CABINET
8 DECEMBER 2020

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2020/21

Responsible Cabinet Member -
Councillor Charles Johnson, Resources Portfolio

Responsible Director -
Paul Wildsmith, Managing Director

SUMMARY REPORT

Purpose of the Report

1. This report seeks approval of the revised Treasury Management Strategy, Prudential Indicators and provides a half–yearly review of the Council's borrowing and investment activities. Audit Committee are requested to forward the revised Strategy and indicators to Cabinet and Council for their approval and note changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

Summary

2. The mandatory Prudential Code, which governs Council's borrowing, requires Council approval of controls, called Prudential Indicators, relating to capital spending and borrowing. Prudential Indicators are set in three statutory annual reports, a forward-looking annual treasury management strategy, a backward looking annual treasury management report and this mid-year update. The mid-year update follows Council's approval in February 2020 of the 2020/21 Prudential Indicators and Treasury Management Strategy.

3. The key objectives of the three annual reports are:

   (a) to ensure the governance of the large amounts of public money under the Council's Treasury Management activities:

      (i) Complies with legislation;
      (ii) Meets high standards set out in codes of practice.

   (b) To ensure that borrowing is affordable,
   (c) To report performance of the key activities of borrowing and investments.

4. The key proposed revisions to Prudential Indicators relate to the Operational Boundary will reduce to £188.018m and the Authorised Limit to £229.233m to allow for any additional cashflow requirement.

5. Investments now include £30m in property funds which are expected to increase our net return on investments by around £0.500m in future years.

Recommendation

6. It is recommended that :

   (a) The revised prudential indicators and limits within the report in Tables 1 to 6, 8, 11 and 13 to 18 are examined.

   (b) Cabinet note the proposal in para. 32 re the potential of Darlington College accessing the Council's loan facility in accordance with the Capital Strategy.

   (c) The underspend in the Treasury Management Budget (Financing Costs) of £0.110m shown in Table 12 is noted.

   (d) That this report is forwarded to Council in order for the updated prudential indicators to be approved.

Reasons

7. The recommendations are supported by the following reasons :-

   (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities;

   (b) To inform Members of the performance of the Treasury Management function;

   (c) To comply with the Local Government Act 2003;

   (d) To enable further improvements to be made in the Council's Treasury Management function.

Paul Wildsmith
Managing Director

Background Papers

(i) Capital Medium Term Financial Plan 2020/21
(ii) Prudential Indicators & Treasury Management Strategy 2020/21
(iii) Accounting records
(iv) The Prudential Code for Capital Finance in Local Authorities

Peter Carrick: Extension 5401

S17 Crime and Disorder	This report has no implications for S17 Crime and Disorder.
Health and Well Being	This report has no implications for the Council's Health and Well Being agenda.
Carbon Impact and Climate Change	There are no carbon impact implications in this report.
Diversity	There are no specific implications for the Council's diversity agenda.
Wards Affected	All Wards.
Groups Affected	All Groups.
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision.
Urgent Decision	For the purposes of call in this report is not an urgent decision.
One Darlington: Perfectly Placed	This report has no particular implications for the sustainable Community Strategy.
Efficiency	The report refers to actions taken to reduce costs and manage risks.
Impact on Looked After Children and Care Leavers	This report does not impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

8. This mid-year review report meets the regulatory framework requirement of treasury management. It also incorporates the needs of the Prudential Code to ensure monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and the PIs were previously reported to Council on 20 February 2020.

9. This report concentrates on the revised positions for 2020/21. Future year's indicators will be revised when the impact of the MTFP 2021/22 onwards is known.

10. A summary of the revised headline indicators for 2020/21 is presented in **Table 1** below**.** More detailed explanations of each indicator and any proposed changes are contained in the report. The revised indicators reflect the movement in the Capital MTFP since its approval in February 2020 and the means by which it is financed.

