Borough Council of
King's Lynn &
West Norfolk

Audit Committee

Agenda

Monday, 28th October, 2019
at approximately 5.00 pm (**immediately following the briefing session for the Committee on Treasury Management at 4.30 pm)**

in the

Council Chamber
Town Hall
Saturday Market Place
King's Lynn

Borough Council of
King's Lynn &
West Norfolk

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18 October 2019

Dear Member

Audit Committee

You are invited to attend a meeting of the above-mentioned Committee which will be held on **Monday, 28th October, 2019 at approximately** **5.00 pm immediately following the briefing session for the Committee on Treasury Management** in the **Council Chamber, Town Hall, Saturday Market Place, King's Lynn PE30 5DQ** to discuss the business shown below.

Yours sincerely
Chief Executive

AGENDA

1. Apologies

2. Minutes (Pages 4 - 8)

To approve the minutes from the Audit Committee held on 29 July 2019.

3. Declarations of Interest

Please indicate if there are any interests which should be declared. A declaration of an interest should indicate the nature of the interest (if not already declared on the Register of Interests) and the agenda item to which it relates. If a disclosable pecuniary interest is declared, the Member should withdraw from the room whilst the matter is discussed.

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on any item or simply observing the meeting from the public seating area.

4. Urgent Business Under Standing Order 7

To consider any business which, by reason of special circumstances, the Chairman proposed to accept as urgent under Section 100(b)(4)(b) of the Local Government Act 1972.

5. Members Present Pursuant to Standing Order 34

Members wishing to speak pursuant to Standing Order 34 should inform the Chairman of their intention to do so and on what items they wish to be heard before the meeting commences. Any Member attending the meeting under Standing Order 34 will only be permitted to speak on those items which have been previously notified to the Chairman

6. Chair's Correspondence (if any)

7. Annual Treasury Outturn Report 2018/2019 (Pages 9 - 26)

8. Mid Year Review Treasury Report 2019/2020 (Pages 27 - 44)

9. Internal Audit Half Year Progress Report - TO FOLLOW

10. Major Projects Board Update

11. Cabinet Forward Decisions List (Pages 45 - 48)

12. Committee Work Programme 2019/2020 (Pages 49 - 53)

13. Date of Next Meeting

A special meeting of the Audit Committee to consider the KLIC report from the cross party working group will be held on 20 November at 5 pm in the Council Chamber, Town Hall, King's Lynn.

To:

Audit Committee: Mrs J Collingham, J Collop, S Dark, A Dickinson (Chair), B Jones, A Kemp, C Manning, D Pope and A Ryves

Portfolio Holder:
Councillor B Long - Leader

Management Team Representative:
Lorraine Gore – Chief Executive

Appropriate Officers: The following officers are invited to attend in respect of the Agenda item shown against their name:

Items 7 & 8	Tina Stankley, Interim Financial Services Manager (s151 Officer) Ruth Wilson, Group Accountant
Item 9	Kathy Woodward, Audit Manager

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

AUDIT COMMITTEE

Minutes from the Meeting of the Audit Committee held on Monday, 29th July, 2019 at 5.45 pm in the Council Chamber, Town Hall, Saturday Market Place, King's Lynn PE30 5DQ

PRESENT: A Dickinson (Chair)
Councillors J Collop, B Jones, A Kemp, C Manning, D Pope and A Ryves

Portfolio Holders
Councillor I Devereux, Environment
Councillor B Long, Leader

Officers:
Lorraine Gore, Executive Director
Ged Greaves, Senior Policy and Performance Officer
Matthew Head, Auditor
Kathy Woodward, Internal Audit Manager

A17 **APOLOGIES**

Apologies for absence were received Councillor Mrs J Collingham, Mark Hodgson and Dan Cooke – Ernst and Young.

A18 **MINUTES**

The minutes from the meeting held on 3 June were agreed as a correct record and signed by the Chairman.

A19 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

A20 **URGENT BUSINESS UNDER STANDING ORDER 7**

There was no urgent business.

A21 **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

There were no Members present under Standing Order 34.

A22 **CHAIRMAN'S CORRESPONDENCE**

There was no Chairman's correspondence.

A23 ANNUAL GOVERNANCE STATEMENT COVERING THE 2018/2019 YEAR

The Senior Policy and Performance Officer presented the report which brought the Council's latest version of the Annual Governance Statement (AGS) 2019 to the Committee. Members were reminded that a draft AGS was considered at the Committee's meeting in June 2019.

Members were reminded that the preparation and publication of an AGS was a statutory requirement. The AGS was a public statement that described and evaluated the Council's overall governance arrangements, in particular how it had complied with its Code of Corporate Governance during a particular financial year. The latest version of the AGS was attached at Appendix 1.

The Senior Policy and Performance Officer advised that the final version of the AGS would be considered at the same meeting as the accounts and ISO 260 in October 2019.

The Senior Policy and Performance Officer explained that he had incorporated the comments from the Committee at its previous meeting regarding contract management.

The Chairman informed the Committee that she had asked the Senior Policy and Performance Officer to include a glossary, which set out an explanation of the terms/acronyms used in the AGS.

The Chairman also explained that she had requested that the Senior Policy and Performance Officer check Appendix A to ensure as much information as possible was included as she felt that this provided a good framework and governance for the Council's actions and provided an excellent reference point for new Councillors. The Senior Policy and Performance Officer concurred with the comments made by the Chairman. She also requested another column, to show where the Council had different service arrangements, i.e. other than in house. Examples are Shared Services, Wholly Owned Companies, Contracted Out, etc. The Senior Policy and Performance Officer agreed that this would give as full a picture as possible, thereby providing Members with an immediate point of reference.

In response to a question regarding the Government changing the rules in relation to the signing off of accounts, the Executive Director – Financial Services explained that the audit process had been delayed in 2019 due to the external auditors undertaking additional work. The Executive Director highlighted that the external auditors were under pressure due to the resource available and that audits in other councils were also commencing later in the year. This important issue would be discussed with Ernst and Young. For 2020, adherence to the statutory timeline would be strongly emphasised as missing such statutory deadlines was detrimental to the Council's reputation.

The Chairman asked if there was any recourse regarding the external auditors. In response, the Executive Director advised that a group of local authorities could write to the PSAA to express their concerns.

In response to a question on the level of staff who had undertaken the GDPR training and what steps were being taken to encourage the remainder of staff to complete the training, the Senior Policy and Performance Officer explained that the Council had an internal Information Governance Group where senior managers looked at which areas of the Council had not taken up the training. Senior managers then took appropriate action to encourage staff to undertake the training available.

Following questions from Councillor Kemp on the Retention and Disposal and Schedule, the Senior Policy and Performance Officer advised that there was a variety of legislation which determined the period of time documents were retained for and added that some documents were transferred to the county archives. Other minor documents were kept by service areas and reviewed on a regular basis.

Following questions on the required length of time financial records were retained, the Executive Director – Financial Services explained that financial records were kept for a period of 6 years plus the current year. A hard copy of documents was held off-site, and the retention schedule provided for documents to be retained for an extended period when the expiry date for retention occurred. Copies of previous ledgers were archived.

Councillor Jones asked what arrangements were in place if the Council received a fine in relation to GDPR. The Executive Director – Financial Services advised that there was no current budget for fines. If it was reported that there was a potential breach, an investigation would take place and any outcomes would be addressed accordingly. It was highlighted that if the Council did receive a fine, the required amount would need to be identified from the budget. The Audit Manager added that an internal audit had undertaken a review of GDPR and that the Council had effective policies in place, a report had been published on the Borough Council's Insite.

In response to questions from Councillor Kemp on the protocol for Council appointments to external bodies, the Executive Director – Financial Services explained that Eastlaw had been requested to produce guidelines.

