The above forecast, and other comments in this report, is based on a central assumption that there will be some form of muddle through agreement on a reasonable form of Brexit. Bank Rate forecasts will have to change if this assumption does not materialise e.g. a no deal Brexit on 31 October could well prompt the MPC to do an immediate cut of 0.5% in Bank Rate back to 0.25%. All other forecasts for investment and borrowing rates would also have to change.

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.

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.

- The 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.

- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March 2018 of a government which has made a lot of antiausterity noise. The EU has had sharp disagreements in successive years with Italy over setting a budget within the limits of EU rules. The rating agencies have already downgraded Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance over €200bn of debt maturing in 2019. However, the biggest concern is the major holdings of Italian government debt held by Italian banks and insurers. Any downgrading of such debt would cause Italian bond prices to fall, causing losses on their portfolios, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc. This is the so called 'doom loop'. Due to the Italian government's already high level of debt, it would not be able to afford to bail out the banking system. Portugal faces the same problem as its debt is also only one notch above junk level.

- Weak capitalisation of some European banks, particularly Italian banks.

- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the antiimmigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.

- Other minority EU governments. Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.

- Italy, Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- The increases in interest rates in the US during 2018, combined with an on-off potential trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. Some emerging market countries which have borrowed heavily in dollar denominated debt could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.

- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- Concern over possible recession in the major economics.

- 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.

2.3 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2019/20 was noted by Governance and Audit on 14th March 2019 and passed through for approval by the Council on 19th March. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

2.4 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.
- Compliance with the limits in place for borrowing activity.

2.4.1. 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. Councillor and Officer Challenge sessions

on the capital budget have taken place recently and the revised estimate is based on increased scrutiny of the schemes within the capital programme.

Capital Expenditure	2019/20 Original Estimate £m	Current Position 31 Aug 2019 £m	2019/20 Revised Estimate £m
Total capital expenditure	£146.5	£35.6	£114.3

2.4.2 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	2019/20 Original Estimate £m	2019/20 Revised Estimate Q1 £m
Total capital expenditure	£146.5	£114.3
Financed by:		
Capital receipts	£7.1	£3.5
Capital grants	£65.7	£62.4
Capital reserves	£1.1	£1.1
Revenue	£1.1	£1.3
Total financing	£75.0	£68.3
Borrowing requirement	**£71.5**	**£46.0**

Projected changes to the Capital Programme have resulted in a reduced new borrowing requirement of £25.5m.

2.4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table over shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The table over shows the expected debt position over the period, which is termed the Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed.

	2019/20 Original Estimate £m	2019/20 Revised Estimate Q1 £m
Prudential Indicator – Capital Financing Requirement		
Total CFR	£764	£727
Net movement in CFR		-£37
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	£410	£343
Other long term liabilities	£190	£158
Total debt (year end position)	**£590**	**£501**

2.4.4 Limit 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 2019/20 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.

The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2019/20 Original Estimate £m	Current Position 31 August £m	2019/20 Revised Estimate £m
Borrowing	£384	£327	£343
Other long term liabilities	£158	£158	£158
Total debt	**£542**	**£485**	**£501**
CFR (year end position)	£764		£727

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	**2019/20 Original Indicator £m**	**2019/20 Revised Estimate £m**
Borrowing	£430m	£343
Other long term liabilities	£200m	£158
Total	**£630**	**£501**

2.4.5 Borrowing

The Council's capital financing requirement (CFR) for 2019/20 is expected to be below the original forecast of £764m; due to changes in the profiling of capital spend. 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. The Council currently has borrowings of £485m and has utilised cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

The current context, though, is that the Council's cash balances are reducing and there is a future draw on cash from the Capital Investment Plan. Based on the revised estimate for capital expenditure current projections are that the Council would need to borrow £46m this year. Cash balances and capital spend will be closely monitored and projected forward. If it is felt that cash balances are getting too low or likely to be too low in the future, borrowing is undertaken in appropriate tranches. In deciding the appropriate tranches of borrowing, caution is exercised in projecting forward capital spending.

£5.6m of loans have matured in July and August 2019 with an average rate of interest of 6.7% and a further £11.5m is due to mature in February 2020. £20m of new borrowing was undertaken on the 29 August 2019 to finance commitments in the capital plan. This is reflected in the borrowing position shown as at the 31 August. Two loans were completed for £10m and an additional loan for £15m was completed on the 3rd September. The average rate of interest on the three loans is 1.6%.

The table below show the movement in PWLB certainty rates up to the 30th August:

PWLB rates have been on a falling trend up to the 30th August. This fall has been largely caused by a reduction in US and European yields as investors have become increasingly concerned that economics around the world could be moving into recession. The 50 year PWLB target (certainty) rate for new long term borrowing started at 2.24% and fell to a low of 1.67% on the 16th August.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
30/08//2019	1.24%	1.09%	1.24%	1.82%	1.68%
Low	1.22%	1.06%	1.23%	1.77%	1.67%
Date	29/08/19	29/08/19	29/08/19	16/08/19	16/08/19
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/19	17/04/19	17/04/19	17/04/19	17/04/19

2.4.6 Debt Rescheduling

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.