Table 1 Headline Indicators

	2020/21 Original Estimate	**2020/21 Revised Estimate**
	£m	£m
Capital Expenditure (Tables 2 and 3)	45.179	31.798
Capital Financing Requirement (Table 4)	226.040	218.317
Operational Boundary for External Debt (Table 4)	197.118	188.018
Authorised Limit for External Debt (Table 6)	237.342	229.233
Ratio of Financing Costs to net revenue stream-General Fund (Table 15)	2.85%	2.73%
Ratio of Financing Costs to net revenue stream-Housing Revenue Account (HRA)(Table 15)	17.48%	12.78%

11. The capital expenditure plans and prudential indicators for capital expenditure are set out initially, as these provide the framework for the subsequent treasury management activity. The actual treasury management activity follows the capital framework and the position against the treasury management indicators is shown at the end.

12. The purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Ministry of Housing, Communities and Local Government Investment Guidance which state that Members receive and adequately scrutinise the treasury service.

13. The underlying economic environment remains difficult for Councils and concerns over counterparty risk are still around. This background encourages the Council to continue investing over the shorter term and with high quality counterparties, the downside is that investment returns remain low.

Key Prudential Indicators

14. This part of the report is structured to update:

    (a) The Council's capital expenditure plans;

    (b) How these plans are financed;

    (c) The impact of the changes in the capital expenditure plans on the PI's and the underlying need to borrow;

    (d) Compliance and limits in place for borrowing activity;

    (e) Changes to the Annual Investment Strategy;

    (f) The revised financing costs budget for 2020/21

Capital Expenditure PI

15. **Table 2** shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget.

Table 2

Capital Expenditure by Service	2020/21 Original Estimate	2020/21 Revised Estimate
	£m	£m
General Fund	15.457	20.130
HRA	28.843	14.900
Total Estimated Capital Expenditure	**44.300**	**35.030**
Loans to Joint Ventures	0.879	(3.232)
Total	**45.179**	**31.798**

16. The changes to the 2020/21 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget monitoring process (Quarterly Project Position Statement Report).

17. The current capital programme that has not already been financed now stands at £159.755m but this includes a number of schemes that will be spent over a number of years not just in 2020/21. A reduction of £127.956m has been allowed for schemes which are known will be finalised in future years, but it is likely that other schemes will also slip into future years.

Impact of Capital Expenditure Plans

Changes to the financing of the Capital Programme

18. **Table 3** draws together the main strategy elements of the capital expenditure plans shown above, highlighting the original elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element (Borrowing Need) increases the underlying indebtedness of the Council by

way of the Capital Financing Requirement (CFR). Borrowing need has increased for 2020/21 due to borrowing not required in previous years for slipped schemes but expected to be needed this year. This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3

Capital Expenditure	2020/21 Original Estimate	2020/21 Revised Estimate
	£m	£m
General Fund	15.457	20.130
HRA	28.843	14.900
Loans to Joint Ventures	0.879	(3.232)
Total Capital expenditure	45.179	31.798
Financed By:		
Capital Receipts - Housing	0.303	0.303
Capital Receipts –General Fund	0.800	0.963
Capital grants	8.757	14.917
HRA Revenue Contributions	10.551	14.597
HRA Investment Fund	8.722	0.000
Self-Financing - GF	0.500	0.250
Total Financing	29.633	31.030
Borrowing Need	**15.546**	**0.768**

The Capital Financing Requirement (PI), External Debt (PI) and the Operational Boundary

19. **Table 4** shows the Capital Financing Requirement (CFR), which is the underlying external need to borrow for capital purposes. It shows the expected actual debt position over the period. This is called the Operational Boundary. The reduction in Borrowing Need (Table 3) is around £14.8m and currently actual borrowing for the Council is £171.661m. The reduction is due to the Housing programme being delayed due to Covid 19, as well as the Council receiving repayments from the joint ventures of amounts previously loaned. It is proposed to set an actual borrowing figure of £177.660m this will accommodate the additional borrowing need and any debt requirements for cash flow purposes. Other Long term liabilities (the PFI scheme) will be added to give the revised operational boundary for 2020/21.