The Leader provided an overview of the protocols and responsibilities of Councillors who had been appointed to outside bodies.

Councillor Ryves commented that there were a number of specific and complex projects which did not quote numbers, income, etc and gave an example of waste processing and added that it was not easy to obtain information from one place. The Chairman stated that this was a valid point and could be raised as a training issue as part of the induction programme. In response, the Senior Policy and Performance Officer commented that there had been some challenging questions asked and some of the reporting mechanisms were historical he undertook to look at how to give context and balance included in documents.

The Leader added that it would take new Councillors time to understand specifics, such as the waste and recycling contract in its entirety and other financial elements of the Council's budget process.

In response to questions from Councillor Kemp relating to the Member/Officer protocol and what consultation had been undertaken on internal controls, the Leader reminded Councillor Kemp of the Norfolk County Council protocol, which was different to the Borough Council's protocol.

RESOLVED: The Committee confirmed that the 2019 Annual Governance Statement properly reflected the risk environment and that actions required to improve it were relevant.

A24 TREASURY OUTTURN REPORT 2018/2019

RESOLVED: The item was deferred to the October 2019 meeting.

A25 MAJOR PROJECTS BOARD

The Chairman reminded the Committee of the confidentiality of projects, which were at various stages.

The Executive Director, Financial Services provided a verbal update, a summary of which is set out below:

- Member Major Projects Board – Terms of Reference agreed by Cabinet on 18 June 2019, a copy of which was attached to the agenda for this meeting. First meeting scheduled for 9 October 2019.
- Officer Major Projects Board had been in operation since October 2018 and meetings were held on a monthly basis.
- Major Projects Board would be placed as a standard item on the Audit Committee agenda. It was highlighted that projects were considered at various stages, for example, concept through to a project initiation document and that this item would need to be exempt.
- Officer Major Projects Board Terms of Reference would be reviewed following the management restructure exercise.

The Chairman informed the Committee that the Audit Committee Cross Party Working Group would be reviewing the Terms of Reference for both the Member and Officer Major Projects Boards.

In response to questions from Councillor Collop on the number of Councillors appointed to the Member Major Projects Board, the Leader explained the membership as agreed at Cabinet on 18 June 2019 was as follows:

Chairman of the Audit Committee
Chairman of the Regeneration and Development Panel
Leader
1 other Portfolio Holder
Representatives from other political groups – 2 x Independent, 1 x Labour

Following a further question from Councillor Collop, the Executive Director – Financial Services advised that an email had been sent to the Leader of the Independent Group inviting him to appoint two Members to the Major Project Board.

RESOLVED: The Major Projects Board be placed as a standard item on the Audit Committee agenda.

A26 **CABINET FORWARD DECISION LIST**

RESOLVED: The Cabinet Forward Decisions List would be placed as a standard item on the Audit Committee agenda.

A27 **COMMITTEE WORK PROGRAMME 2019/2020**

The Chairman proposed that the dates of the next two meetings be reviewed, which was agreed by the Committee.

RESOLVED: The Democratic Services Officer to identify date for week commencing 28 October and mid-December 2019.

A28 **DATE OF NEXT MEETING**

The next meeting of the Audit Committee would take place week commencing 28 October 2019.

The meeting closed at 6.30 pm

REPORT TO:	**AUDIT COMMITTEE**		
DATE:	28 October 2019		
TITLE:	**ANNUAL TREASURY OUTTURN REPORT 2018/2019**		
TYPE OF REPORT:	Recommendation		
PORTFOLIO(S):	Cllr A Dickinson E-mail: cllr.angie.dickinson@West-Norfolk.gov.uk		
REPORT AUTHOR:	Ruth Wilson E-mail: ruth.wilson@west-norfolk.gov.uk Direct Dial: 01553 616450		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

Date of meeting: 28 October 2019

ANNUAL TREASURY OUTTURN REPORT 2018/2019

Summary
The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2018/2019 and covers:

1. The 2018/2019 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

Appendix 1 - Investments as at 31 March 2019
Appendix 2 - Borrowing as at 31 March 2019
Appendix 3 - Prudential Indicators

The Council's Treasury Policy Statement 2018/2019 and annual Treasury Strategy Statement 2018/2019 were approved by Council on the 12 April 2018, amendments approved by Cabinet on the 21 August 2018.

Recommendations
The Audit Committee is asked to note the annual treasury outturn position for 2018/2019.

Reason for the Decision
The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The Annual Treasury Management Review 2018/2019

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2 During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 12 April 2018)
- a mid-year, (minimum), treasury update report (Audit Committee 12 November 2018)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was last undertaken in February 2017. There is training planned to be provided in-house for pre-Audit Committee on 28 October and then training on 9 January 2020 by Link, the council's external treasury management advisors, both in order to support members' scrutiny role.

2. Executive Summary

2.1 During 2018/19, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	**2017/18 Actual £'000**	**2018/19 Original Budget £'000**	**2018/19 Actual £'000**
Capital expenditure	19,999	35,201	27,228
Capital Financing Requirement	39,335	42,228	44,251
Gross borrowing	13,800	10,300	13,100
External debt *	14,069	10,300	13,199
Investments * • Longer than 1 year • Under 1 year • Total	 4,000 8,575 12,575	 23,712	 10,000 2,705 12,705
Net borrowing/(investments)	1,494	(13,412)	494

* Both the External debt and Investments figures shown in the table above include interest accruals. Whereas elsewhere in the report the amounts shown are the principal amounts only.

2.2 Other prudential and treasury indicators follow below in the main body of this report. The Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

2.3 The year saw a continuation of the low investment returns experienced in previous years.

3. Introduction and Background

3.1 This report covers the following:-

- Capital activity during the year i.e. capital expenditure and financing (section 4 below);
- Impact of this activity on the Council's underlying indebtedness, i.e. the Capital Financing Requirement (section 5 below);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (section 6 below);
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

4. The Council's Capital Expenditure and Financing

4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2017/18 Actual £'000	2018/19 Budget £'000	2018/19 Actual £'000
Capital expenditure	19,999	35,201	27,228
Financed in year	7,901	35,201	22,031
Unfinanced capital expenditure	12,098	0	5,197

5. The Council's Overall borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2018/19 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

5.3 Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

5.5 The Council's 2018/19 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2018/19 on 12 April 2018.

5.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. It will include any PFI and leasing schemes (if there are any) that are on the balance sheet, as these increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

CFR (£m): General Fund	**31 March 2018 Actual £'000**	**31 March 2019 Budget £'000**	**31 March 2019 Actual £'000**
Opening balance	27,531	42,787	39,335
Add unfinanced capital expenditure (as above)	13,155	(13,640)	6,143
Less MRP/VRP*	(1,351)	(559)	(1,227)
Closing balance	**39,335**	**28,588**	**44,251**

Includes voluntary application of capital receipts
Note the MRP / VRP will include PFI / finance lease annual principal payments

5.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

5.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
Gross borrowing position	£13.800m	£10.300m	£13.100m
CFR	£39.335m	£28.588m	£44.251m
(Under) / over funding of CFR	(£25.535m)	(£18.288m)	(£31.151m)

5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2018/19
Authorised limit	£36.000m
Maximum gross borrowing position during the year	£18.000m
Operational boundary	£31.000m
Average gross borrowing position	£14.425m
Financing costs as a proportion of net revenue stream	2.67%

6. Treasury Position as at 31 March 2019

6.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2018/19 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

DEBT PORTFOLIO	31 March 2018 Principal	Rate/ Return	31 March 2019 Principal	Rate/ Return
Fixed rate funding:				
- PWLB (E.I.P Loan)	£0.300m	2.92%	£0.100m	2.92%
- Market (Maturity Loan)	£10.000m	3.81%	£10.000m	3.81%
- Local Authorities (Maturity Loans)	£3.500m	0.92%	£3.000m	0.52%
Total debt	**£13.800m**	**3.77%**	**£13.100m**	**2.85%**
CFR	**£39.335m**		**£44.251m**	
Over / (under) borrowing	**(£25.535m)**		**(£31.151m)**	
Total investments	**£12.500m**	**0.84%**	**£12.555m**	**0.70%**
Net debt	**£1.300m**		**£0.545m**	

6.2 The maturity structure of the debt portfolio was as follows:

	31 March 2018 actual	2018/19 original projection	31 March 2019 actual
Under 12 months	£3.800m	£2.500m	£3.100m
12 months and within 24 months	£0.000m	£0.400m	£0.000m
2 years and within 50 years	£0.000m	£0.000m	£0.000m
Over 50 years	£10.000m	£10.000m	£10.000m

6.3 As at the 31 March 2019 the council had one temporary loan of £3m from a local authority which was repaid in July 2019 and £100,000 outstanding on a PWLB loan which has now been repaid. There are 2 market loans are with Barclays of £5m each and these mature in 2077.

