REPORT 4

HARBOROUGH DISTRICT COUNCIL

REPORT TO THE CABINET MEETING OF 30 NOVEMBER 2020

PUBLIC REPORT: Yes

EXEMPT REPORT: No

Report Title	Mid Year Treasury Management Report 2020-21 and Prudential Indicators
Report Author	Carolyn Bland, Finance Services Manager
Purpose of Report	Treasury Management is an integral part of the Council's finances relating to cash flow management and financing of capital schemes and therefore underpins all of the Council's aims. The mid year treasury report is a requirement of the Council's reporting procedures and covers the treasury management activity for the first six months of 2020/21. The report also covers the actual Prudential Indicators for this period in accordance with the requirements of the Prudential Code.
Reason for Decision	The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual and mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.
Portfolio (holder)	Councillor James Hallam, Finance
Corporate Priorities	YOUR COUNCIL: innovative, proactive and efficient CO 10 — Deliver Financial Sustainability for the future
Financial Implications	• These are covered in detail in this report.
Risk Management Implications	• Management of the Council's financial resources is key to achieving targets set out in the budget. Security of the Council's money in the current banking market is paramount.
Environmental Implications	• None
Legal Implications	• This report covers the requirement for capital financing and treasury management as set out in the Local Government Act 2003 and subsequent Regulations.
Equality Implications	• None
Data Protection Implications	• None

Consultation	• The Prudential Indicators contained within this report have been compiled to take account of the borrowing requirements and available resources determined as part of the Council's capital programme and overall budget setting process. Members and officers have been involved in the budget process from the outset.
Options	• None
Background Papers	• Treasury Management, Prudential Code, and Budget working papers held in Finance.
Appendices	• None
Recommendation	• **To note the Mid Year Treasury Management Report for 2020/21** • **To note the Prudential Indicators** • **To approve the change to the wording of the investment criteria regarding "Diversification" detailed in Section 3** • **To approve the increase of counterparty limits for Money Market and Property Funds detailed in Section 3.**

Key Facts

1. **Economic update**

- As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August (and subsequently 16th September). It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:
  - The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
  - The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.
  - It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.
- It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at

this time when banks are worried about future loan losses. It also has “other instruments available”, including QE and the use of forward guidance.

- The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the “turn of the year”. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.
- In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1 November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.
- Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.
- There will be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
- One key addition to the Bank’s forward guidance was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that

level of inflation is going to be persistently above target if it takes no action to raise Bank Rate

- The Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.
- **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked its inflation target from 2% to maintaining an average of 2% over an unspecified time period i.e.following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.
- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government

funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and 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. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.
- **World growth.** Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

2. **Interest rate forecasts**

The Council's treasury advisor, Link Group, provided the following forecasts on 11 August 2020 (PWLB rates are non-HRA certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields initially spiked upwards in March, we have seen yields fall sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March, and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. At the close on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were only at 0.76% and the 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. At the same time the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; the HM Treasury consultation was initially due to end on 4th June, but that date was subsequently put back to 31st July. To date, the outcomes of the consultation have yet to be announced but it is clear that HM Treasury will most likely no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the primary aim is to generate an income stream (assets for yield).

Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -

- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
- PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

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

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

3. **Annual Investment Strategy**

The Treasury Management Strategy Statement (TMSS) for 2020/21, which includes the Annual Investment Strategy, was approved by the Council on 24 February 2020. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short-term to cover cashflow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

As shown by the interest rate forecasts in section 2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

Negative investment rates

While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short-term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Creditworthiness.
Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the half year ended 30th June 2020, due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks. However, during Q1 and Q2 2020, banks did make provisions for expected credit losses and the rating changes reflected these provisions. As we move into the next quarters ahead, more information will emerge on actual levels of credit losses. (Quarterly performance is normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments later in 2020. These adjustments could be negative or positive, although it should also be borne in mind that UK banks went into this pandemic with strong balance sheets. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". They stated that, in their assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on negative watch, but with a small number of actual downgrades.