Prudential Indicator- External Debt/ Operational Boundary

Table 4

	2020/21 Original Estimate	2020/21 Revised Estimate
	£m	£m
Prudential Indicator- Capital Financing Requirement		
Opening CFR- Post Audit of Accounts	216.930	219.488
CFR General Fund	124.680	143.024
CFR General Fund PFI/Leasing IFRS	10.358	10.358
CFR – Housing	73.338	68.168
CFR – Loans to Joint Ventures	17.664	(3.232)
Total Closing CFR	**226.040**	**218.317**
Net Movement in CFR	9.110	(1.171)
Borrowing	186.760	177.660
Other long Term Liabilities	10.358	10.358
Total Debt 31 March- Operational Boundary	**197.118**	**188.018**

Limits to Borrowing Activity

20. The first key control over the treasury activity is a PI to ensure that over the medium term gross borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the next two financial years. As shown in **Table 5** below.

Table 5

	2020/21 Original Estimate £m	2020/21 Revised Estimate £m	2021/22 Revised Estimate £m	2022/23 Original Estimate £m
Gross borrowing	186.760	177.660	192.660	207.660
Plus Other Long Term Liabilities	10.358	10.358	9.232	8.117
Total Gross Borrowing	197.118	188.018	201.892	215.777
CFR* (year-end position)	226.040	218.317	240.503	253.402

* includes on balance sheet PFI schemes and finance leases

21. The Assistant Director Resources reports that no difficulties are envisaged for the current and future years in complying with this PI.

22. A further PI 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 desirable, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit is currently set 5% above the Capital Financing Requirement to allow for any additional cashflow needs, the revised figure for 2020/21 has been raised by 5% of the new CFR total. Whilst it is not expected that borrowing would be at these levels this would allow additional borrowing to take place should market

conditions change suddenly and swift action was required. This is a Statutory limit determined under section 3 (1) of the Local Government Act 2003.

23. It is proposed to move the Authorised Limit in **Table 6** in line with the movement in the overall Capital Financing Requirement.

Table 6

Authorised Limit for External Debt	2020/21 Original Indicator £m	2020/21 Revised Indicator £m
Capital Financing Requirement	226.040	218.317
Additional headroom to Capital Financing Requirement	11.302	10.916
Total Authorised Limit for External Debt	237.342	229.233

Interest Rate Forecasts Provided by Link Asset Services

Table 7

	Bank Rate	**PWLB rates for borrowing purposes***			
		5 year	10 year	25 year	50 year
	%	%	%	%	%
2020/21					
Dec 2020	0.10	1.90	2.10	2.50	2.30
March 2021	0.10	2.00	2.10	2.50	2.30
2021/22					
June 2021	0.10	2.00	2.10	2.50	2.30
Sept 2021	0.10	2.00	2.10	2.60	2.40
Dec 2021	0.10	2.00	2.20	2.60	2.40
March 2022	0.10	2.00	2.20	2.60	2.40
2022/23					
June 2022	0.10	2.10	2.20	2.70	2.50
Sept 2022	0.10	2.10	2.30	2.70	2.50
Dec 2022	0.10	2.10	2.30	2.70	2.50
March 2023	0.10	2.10	2.30	2.70	2.50

*****PWLB rates above are for certainty rates (which are provided for those authorities that have disclosed their borrowing/capital plans to the government. Darlington Borough Council will be able to access these certainty rates which are 0.2% below PWLB's normal borrowing rates, although if it is for Housing purposes through the HRA you can take another 1.00% off the above rates.

24. From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was

subsequently put back to 31st July. It is clear that the Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

25. It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

26. As the interest forecast table for PWLB certainty rates (table 7), shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

27. The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the virus.

28. There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

29. The downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

    (a) **UK** - second nationwide wave of virus infections requiring a national lockdown;

    (b) **UK / EU trade negotiations -** if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.

    (c) **UK - 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.

    (d) A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

(e) Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.

(f) **German minority government & general election in 2021.** 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 anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.

(g) **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

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

(i) **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

(j) **US - the Presidential election in 2020:** this could have repercussions for the US economy and SINO-US trade relations

30. The upside risks to current forecasts for UK gilts and PWLB rates are:

(a) UK - stronger than currently expected recovery in UK economy.

(b) Post-Brexit - if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.

(c) 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.