6.4 The investments at the year-end comprised £10m in local authorities and £2.555m in Money Market Funds.

6.5 Full details for both the borrowing and the investments can be found in Appendices 4 and 5.

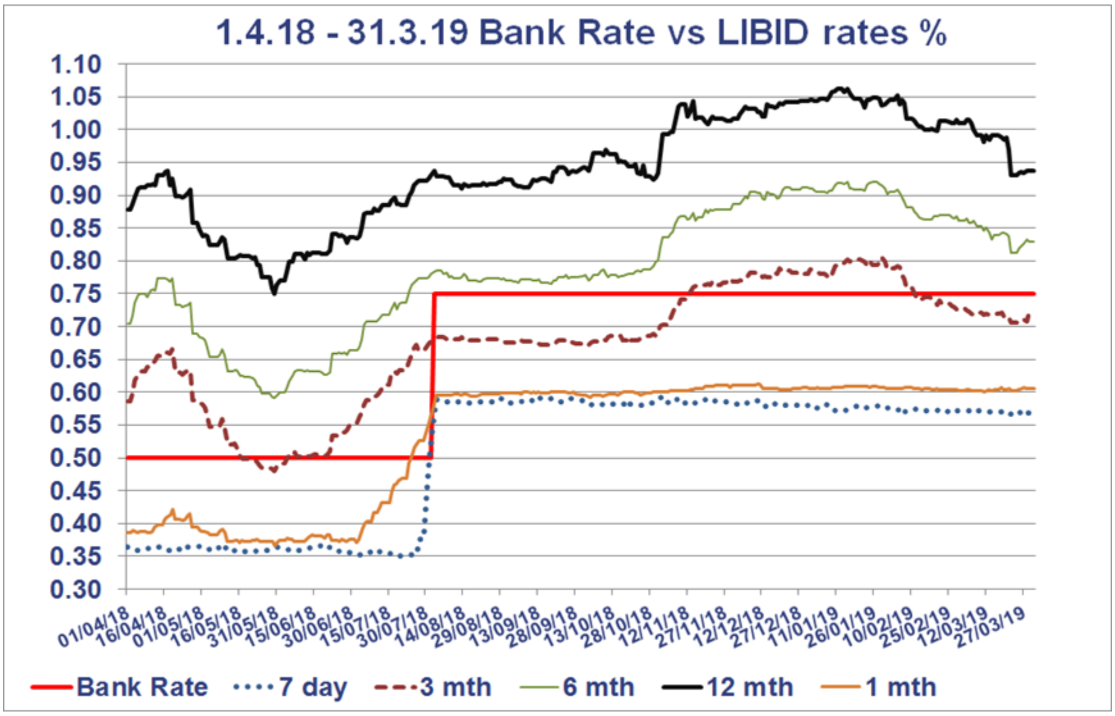
INVESTMENT PORTFOLIO	Actual 31.3.18 £000	Actual 31.3.18 %	Actual 31.3.19 £000	Actual 31.3.19 %
Treasury investments				
Call Accounts	2,460	19.7%	0	0
Money Market Funds	30	0.2%	2,555	20.4%
Local authorities	10,000	80%	10,000	79.6%
Other	10	0.1%	0	0
TOTAL TREASURY INVESTMENTS	**12,500**	**100%**	**12,555**	**100%**

6.6 The maturity structure of the treasury investment portfolio was as follows:

	31 March 2018 Actual £000	31 March 2019 Actual £000
Treasury Investments:		
Longer than 1 year	4,000	10,000
Up to 1 year	8,500	2,555
Total	**12,500**	**12,555**

7. The Strategy for 2018/19

7.1 Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
01/04/2018	0.50	0.36	0.39	0.59	0.70	0.88
31/03/2019	0.75	0.57	0.61	0.72	0.83	0.94
High	0.75	0.59	0.61	0.81	0.92	1.06
High Date	02/08/2018	01/11/2018	10/12/2018	29/01/2019	15/01/2019	11/01/2019
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.67	0.51	0.54	0.68	0.79	0.94
Spread	0.25	0.24	0.25	0.33	0.33	0.31

Link Asset Services Interest Rate View	12.2.18												
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%

7.2 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

7.3 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

7.4 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

7.5 Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

7.6 Borrowing strategy and control of interest rate risk

7.7 During 2018-19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

7.8 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

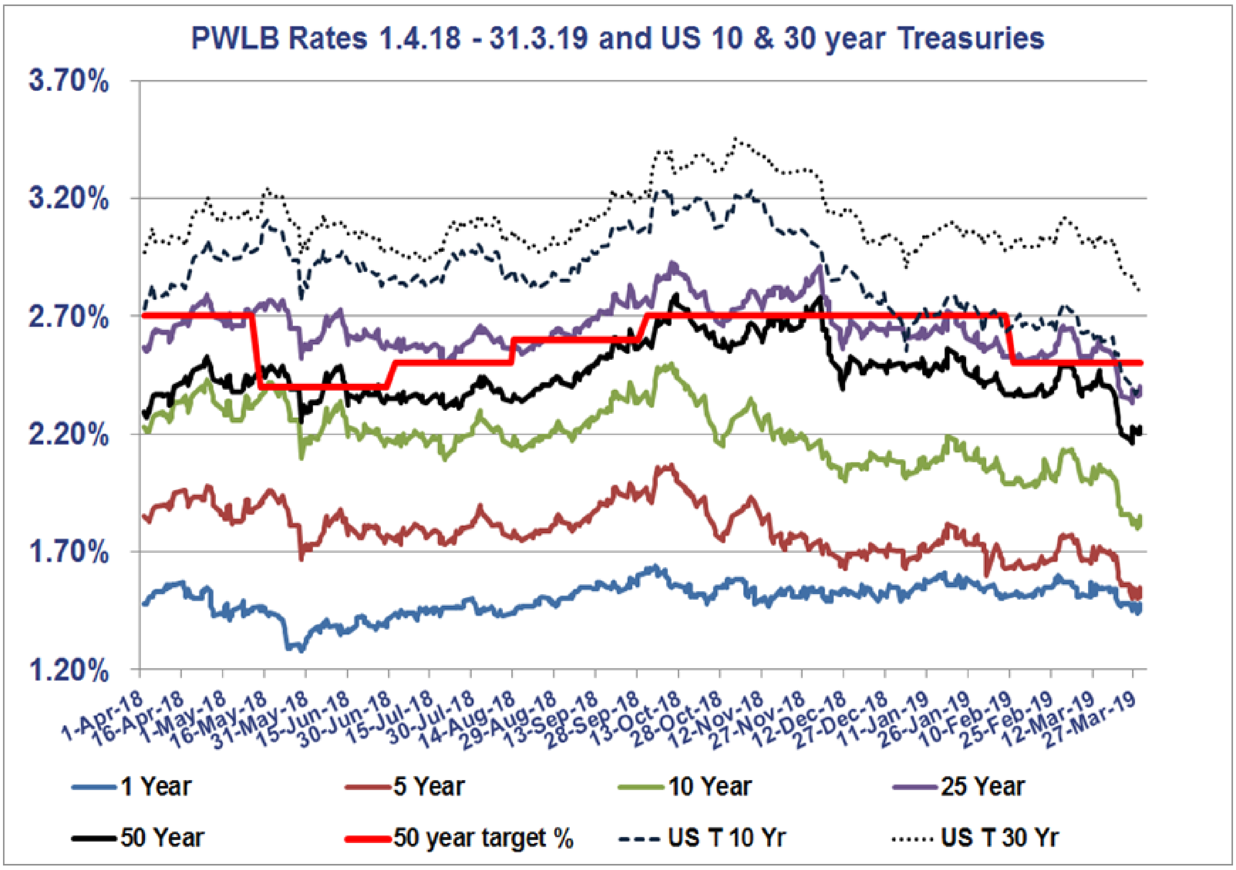
7.9 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