Link have conducted some stress testing on the Link credit methodology-based list of counterparties supplied to clients, to test for the results of a 1 notch downgrade to all Long-Term Ratings from all agencies. Under such a scenario, on our Counterparty list, only NatWest Markets Plc (non-ring-fenced entity), Leeds, Skipton and Yorkshire Building Societies moved from Green to No Colour. While there are a further 17 drops in other entities' suggested durations, in these instances, these entities still remain potentially available for use. (Note that this scenario excludes any additional impact from relative movement in CDS pricing.)

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function apart from the changes, for which approval is sought, detailed in the "Approved Limits" section below.

CDS prices

Although CDS prices (these are market indicators of credit risk) for UK banks spiked upwards at the end of March / early April due to the liquidity crisis throughout financial markets, CDS prices have returned to average levels since then, although they are still elevated compared to end-February. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances

The average level of funds invested during the six months was £16.8m. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council held £18m of core cash balances.

Investment performance year to date as at 30th September 2020

The Council's budgeted investment return for 2020/21 is £251k, and performance for the year to date is £63k below budget because of the fall in interest rates detailed above. The Council achieved an average rate of return of 0.38% outperforming the benchmark of the 7 day LIBID which was -0.06% as at 30 September 2020.

Fund investments

- Money Market Funds (MMFs) – for the first time the Council invested in a MMF, the CCLA Public Sector Deposit Fund which earned a return of 0.18% during the period.
- Property Funds – the Council continued to hold shares in the CCLA Local Authority Property Fund which earned a return of 3.58% during the period. The Council took advantage of the temporary override of the accounting standard IFRS 9 provided by the Ministry of Housing, Communities and Local Government so that any adverse movements in this pooled fund do not impact on the General Fund, this override is effective for 5 years from 1 April 2018.

Approved limits

The following breaches of the approved limits within the Annual Investment Strategy occurred during the six month period ended 30th September 2020.

- The Council chose to invest in a new type of investment, MMFs, the investment strategy allowed for this with a monetary limit of £5m for any one MMF and £5m was invested, however the investment criteria also contains the following wording regarding diversification in xi) –

  Diversification: the Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following:-

Maximum amount to be places with any one institution - £6m (except for nationalised / semi nationalised UK banks).
Group limits where a number of institutions are under one ownership – maximum of £6m (except for nationalised / semi nationalised UK banks).

As the Council had also invested £1.5m with the CCLA Local Authority Property Fund this gave a total of £6.5m and Officers felt the above had been breached and the MMF investment was reduced to £4.5m, the breach being £500,000 for 7 days. The Council's treasury advisors advised that the above wording was not intended to apply to MMF's because of the nature of the investment (our exposure relates to the underlying assets not the manager) but Officers feel the wording is not clear and seek approval to add the following to xi)

"**The above does not apply to MMFs and Property Funds."**

Officers also seek approval to **increase the monetary limit to £6m (for each fund)** in line with high quality bank and building society investments**.**