Treasury Management Strategy 2020/21 and Annual Investment Strategy Update

31. The Treasury Management Strategy Statement, (TMSS), for 2020/21 was approved by this Council on 20 February 2020.

32. There are no policy changes to the TMSS, although the Council's Capital Strategy includes a section on 'Loans to External Bodies or Organisations' and has been approached about the possibility of Darlington College utilising this facility. The facility is based on the loans being for activities that are aligned to, and support Council service objectives and/or corporate priorities. The loan if and when required would be subject to due diligence and would need to be agreed through Cabinet /Council but as Audit Committee has a Governance role it was thought prudent to highlight the possibility of it through this report as it is a Treasury Management matter. If and when

agreed the Operational Boundary and Authorised Limit will need to be amended to accommodate any increase in the CFR.

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

Debt Activity during 2020/21

34. The expected net borrowing need is set out in **Table 8**

Table 8

	2020/21 Original Estimate £m	**2020/21 Revised Estimate £m**
CFR (year-end position) from Table 4	226.040	218.317
Less other long term liabilities PFI and finance leases	10.358	10.358
Net adjusted CFR (net year end position)	215.682	207.959
Expected Borrowing	186.760	175.600
(Under)/ Over borrowing	(28.922)	(32.359)
Expected Net movement in CFR	9.110	(1.171)
Net financing need for the year from table 3	15.546	0.768
Less MRP General Fund	0.000	0.000
Less MRP Housing	0.629	0.799
Less MRP relating to finance leases including PFI	1.140	1.140
Movement in CFR (Net Borrowing Need)	13.777	(1.171)

35. The following new borrowing has been taken to date.

Table 9

Date Taken	**Term**	**Amount £m**	**Interest Rate**	**Purpose**	**Lender**
22/05/2020	1 year	2	0.90	Property Funds	Other Local Authority
22/05/2020	1 year	3	0.90	Property Funds	Other Local Authority
01/09/2020	2 years	5	0.90	General	Other Local Authority

36. The amount borrowed by the Council now stands at £171.661m, this excludes any additional cashflow loans which may be required.

37. There will still be an element of under-borrowing by the Council at the end of March 2021.

Debt Rescheduling

38. 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.

Annual Investment Strategy 2020/21

Investment Portfolio

39. 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. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous years as rates are very low and in line with the current 0.10% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks prompts a low risk strategy. Given this risk environment investment returns are likely to remain low.

Treasury Management Activity from 1 April 2020 to 15 October 2020

40. Current investment position – The Council held £67.499m of investments at 15/10/2020 and this is made up of the following types of investment.

Table 10

Sector	Country	Up to 1 year
		£m
Banks	UK	8.000
AAA Money Market Funds	Sterling Funds	19.500
Other Local Authorities	UK	10.000
Property Funds - CCLA	UK	10.000
Hermes		10.000
Lothbury	UK	9.999
Total		**67.499**

Short Term Cashflow Investments

41. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. These include investments in Money Market Funds, the Government's Debt Management Office and bank short term notice accounts. A total of 41 investments were made in the period 1 April 2020 to 30 September 2019 totalling c£55m these were for short periods of up to 100 days and earned interest of £0.015m on an average balance of £18.048m which equated to an annual average interest rate of 0.16%.

Investment returns measured against the Service Performance Indicators

42. The target for our investment returns is to better or at least match a number of external comparators, this performance indicator is also known as yield benchmarking. As can be seen from Table 11, the short term investment achievements (up to 3 months) are above market expectations.

Table 11

	Cashflow Investments %
Darlington Borough Council - Actual	**0.16**
External Comparators	
London Interbank Bid Rate 7 day	(0.06)
London Interbank Bid Rate 3 months	0.09
London Interbank Bid Rate 1 year	0.20

Treasury Management Budget

43. There are three main elements within the Treasury Management Budget:-

    (a) Longer term capital investments interest earned – a cash amount of which earns interest and represents the Councils revenue balances, unused capital receipts, reserves and provisions, this will now include Property Funds.

    (b) Cash flow interest earned – since becoming a unitary council in 1997, the authority has consistently had a positive cash flow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipt of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.

    (c) Debt serving costs – this is the principal and interest costs on the Council's long term debt to finance the capital programme.