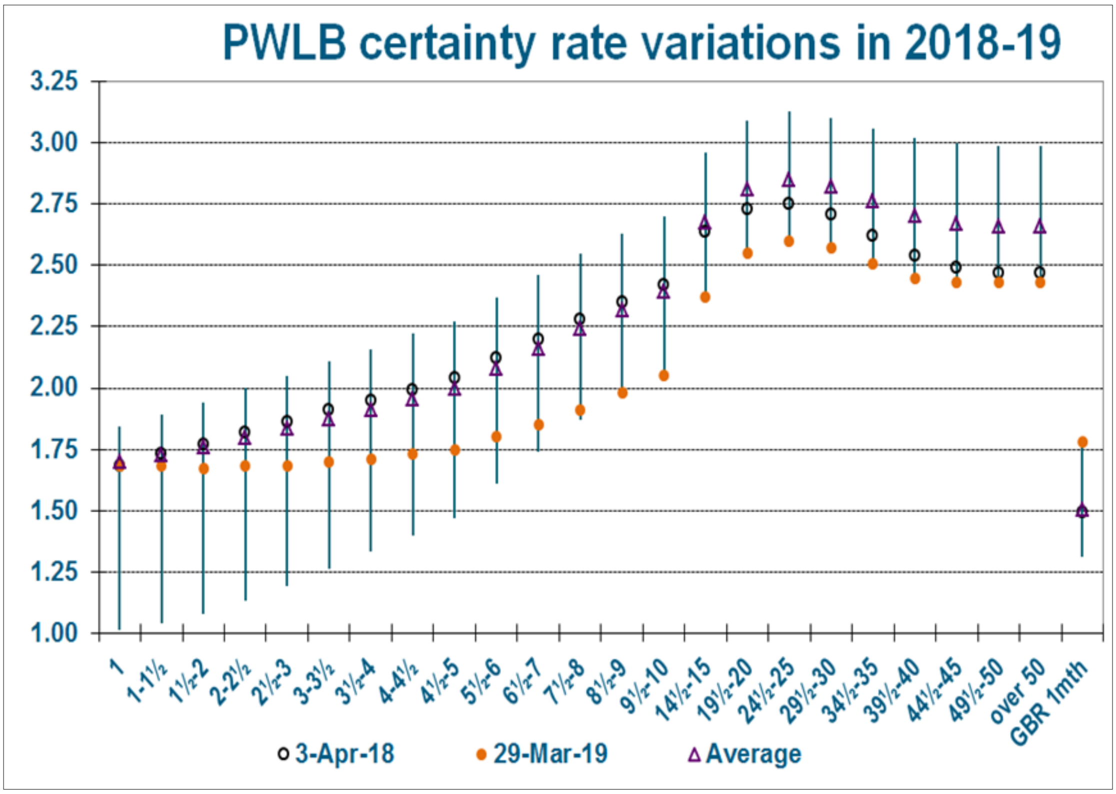
7.10 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks (please adapt this outline to what you actually did in the year):

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

7.11 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View			12.2.18										
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%


PWLB Rates 1.4.18 - 31.3.19 and US 10 & 30 year Treasuries
3.70%
3.20%
2.70%
2.20%
1.70%
1.20%
1-Apr-18
16-Apr-18
1-May-18
16-May-18
31-May-18
15-Jun-18
30-Jun-18
15-Jul-18
30-Jul-18
14-Aug-18
29-Aug-18
13-Sep-18
28-Sep-18
13-Oct-18
28-Oct-18
12-Nov-18
27-Nov-18
12-Dec-18
27-Dec-18
11-Jan-19
26-Jan-19
10-Feb-19
25-Feb-19
12-Mar-19
27-Mar-19
1 Year
5 Year
10 Year
25 Year
50 Year
50 year target %
US T 10 Yr
US T 30 Yr


PWLB certainty rate variations in 2018-19
3.25
3.00
2.75
2.50
2.25
2.00
1.75
1.50
1.25
1.00
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-40
44½-45
49½-50
over 50
GBR 1mth
3-Apr-18
29-Mar-19
Average

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%

7.12 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

8. Borrowing Outturn

8.1 Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

8.2 Borrowing in advance of need

8.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.4 Rescheduling

8.5 There was no rescheduling was done during the year as there is only one PWLB loan outstanding (£100,000 at 31 March 2019) which was due to be repaid in 2019. The loan was repaid in 2019 when it became due.

9. Investment Outturn

9.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 11 April 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2018 £'000	31 March 2019 £'000
Balances	5,737	7,672
Earmarked reserves	22,705	25,473
Provisions	2,031	2,132
Usable capital receipts	4,855	6,100
Total	**35,328**	**41,377**

9.4 Investments held by the Council

- The average balance of investments for the year was £14.446m.
- The average rate of return for the year on investments was 0.70%.
- This compares with a budget assumption of £24m investment balances earning an average rate of 0.75%.
- Total investment income was £247,106 compared to a budget of £337,880. It should be noted that the shortfall in investment income is due to the decision taken to internally borrow to fund capital expenditure. This reduced the level of cash available for investing which impacted on the returns achieved.

10. The Economy and Interest Rates

10.1 **UK**. After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4.

10.2 After the Monetary Policy Committee 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 disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing 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 only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

10.3 As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

10.4 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 1.5%, 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.

10.5 **Brexit.** The Conservative minority government has so far, (8.4.19), been unable to muster a majority in the Commons over its Brexit deal. The EU has set a deadline of April 12 for the House of Commons to propose what form of Brexit it would support. If another form of Brexit, other than the proposed deal, does get a majority by April 12, then it is likely there will need to be a long delay to Brexit to allow time for negotiations with the EU. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases 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.

10.6 **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 strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

10.7 **EUROZONE.** The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to

0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth, 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%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of 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.

10.8 **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.

10.9 **JAPAN** - 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.

10.10 **WORLD GROWTH**. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.