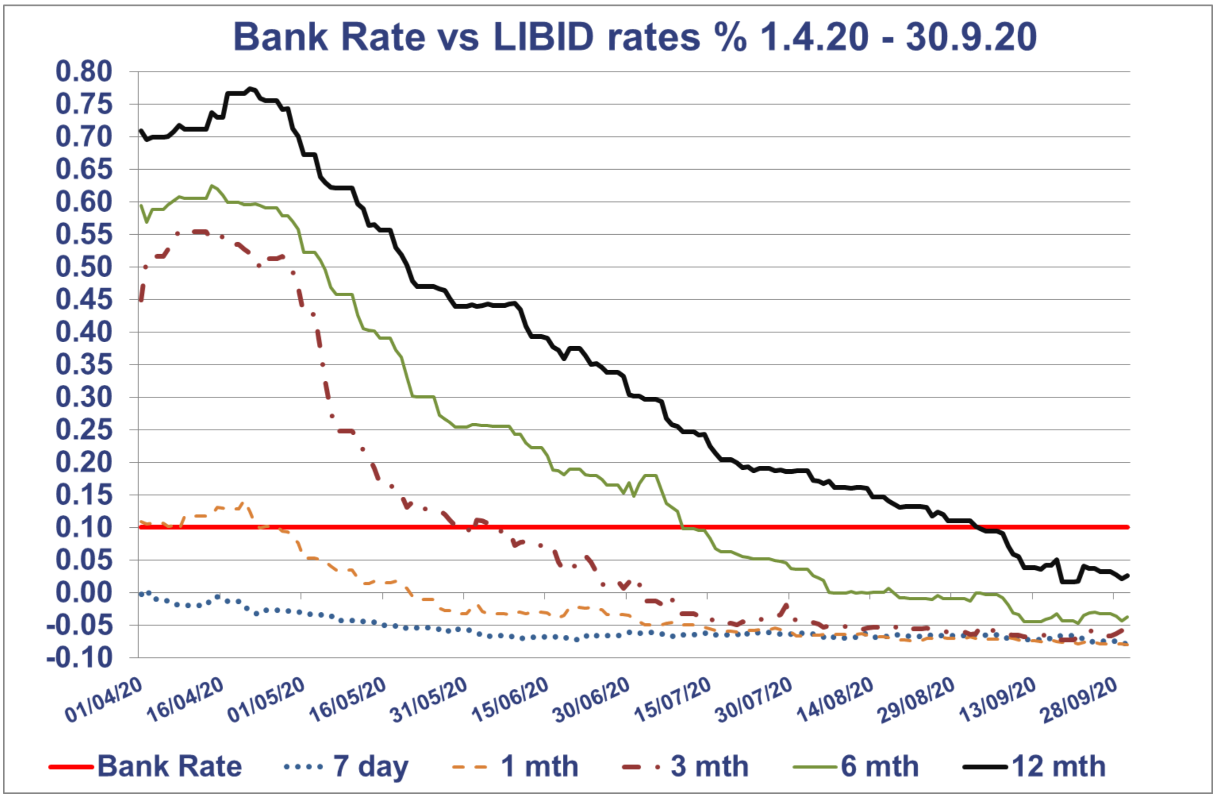
- An overnight accidental breach of the £6m limit by £1.497m with the Councils own banker HSBC occurred and was rectified the next day. A procedure has been put in place so that this does not happen again.

To avoid a breach of monetary limits, when the Council received a grant of £19.106m from Central Government on 01 April 2020 (to be distributed to NNDR payers re COVID-19 grants) the S151 authorised an increase of the HSBC monetary limit to £25m, which was reviewed on a regular basis and reduced as the grants were paid out.

A full list of investments held as at 30th September 2020 is shown below.

Institution		Amount	Investment Period		Terms	Interest Rate %
			Lend date	Repay date		
Money Market / Direct Dealing						
16	Santander UK plc	1,500,000	01/07/2020	16/10/2020	Fixed	0.07%
3	Newcastle Building Society	2,000,000	20/07/2020	19/10/2020	Fixed	0.20%
17	Principality Building Society	2,000,000	04/08/2020	16/10/2020	Fixed	0.09%
7	National Counties Building Society	2,000,000	06/08/2020	16/10/2020	Fixed	0.13%
15	Principality Building Society	2,000,000	19/08/2020	19/10/2020	Fixed	0.11%
18	Principality Building Society	2,000,000	01/09/2020	13/11/2020	Fixed	0.09%
14	Leeds Building Society	4,000,000	21/09/2020	13/11/2020	Fixed	0.06%
Bank of Scotland 95 day notice account		5,000,000	06/09/2017		Fixed	0.20%
HSBC Money Market		2,125,000			Fixed	0.02%
Money Market Funds - CCLA Public Sector Deposit Fund		4,500,000				Dividend
CCLA Local Authority Property Fund		1,500,000	31/01/2019			Dividend
		£28,625,000				

Year to 30th September 2020



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.08	-0.08	-0.07	-0.05	0.02
Low Date	01/04/2020	30/09/2020	30/09/2020	18/09/2020	21/09/2020	18/09/2020
Average	0.10	-0.06	-0.02	0.11	0.21	0.35
Spread	0.00	0.08	0.22	0.63	0.67	0.76