Table 12 - Changes to the Financing Costs Budget 2020/21

	£m	£m
Original Financing Costs Budget 2020/21		**0.895**
Less reduced Interest payments paid on debt	(0.266)	
Add reduced returns on Property Funds	0.141	
Add increased charges	0.015	
Total adjustments		**(0.110)**
Revised Treasury Management Budget 2020/21		**0.785**

44. This statement concludes that the Treasury Management budget is forecast to underspent by £0.110m in 2020/21, these have been reflected in the current MTFP projections.

Risk Benchmarking

45. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance and these are shown in Table 13. Discrete security and liquidity benchmarks are also requirements of member reporting.

46. The following reports the current position against the benchmarks originally approved.

47. **Security** – The Council's maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables were set as follows;

0.077% historic risk of default when compared to the whole portfolio

Table 13

Maximum	**Benchmark 2020/21**	**Actual July**	**Actual September**
Year 1	0.077%	0.009%	0.007%

N.B. this excludes Property Funds

48. The counterparties that we use are all high rated therefore our actual risk of default based on ratings attached to counterparties is very low.

49. **Liquidity** – In respect of this area the Council set liquidity facilities/ benchmark to maintain

    (a) Bank overdraft - £0.100M;

    (b) Liquid short term deposits of a least £3.000M available within a week's notice;

    (c) Weighted Average Life benchmark is expected to be 0.4 years with a maximum of 1 year.

50. The Assistant Director Resources can report that liquidity arrangements have been adequate for the year to date as shown in Table 14

Table 14

	Benchmark 2020/21	**Actual June**	**Actual September**
Weighted Average Life	0.4 – 1 year	0.42 years	0.39 years

51. The figures are for the whole portfolio of cash flow investments deposited with Money Market funds on a call basis (i.e. can be drawn on without notice) as well as call accounts that include a certain amount of notice required to recall the funds.

Treasury Management Indicators

52. **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream. The reduction in % relates to reduced financing costs for General Fund of £0.110m.

Table 15

	2020/21 Original Indicator	2020/21 Revised Indicator
General Fund	**2.85%**	**2.73%**
HRA	**17.48%**	**12.78%**

Treasury Management Prudential indicators

53. **Upper Limits on Variable Rate Exposure –** This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

54. **Upper Limits on Fixed Rate Exposure –** Similar to the previous indicator this cover a maximum limit on fixed interest rates

55. Historically for a number of years this Council has used these percentages; together they give flexibility to the treasury management strategy allowing the Council to take advantage of both fixed and variable rates in its portfolio whilst ensuring that its exposure to variable rates is limited.

Table 16

	2020/21 Original Indicator	2020/21 Revised Indicator
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	40%

56. **Maturity Structures of Borrowing -** These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest for the duration of the instrument) falling due for refinancing. The higher limits for longer periods reflect the fact that longer maturity periods give more stability to the debt portfolio.

Table 17 - Maturity Structures of Borrowing

	2020/21 Original indicator	2020/21 Actual to Date	2020/21 Revised Indicator
Under 12 months	25%	17%	30%
12 months to 2 years	40%	6%	40%
2 years to 5 years	60%	12%	60%
5 years to 10 years	80%	9%	80%
10 years and above	100%	57%	100%

57. **Total Principal Funds Invested –** These limits are set having regard to the amount of reserves available for longer term investment and show the limits to be placed on investments with final maturities beyond 1 year. This limit allows the authority to invest for longer periods if they give better rates than shorter periods. It also allows some stability in the interest returned to the Authority.

Table 18 - Principal Funds Invested

	2020/21 Original Indicator	2020/21 Revised Indicator
Maximum principal sums invested greater than 1 year	£50m	£30m

Conclusion

58. The prudential indicators have been produced to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) is £188.018m. The Council's return on investments has been good, exceeding both of the targets. Based on the first six months of 2020/21 the Council's borrowing and investments is forecast to underspend by £0.110m on the approved 2020/21 budget.

59. The Council's treasury management activities comply with the required legislation and meet the high standards set out in the relevant codes of practice.

Outcome of Consultation

60. No consultation was undertaken in the production of this report.