11. Background Information

- Monthly budget monitoring reports
- Treasury Policy Statement 2018/2019 and Annual Treasury Strategy (Council 12 April 2018)
- Treasury Management Strategy Amendments 2018/2019 (Cabinet 21 August 2018)

APPENDIX 1 - Investments as at 31 March 2019:

Treasury Investments	Principal	Start Date	End Date	Rate %	Ratings
BNP (Banque Nationale de Paris) – Money Market Fund	£2,555,000	N/A	N/A	0.75	AAA
Total Call Accounts	**£2,555,000**				
Cheshire West & Chester Council	£2,000,000	19/01/2018	20/01/2020	1.00	AAA
Barnsley Metro Borough Council	£2,000,000	21/09/2017	21/09/2020	0.92	AAA
Dudley Metro Borough Council	£3,000,000	04/04/2018	06/04/2020	1.08	AAA
Northamptonshire County Council	£3,000,000	23/04/2018	23/10/2020	1.25	AAA
Total Fixed Term Investments	**£10,000,000**				
Total Treasury Investments	**£12,555,000**				

APPENDIX 2 - Borrowing as at 31 March 2019:

Start Date	End Date	Loan No	Value £	Institution	Rate %	Term
21.01.19	15.07.19	3816	£3,000,000	Vale of Glamorgan Council	0.92	175 day temporary loan
Total Short Term			**£3,000,000**			
22.03.07	21.03.77	5888	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
12.04.07	11.04.77	5887	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
15.09.09	14.09.19	495951	£100,000	PWLB	2.92	Long Term – fixed
Total Long Term			**£10,100,000**			
Total Borrowing			**£13,100,000**			

APPENDIX 3: Prudential Indicators

PRUDENTIAL INDICATOR	2017/2018 Actual £000's	2018/2019 Actual £000's
Capital Expenditure	21,565	27,288
Ratio of financing costs to net revenue stream	1.97%	2.67%
Net borrowing		
brought forward 1 April	13,000	13,800
carried forward 31 March	13,800	13,100
Change in year - increase/(decrease)	800	(700)
Net Investment		
brought forward 1 April	(24,510)	(12,500)
carried forward 31 March	(12,500)	(12,555)
Change in year - increase/(decrease)	(12,010)	(55)

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2018/2019 unfinanced capital expenditure, and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources

CFR	31 March 2018 Actual £'000	31 March 2019 Actual £'000
Opening Balance	**27,531**	**39,335**
Add unfinanced capital expenditure	13,155	6,143
Less Minimum Revenue Provision (MRP)	(394)	(281)
Less voluntary/additional MRP	(946)	(935)
Less finance lease repayments (where the Council is the lessor)	(11)	(11)
Closing CFR	**39,335**	**44,251**

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2018/2019. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2018 Actual £'000	31 March 2019 Actual £'000
Borrowing	13,800	13,100
Investments	(12,500)	(12,555)
Net Position	**(1,300)**	**(545)**
Closing CFR	**39,335**	**44,251**

Actual financing costs as a proportion of net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (Council Tax and Government Grant).

	2018/2019
Authorised limit	£54m
Maximum gross borrowing position	£23.8m
Operational boundary	£49m
Average gross borrowing position	£13.45m
Financing costs as a proportion of net revenue stream	2.67%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2017/2018 £'000	2018/2019 £'000
Authorised limit for external debt -		
Borrowing	52,000	54,000
Operational boundary for external debt -		
Borrowing	50,000	49,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	52,000	52,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	20,800	21,600

Maturity structure of fixed rate borrowing during 2018/2019	upper limit	lower limit	Actual
under 12 months	100%	0%	24%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	76%

REPORT TO:	**AUDIT COMMITTEE**		
DATE:	28 October 2019		
TITLE:	**MID YEAR REVIEW TREASURY REPORT 2019/2020**		
TYPE OF REPORT:	Review		
PORTFOLIO(S):	Cllr Angie Dickinson		
REPORT AUTHOR:	Tina Stankley		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

REPORT SUMMARY/COVER PAGE

PURPOSE OF REPORT/SUMMARY:

Summary

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011) and remains fully compliant with its requirements.

One of the primary requirements of the Code is receipt by Council of a Mid-Year Review Report.

The Mid-Year Review Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- A review of the Treasury Management Strategy;
- The Council's capital expenditure (prudential indicators);

RECOMMENDATIONS:

Audit Committee is asked to review and note the report and the treasury activity and recommend that Cabinet note the report.

REASONS FOR RECOMMENDATIONS:

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011) and remains fully compliant with its requirements.

One of the primary requirements of the Code is:

Receipt by Audit Committee of a Mid-Year Review Report.

1. The 2019/2020 Mid-Year Review

1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

1.2 The primary requirements of the Code are as follows:

1.2.1 Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

1.2.2 Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

1.2.3 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.

1.2.4 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.

1.2.5 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 the Audit Committee:

1.3 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 (see section 2 and Appendix 1);
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy (see section 3);
- The Council's capital expenditure and prudential indicators (see section 4);
- A review of the Council's investment portfolio for 2019/20 (see section 5);
- A review of the Council's borrowing strategy for 2019/20 (see section 6);
- A review of any debt rescheduling undertaken during 2019/20 (see section 7);

2. Economic Update and Interest Rates Forecast.

2.1 An economic update provided by Link Asset Services (the Council's Treasury Advisor) can be found in Appendix 1. Brexit uncertainty has been the dominating factor in 2019 and has had a dampening effect on the UK's economic growth in the year so far. This is unlikely to change until there Is some clarity on what is going to happen over Brexit.

2.2 The following interest rate forecast has been provided by Link Asset Services.

Link Asset Services Interest Rate View	Sep-19	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	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	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	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	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

2.3 With the continued uncertainty over Brexit and with concerns about the outlook for both the global and domestic economies the Monetary Policy Committee (MPC) has left the Bank Rate unchanged at 0.75% so far in 2019. The MPC in looking ahead have assumed on the one hand that if there is an agreed deal on Brexit rates would need to rise at a “gradual pace and to a limited extent”. However this is now also conditional on “some recovery in global growth”. Then on the other hand it is assumed that 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.

2.4 The interest rate forecasts in the table above have been based on an assumption that there is an agreed deal on Brexit. However given the level of uncertainty 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

3. Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement, (TMSS), for 2019/20 was approved by this Council on 11 April 2019.

3.2 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.

4. The Council’s Capital Position (Prudential Indicators)

4.1 This section of the report provides an update on:

- 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.

4.2 **Prudential Indicators for Capital Expenditure**

4.2.1 The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at full Council on 21 February 2019.

Capital Expenditure	**2019/20 Original Estimate**	**2019/20 Actual as at 30 Sept 19**	**2019/20 Revised Estimate**
	£'000	**£'000**	**£'000**
Major Projects	43,887	8,310	51,079
Operational Schemes:			
Central and Community Services	2,528	1,244	3,343
Commercial Services	2,897	680	3,530
Environment and Planning	0	0	8
Finance Services	50	23	101
Exempt Schemes	14,037	3,759	17,093
Total Capital Expenditure	**63,399**	**14,016**	**78,511**

4.3 **Changes to the Financing of the Capital Programme**

4.3.1 The table below shows how the capital expenditure is expected to be financed in the year. The borrowing requirement shown at the bottom 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 needing to replace maturing debt and other treasury requirements.

Financing Capital Expenditure	**2019/20 Original Estimate**	**2019/20 Actual as at 30 Sept 19**	**2019/20 Revised Estimate**
	£'000	**£'000**	**£'000**
Total Capital Expenditure	63,399	14,016	78,511
Capital Receipts	(51,950)	(9,001)	(44,293)
Capital Grants	(4,281)	(1,150)	(5,081)
Capital Reserves	(3,559)	(3,705)	(10,451)
Revenue	(1,665)	(160)	(2,312)
Total financing	**(61,455)**	**(14,016)**	**(62,137)**

Borrowing requirement	**(1,944)**	**0**	**(16,373)**

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

4.5 The first table below shows the CFR, which is the underlying need to borrow for a capital purpose (i.e. capital expenditure which has not been financed immediately through the use of capital receipts, capital grants or revenue contributions and is still to be financed). The second table shows the level of external debt that the Council has that relates to commercial activities.