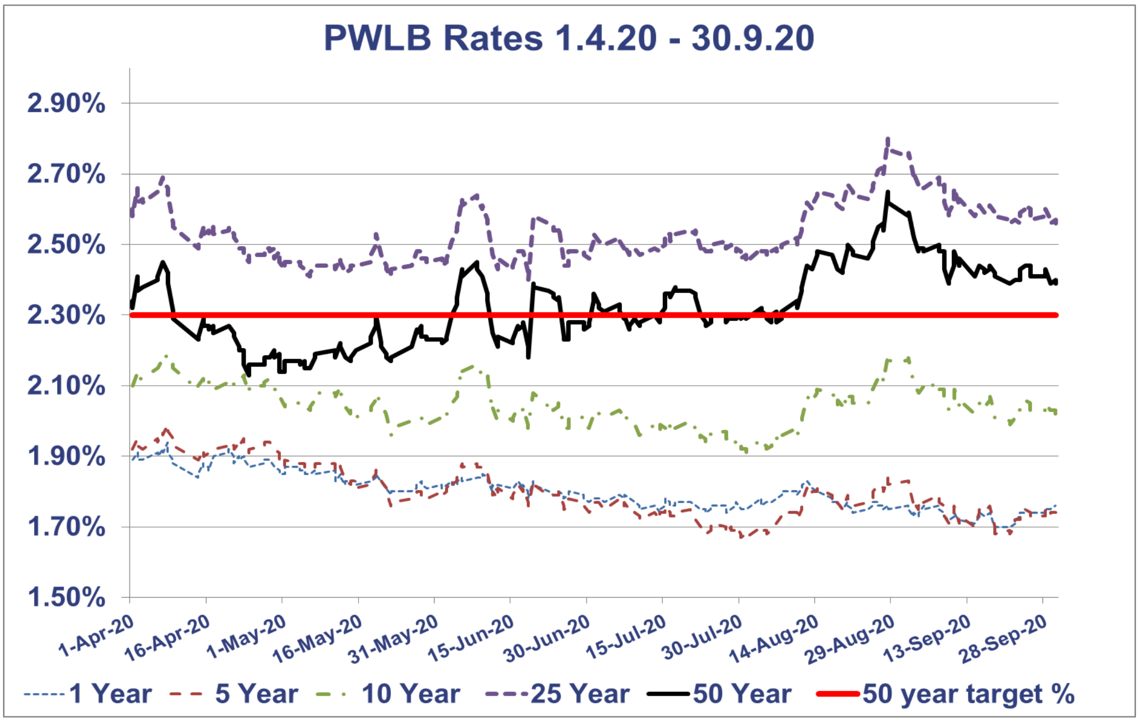
4. **Borrowing**

No borrowing was undertaken during the half year ended 30 September 2020. It is anticipated that there will be no borrowing undertaken during this financial year.

PWLB maturity certainty rates (gilts plus 180bps) year to date to 30th September 2020

There has not been a great deal of volatility in PWLB rates since the start of the financial year, apart from a more significant spike up during the second half of August into early September.

The 50 year PWLB target rate for new long term borrowing was unchanged at 2.30%.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.70%	1.67%	1.91%	2.40%	2.13%
Date	18/09/2020	30/07/2020	31/07/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.80%	2.65%
Date	08/04/2020	08/04/2020	08/04/2020	28/08/2020	28/08/2020
Average	1.80%	1.80%	2.04%	2.54%	2.33%

5. **Debt Rescheduling**

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

6. **Compliance with Treasury and Prudential Limits**

The prudential and treasury Indicators are shown in Section 8.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2020, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2020.

7. **Other**

Changes in risk appetite

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

8. **Prudential and Treasury Indicators as at 30 September 2020**

Treasury Indicators	2020-21 Budget £'000	30.09.20 Actual £'000
Authorised limit for external debt	24,000	24,000
Operational boundary for external debt	13,500	13,500
Gross external debt	6,015	1,490
Investments	28,000	28,625
Net borrowing	(21,985)	(27,135)

Maturity structure of fixed rate borrowing - upper limits		
Under 12 months	10%	0.4%
12 months to 2 years	10%	0%
2 years to 5 years	20%	1.5%
5 years to 10 years	30%	0%
Over 10 years	100%	98.1%

Upper limit for principal sums invested for over 365 days	10,000	1,500

Prudential Indicators	2020/21 Budget £'000	30.09.20 Actual £'000
Capital expenditure	16,307	631
Capital Financing Requirement (CFR)	11,362	11,584
Annual change in CFR	161	314
In year borrowing requirement	917	1,908
Ratio of financing costs to net revenue stream	8.51%	5.25%