2.5 Investment Portfolio 2019/20

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 2.2, 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 continued uncertainty over Brexit and 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 the next move maybe a fall in interest rates rather than a increase and that base rates are unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Council held £22.6m of investments as at 30th August 2019 (£56.9m at 31 March 2019) and the investment portfolio yield for the first 5 months of the year is 0.91% against a benchmark of 0.56%.

The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first 5 months of 2019/20.

The Council's budgeted investment return for the year to date is expected to be below budget.

Investment Counterparty criteria

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

2.6 Other areas for consideration

2.6.1 None

3. Other considerations

3.1 None

4. Financial and Resources Appraisal

4.1 The financial implications are set out in section 2 of this report

5. Risk Management and Governance Issues

5.1 The principal risks associated with treasury management are:

Risk: Loss of investments as a result of failure of counterparties.
Mitigation: Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties.

Risk: That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or new borrowing (Liquidity risk).

Mitigation: Ensuring that a minimum proportion of investments are held in short term investments for cash flow purposes.

Risk: Increase in the net financing costs of the Council due to borrowing at high rates of interest.
Mitigation: Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking mostly long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

Risk: Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.
Mitigation: To pause, delay or defer capital schemes. Also review opportunities to borrow in the future at current interest rates.

Risk: Return on non-treasury investments lower than expected.
Mitigation: Review and analysis of risk prior to undertaking non-treasury investments.

Risk: The Council's Minimum Revenue Policy charges an insufficient amount to the Revenue Estimates to repay debt.
Mitigation: Align the Minimum Revenue Policy to the service benefit derived from the Council's assets.

Risk: Associated with cash management, legal requirements and fraud.
Mitigation: These risks are managed through:

- Treasury Management Practices covering all aspects of Treasury management procedures including cash flow forecasting, documentation, monitoring, reporting and division of duties.
- All Treasury management procedures and transactions are subject to inspection by internal and external auditors. The council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

The Council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

Risk: Anticipated borrowing is lower than expected because the 2019/20 capital programme is underspent. This is explained in more detail below, together with the actions being taken to reduce these risks:
Mitigation: The Council is required to set a balanced budget for its revenue estimates; so in broad terms, income received will match expenditure over the 2019/20 financial year. The 2019/20 revenue estimates cause only temporary cash flow differences, for example when income is received in a different month to when the expenditure is incurred.

However, the 2019/20 capital budget will cause a cash flow shortfall in the long term, which generates a borrowing requirement. While some of the capital budget is funded immediately, mainly with Government grants, other elements are not funded initially, leading to the cash flow deficit that requires borrowing.

Managing borrowing is part of the Treasury Management role. To help in its management, the Treasury Strategy identifies the element within the capital budget that is not funded straightaway, to anticipate the Council's borrowing requirement.

However, when the capital budget is underspent, the Council has a lower borrowing requirement than anticipated. This risk is managed in practice because the Council only borrows when there is an actual cash flow shortage.

However, the uncertainty around spend against the capital budget makes cash flow management more difficult. For example, it is less likely that the Council would take advantage of a short-term fall in interest rates, without more certainty around the timing of any borrowing need. Actions that have taken place to manage the risks relating to this uncertainty in the timing of capital spend are: Councillor and Officer challenge sessions on the capital budget; increased scrutiny of the capital forecasts in the quarterly monitoring, and the collection of additional documentation around the critical paths of individual schemes.

6. Legal Appraisal

6.1 Any relevant legal considerations are set out in the report

7. Other Implications

7.1 Equality & Diversity – no direct implications

7.2 Sustainability implications – no direct implications

7.3 Green house Gas Emissions Impact – no direct implications

7.4 Community safety implications – no direct implications

7.5 Human Rights Act – no direct implications

7.6 Trade Unions – no direct implications

7.7 Ward Implications – no direct implications

7.8 Implication for Corporate Parenting – no direct implications

7.9 Issues arising from Privacy Impact Assessment– no direct implications

8. Not for publications documents

8.1 None

9. Options

9.1 None

10. Recommendations

10.1 That the report be noted by the Governance and Audit Committee and passed to full council on the 15th October 2019 for adoption.

11. Appendices

Appendix 1Prudential and Treasury Indicators as at 27th August 2019

12. Background Documents

Treasury Management Schedules

Treasury Management Practices

Treasury Policy

APPENDIX 1: Prudential and Treasury Indicators as at 31st August 2019

Treasury Indicators	**2019/20 Budget £m**	**(Apr - Aug) Actual £m**
Authorised limit for external debt	£630m	£630m
Operational boundary for external debt	£590m	£590m
Gross external debt	£542m	£485m
Upper limit for principal sums invested over 365 days	£20m	£0m

Maturity structure of fixed rate borrowing -	**Upper Limit**	**(Apr-Aug) Actual**
Under 12 months	20%	3%
12 months to 2 years	20%	1%
2 years to 5 years	50%	8%
5 years to 10 years	75%	18%
10 years and above	90%	70%

Prudential Indicators	**2019/20 Budget £m**	**2019/20 Revised Estimate £m**
Capital expenditure (Revised Budget)	£146.5m	£114.3m
Capital Financing Requirement (CFR)	£764m	£727m
Ratio of financing costs to net revenue stream	14.5%	14.5%