Capital Financing Requirement (CFR)	2019/20 Original Estimate	2019/20 Actual as at 30 Sept 19	2019/20 Revised Estimate
	£'000	**£'000**	**£'000**
Prudential Indicator – Capital Financing Requirement			
CFR	49,422	44,251	44,251
Net Movement in CFR	**1,352**	**4,916**	**4,916**
Prudential Indicator – the Operational Boundary for External Debt			
Borrowing	31,223	16,000	16,000
Other Long Term Liabilities *	0	0	0
Total Debt (Year End Position)	**31,223**	**28,251**	**28,251**

* On balance sheet PFI and finance leases etc.

External Debt for commercial activities	2019/20 Original Estimate	2019/20 Actual as at 30 Sept 19	2019/20 Revised Estimate
	£'000	**£'000**	**£'000**
Actual debt at 31 March £m	2,818	2,818	2,818
Percentage of total external debt %	15%	18%	18%

4.6 The Council is currently under-borrowed against the CFR, as, whilst the Council has adequate cash balances, it is more advantageous to continue to employ internal resources until cash flow forecasts indicates the need for additional borrowing. PWLB borrowing rates are currently forecast to rise over the next year, but as investment rates are still very low, there is a cost of carry for external borrowing. Borrowing will need to be taken at some point in the future to replace the internal funds (cash) which have been used and there also be a need to take further additional borrowing, which would be dependent upon any additional capital programme requirements not anticipated at this point.

4.7 The council is on target to remain below the original forecast CFR. The table above also shows the expected debt position over the period, which is termed the Operational Boundary.

4.8 **Limits to Borrowing Activity**

4.9 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.

	2019/20 Original Estimate	2019/20 Actual as at 30 Sept 19	2019/20 Revised Estimate
	£'000	**£'000**	**£'000**
Borrowing	39,000	28,251	28,251
Other Long Term Liabilities *	1,000	1,000	1,000
Commercial Activities	10,000	10,000	10,000
Total Debt (Year End Position)	**50,000**	**39,251**	**39,251**
CFR * (Year End Position)	**49,422**	**45,603**	**45,603**

* Includes on balance sheet PFI and finance leases etc.

4.10 The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator

4.11 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 Estimate**	**2019/20 Actual as at 30 Sept 19**	**2019/20 Revised Estimate**
	£'000	**£'000**	**£'000**
Borrowing	44,000	44,000	44,000
Other Long Term Liabilities *	1,000	1,000	1,000
Commercial Activities	10,000	10,000	10,000
Total	**55,000**	**55,000**	**55,000**

* Includes on balance sheet PFI and finance leases etc.

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 then 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 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 £19m of investments as at 30 September 2019 (£12.555m at 31 March 2019) and the investment portfolio yield for the first 6 months of the year is 0.75% against a benchmark 7 day LIBID rate of 0.57%.

5.3 A full list of investments held as at 30 September 2019 is in Appendix 2:

5.4 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2019/20.

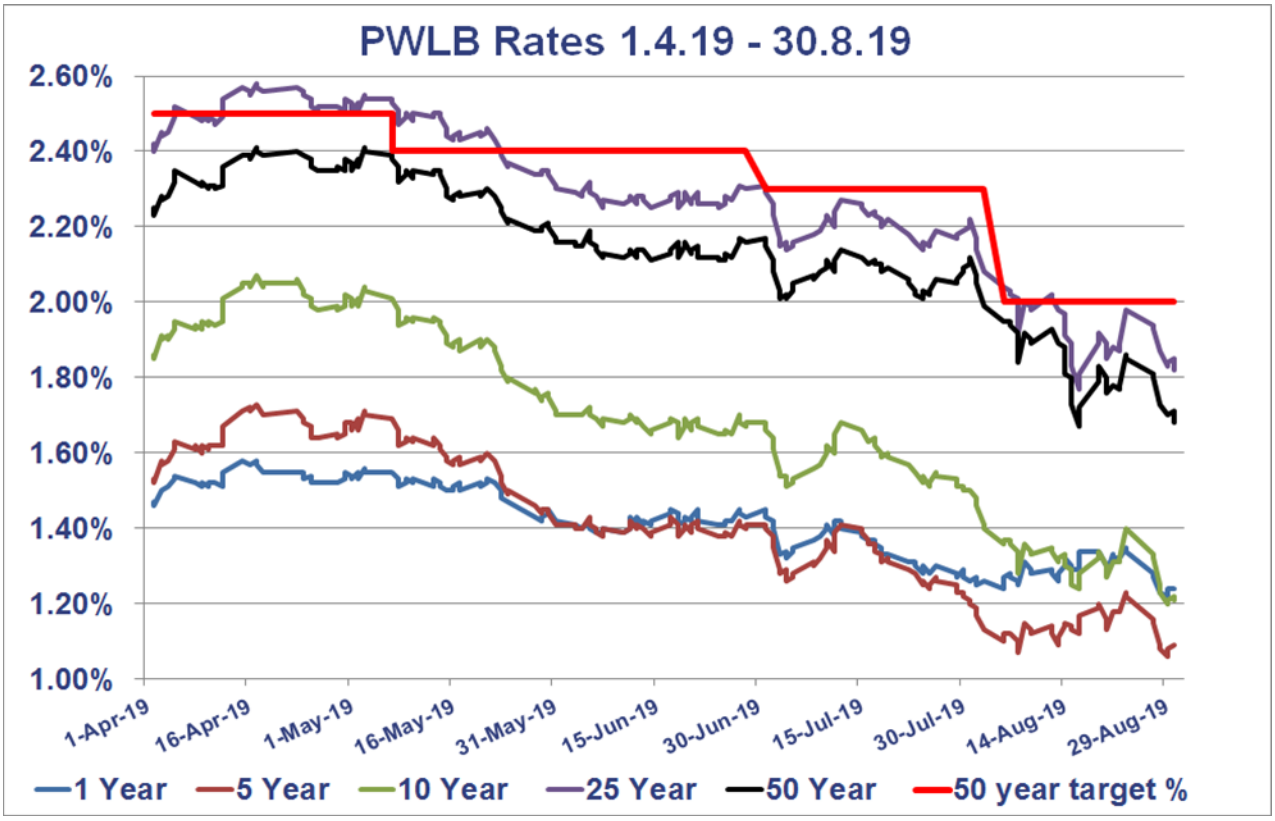
5.5 The Council's budgeted investment return for 2019/20 is £354,910 and performance for the year to date is £107,270 below budget. This budget will be reviewed as part of the estimates process.

6. Borrowing

6.1 The Council's capital financing requirement (CFR) for 2019/20 is £44,251m. 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 has borrowings of £16m and has utilised £28.251m of 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.

6.2 It is anticipated that further borrowing will not be undertaken during this financial year.

6.3 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. As can be seen from both the graph and table the general trend for the rates has been downwards over the period from the beginning of April to the end of August.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.22%	1.06%	1.20%	1.77%	1.67%
Date	29/08/2019	29/08/2019	29/08/2019	16/08/2019	16/08/2019
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	1.41%	1.41%	1.68%	2.27%	2.13%

7. **Debt Rescheduling**

7.1 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.

8. Financial ImplicationsThe financial implications of the borrowing and investment strategy are reflected in the financing adjustment figure included in the Financial Plan 2017/2022 approved at Council on 22 February 2018 and updated as reported in the Budget Monitoring reports.

9. Risk Management Implications

9.1 There are elements of risk in dealing with the treasury management function although the production and monitoring of such controls as prudential indicators and the treasury management strategy help to reduce the exposure of the Council to the market. The costs and returns on borrowing and investment are in themselves a reflection of risk as seen by the market forces.

10. Policy Implications

10.1 There are no changes in the Treasury Management policy at present.

11. Statutory Considerations

11.1 The Council must set prudential indicators and adopt a Treasury Management Strategy and Annual Investment Strategy.

12. Access to Information

The Budget 2018/2023 – The Financial Plan
Capital Programme 2018/2023
Treasury Management Strategy and Annual Investment Strategy 2019/2020
Budget Monitoring reports 2019/2020

APPENDIX 1

Economics update

UK. This first half 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 or 31 October, with or without a deal. However, 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, (first week in September), the whole political situation in the UK over **Brexit** is highly fluid and could change radically by the day. The vote in the Commons on 3 September looks likely to lead to a delay in the date for Brexit to 31 January 2020, but there is also likelihood that there will be an imminent general election. In such circumstances, any interest rate forecasts are subject to material change as the situation evolves. At present, if the UK does soon achieve an agreed deal on Brexit, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover quickly. The MPC could then need to address the issue of whether to raise Bank Rate when there is very 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 falter 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 way of tax cuts and / or expenditure on infrastructure projects, to boost the economy. However, infrastructure projects generally take a long time to plan and to start up, and so to feed through into impacting the economy; tax cuts would be much quicker in impacting the level of consumption in the economy.

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. This mirrored investor confidence around the world which is now expecting a significant downturn or possibly even a recession in some 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.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, (July 2.1%), and is likely to shift only a little upwards over the rest of 2019/20. It does not therefore pose any immediate concern to the MPC at the current time.

With regard to the **labour market,** despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.2% y/y), in quarter 2, employment rose by 115,000 in the same quarter: this suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment has continued near to a 44 year low, edging up from 3.8% to 3.9% on the Independent Labour Organisation measure in June; however, that was caused by a rise in the participation rate to an all-time high. Job vacancies fell for a sixth consecutive month, hitting record levels, and indicating that employers are having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 1.8%. As 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. This could mean that the MPC will need to take action to raise Bank Rate if there is an agreed Brexit deal as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, if there is a general election soon, 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 although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. Financial markets are, however, expecting another cut in September. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

BOND YIELDS. It is this souring of investor confidence that has largely contributed to the sharp fall in bond yields on government debt in mid-2019 in the major western economies as investors have switched out of risky assets - equities, fearing an impending recession, and buying into bonds, so pushing their prices up and correspondingly, pushing yields down. Investors have little confidence that the US China trade war will have a satisfactory outcome in the near future and both sides look as if they are digging in to entrenched positions. However, most domestic US economic indicators are not currently pointing to a recession in the US, only to a slowing of growth. Provided the major world economies do avoid recession, then it is likely that there will be some reversal of this flow from equities into bonds and, therefore, that bond yields will recover to a limited extent from recent truly exceptional lows. However, the near-term reality is that we have seen 10 year bond yields fall below 2 year yields in the US; this has historically been a prime indicator of impending recession in the US, though this correlation has been much weaker in the UK. All German bond yields between 2 and 30 years are actually negative while many other EZ countries have bond yields which are also negative, at least in some maturity years.

EUROZONE. Growth has been slowing from +1.9% during 2018 to +0.4% q/q (+1.2% y/y) in quarter 1 and then to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 5.2% y/y in June with car production especially being hit. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The ECB meeting in July expressed concern as to the weak outlook for growth and how low inflation was despite all the monetary stimulus the bank still has in place. The ECB is therefore expected to take action to cut its main rate of -0.4% further, but only marginally, and to look at the potential for more quantitative easing and/or other instruments of monetary policy to provide further stimulus to economic growth. On the political front, Spain and Italy are in the throes of trying to form coalition governments while the very recent results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

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. The trade war with the US does not appear to have had a significant effect on GDP growth as yet as some of the impact of tariffs has been offset by falls in the exchange rate and by transhipping exports through other countries, rather than directly to the US.

JAPAN - 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.

Interest rate forecasts

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

Link Asset Services Interest Rate View											
	Sep-19	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	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	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	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	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

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.
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 currently a little below those to the downside.

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.
- 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 anti-austerity noise. The EU has had sharp disagreements in successive years with Italy over setting a budget within the limits of EU rules. (Early September – a new coalition government may be formed which would be less anti-EU.) 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 anti-immigration 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. Early September 2019 – the results of the Saxony and Brandenburg regional elections were again very disappointing for the CDU and SPD; this will rejuvenate the tensions of October 2018 between these two parties that form the current coalition government.
- **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 a trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. In mid-2019, investor fears of a looming recession have again sparked moves by investors out of riskier assets i.e. equities, into safe havens of government bonds of major western countries. 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.

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

Investment Portfolio as at 30 September 2019 APPENDIX 2

Institution	Principal £	Rate %
BNP (Banque Nationale de Paris) – MMF*	4,000,000	0.70
HSBC Sterling – MMF*	4,000,000	0.69
LGIM (Northern Trust) – MMF*	4,000,000	0.69
Northamptonshire CC	3,000,000	1.25
Cheshire West and Chester	2,000,000	1.00
Barnsley MBC	2,000,000	0.92
Dudley Metro Borough Council	3,000,000	1.08
Total Investments	**22,000,000**	

*MMF – denotes Money Market Fund used for daily cash flow purposes, an average daily % rate is shown.

Borrowing Portfolio as at 30 September 2019

APPENDIX 3

Institution	Principal £	Rate %
Gloucestershire CC	3,000,000	0.97%
Vale of Glamorgan	3,000,000	0.75%
Total Short Term	**6,000,000**	
Barclays	5,000,000	3.81%
Barclays	5,000,000	3.81%
Total Long Term	**10,000,000**	

Net borrowing and the CFR		
	31 March 2019 Actual £million	**30 September 2019 Actual £million**
Borrowing	13.10	16.00
Investments	(13.70)	(22.00)
Net Position	**(0.60)**	**(6.00)**
Capital Financing Requirement	**44.25**	**49.42** (estimate for 2019/2020 year end)

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2019/2020. This essentially means that the Council is not borrowing to support revenue expenditure. The Council has complied with this prudential indicator.

The Council's Capital Position and Associated Prudential Indicators

The capital programme 2019/2020 was updated for rephasing and amendments as part of the closedown of the accounts 2018/2019. The updated estimates were approved by Council on 18 June 2019 and are shown in the table below. The capital programme 2018/2019 has been revised as reported in the Monthly Monitoring reports.

Capital Expenditure	**Capital Programme 2019/2020 (Cabinet 18 June 2019) £'000**	**2019/20 Actual as at 30 Sept 19**
	£'000	**£'000**
Major Projects	43,704	8,310
Operational Schemes:		
Central and Community Services	2,868	1,244
Commercial Services	2,971	680
Environment and Planning	0	0
Finance Services	101	23
Exempt Schemes	20,450	3,759
Total Capital Expenditure	**75,093**	**14,016**

Budget Related Prudential Indicators – Revised				
	2019/2020 revised estimate £000	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**
Capital Expenditure Approved at Cabinet 18 June 2019	75,093	52,592	21,167	17,903
Ratio of financing costs to net revenue stream (Equals net treasury cost ie cost of borrowing less the income from investments divided by the total of Government grant and total council tax).	3.81%	3.67%	3.60%	3.40%
Capital Financing Requirement (CFR) as at 31 March this reflects the Council's underlying need to borrow for capital purposes	49,422	53,016	50,850	52,213

Authorised / Operational Limit for external debt				
	2019/20 £'000	2020/21 estimate £'000	2021/22 estimate £'000	2022/23 estimate £'000
Authorised Limit for external debt	44,000	48,000	46,000	47,000
Operational Boundary for external debt	50,000	54,000	52,000	53,000

- The Authorised Limit represents the maximum limit beyond which borrowing is prohibited, and needs to be set and revised by Members.

- The Operational Boundary for External Debt is a working practice limit that is set lower than the Authorised Limit. In effect the authorised limit includes a degree of contingency in case of circumstances arising that take the limit above the operational limit.

Interest Rate Exposures (Limit on fixed and variable rate borrowing)				
	2018/2019 Upper %	2019/2020 Upper %	2020/2021 Upper %	2021/2022 Upper %
Limits on fixed interest rates based on net debt	100%	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%	40%

Maturity Structure of fixed interest rate borrowing			
	Lower	Upper	Portfolio Position as at 30 September 2019
Under 12 months	0%	100%	37.50%
12 months to 2 years	0%	100%	0%
2 years to 5 years	0%	100%	0%
5 years to 10 years	0%	100%	0%
10 years and above	0%	100%	62.50%

FORWARD DECISIONS LIST

Date of meeting	Report title	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
12 November 2019						
	Major Housing Project 2	Key	Council	Corporate Projects and Assets Exec Dir - C Bamfield		Private - Contains exempt Information under para 3 – information relating to the business affairs of any person (including the authority)
	Waste Contract Procurement	Key	Cabinet	Environment C Bamfield – Exec Dir		Public
	Parkway – Accelerated Construction Scheme	Key	Council	Project Delivery Exec Dir – C Bamfield		Private - Contains exempt Information under para 3 – information relating to the business affairs of any person (including the authority)
	Strategic Property Acquisition	Key	Cabinet	Corporate Projects and Assets Exec Dir - C Bamfield		Private - Contains exempt Information under para 3 – information relating to the business affairs of any person (including the authority)

	Development Options - Hunstanton	Key	Council	Project Delivery Exec Dir - C Bamfield		Private - Contains exempt Information under para 3 – information relating to the business affairs of any person (including the authority)
	Major Housing Phase 3 – Enabling Work for Lynnsport 1	Key	Council	Project Delivery Exec Dir - C Bamfield		Private - Contains exempt Information under para 3 – information relating to the business affairs of any person (including the authority)
	National Planning Policy Framework – Vacant Building Credit	Non	Cabinet	Development Exec Dir G Hall		Public
	Homelessness and Rough Sleeper Strategy Consultation	Non	Council	Housing Chief Executive		Public
	Mid Year Review Treasury Report 2019/2020	Non	Cabinet	Leader S151 Officer		Public
	Parish Partnership Funding	Non	Cabinet	Leader Assistant Director – S Ashworth		Public

Date of meeting	Report title	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
7 January 2020						
	Future High Streets – Stage 2 bid for funding	Key	Cabinet	Business Development Exec Dir – C Bamfield		Public

	Hunstanton Coastal Management Plan	Key	Cabinet	Environment Exec Dir – G Hall		Public
	Corporate Business Plan	Key	Council	Leader Chief Executive		Public
	CIL Governance	Key	Council	Development Exec Dir – G Hall		Public
	Corporate Complaints Policy and the	Non	Cabinet	Leader Chief Executive		Public
	Updated revised policy on Unreasonably Persistent Complainants	Non	Cabinet	Leader Chief Executive		Public
	Council Tax Support Scheme 2020/2021 – Final Scheme for Approval	Key	Council	Housing S151 Officer		Public
	Review of Standing Orders	Non	Council	Leader Chief Executive		Public
	Scrutiny and the Executive Protocol	Non	Council	Leader Chief Executive		Public

Date of meeting	**Report title**	**Key or Non Key Decision**	**Decision Maker**	**Cabinet Member and Lead Officer**	**List of Background Papers**	**Public or Private Meeting**
4 February 2020						
	King's Lynn Area Transport Study	Non	Cabinet	Development Exec Dir – G Hall		Public

Date of meeting	**Report title**	**Key or Non Key Decision**	**Decision Maker**	**Cabinet Member and Lead Officer**	**List of Background Papers**	**Public or Private Meeting**
17 March 2020						

	Capital Strategy	Key	Council	Leader Deputy Chief Executive		Public

AUDIT COMMITTEE WORK PROGRAMME 2019/2020

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
3 June 2019	Appointment of Vice-Chairman			
3 June 2019	Training/Briefing – Audit Committee: An Introduction		K Woodward	
3 June 2019	Revised External Audit Plan		M Hodgson	To consider the revised External Audit Plan.
3 June 2019	Corporate Risk Register	Monitoring	G Greaves	To note the report which presents the changes to the Risk Register since the last report.
3 June 2019	Draft Annual Governance Statement covering the 2018/2019 year.	Monitoring	G Greaves	To receive and note the draft Annual Governance Statement for the 2018/2019 year
3 June 2019	Internal Audit Annual Report and Opinion 2018/2019	Annual	K Woodward	To receive the Audit Manager's Annual Report.
3 June 2019	Internal Audit Full Year Progress Report 2018/2019	Progress Report	K Woodward	To receive the Audit Manager's Annual report.
3 June 2019	Audit Committee Effectiveness Report	Cabinet	K Woodward	To review the work of the Audit Committee during 201/2019 and consider if the Committee has effectively fulfilled its role.

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
3 June 2019	Membership of Audit Committee Cross Party Membership – KLIC Review report			The report invites the Audit Committee to arrange for the appointment of Members to serve on the Cross Party Working Group which was established during 2018/2019 to look at the KLIC Review Report.
29 July 2019	Training - Annual Governance Statement			
29 July 2019	Annual Governance Statement Covering the 2018/2019 year	Annual	G Greaves	To approve the Annual Governance Statement for the 2018/2019 year.
29 July 2019	Cabinet Forward Decision List			
29 July 2019	Major Projects Board Progress Report. Officer and Member			
28 October 2019	Briefing on Treasury Awareness			
28 October 2019	Treasury Outturn Report 2018/ 2019		T Stankley	To receive the annual report.
28 October 2019	Mid Treasury Report	Mid-Year	T Stankley	To receive the mid-year report.
28 October 2019	Internal Audit Half Year Progress Report	Monitoring	K Woodward	To receive the half year progress report.

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
28 October 2019	Cabinet Forward Decision List			
28 October 2019	Major Projects Board Update			
20 November 2019 Special Meeting	Report from the Cross Party Working Group – KLIC			
9 December 2019	Training/Briefing – Statement of Accounts			
9 December 2019	Annual Audit Letter for Year ending 31 March 2019	Annual Audit Letter	Ernst Young	
9 December 2019	Statement of Accounts		L Gore	
9 December 2019	External ISA 260 Report		L Gore	
9 December 2019	Annual Governance Statement Covering the 2018/2019 year		G Greaves	To approve the Annual Governance Statement for the 2018/2019 year.
9 December 2019	Major Projects Board Update			
9 December 2019	Cabinet Forward Decision List			

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
27 January 2020	Training – Risk Register	Training	G Greaves	
27 January 2019	Business Continuity Update	Annual Update	G Greaves	
27 January 2020	Update on progress with the Annual Governance Statement covering the 2019/2020 year	Update	G Greaves	To provide the Committee with an update on the progress with the Annual Governance Statement covering the 2019/2020 year.
27 January 2020	Corporate Risk Register Monitoring Report	Monitoring	G Greaves	To note the report which presents the changes to the Risk Register since the last report.
27 January 2020	Cabinet Forward Decision List			
27 January 2020	Major Projects Board Update from the Chairman			
11 March 2020	Training – subject to be identified			
11 March 2020	Strategic Internal Audit Plan		K Woodward	To provide the Committee with the opportunity to review the proposed Strategic Audit Plan 2018 – 2023.
11 March 2020	Review of the Audit Committee Terms of Reference		K Woodward	Review of the Audit Committee Terms of Reference for approval.

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
11 March 2020	Major Projects Board Update from the Chairman			
11 March 2020	Cabinet Forward Decision List			

Potential Future Training Sessions

Alternatives for service delivery (services in house and those contracted out)

Forthcoming Items – Date to be Identified

Additional Audit Work – RIPA Desktop Inspection and GDPR legislation
General overview on the Council's various sources of funding