

Report for: **Cabinet**

Date of Meeting:	21 January 2021
Subject:	Treasury Management Strategy Statement and Annual Investment Strategy: Treasury Management Outturn 2019/20 and Mid-year Review 2020/21
Key Decision:	No
Responsible Officer:	Dawn Calvert, Director of Finance and Assurance
Portfolio Holder:	Councillor Adam Swersky - Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	No
Wards affected:	All
Enclosures:	Appendix 1: Economic update and current interest rate forecast from Link Asset Services

Section 1 – Summary and Recommendations

This report sets out the Treasury Management Outturn position for 2019/20 and the Mid-Year Review of Treasury Management activities for 2020/21 and is for noting only.

Recommendations:

Cabinet is requested to:

- a) note the Treasury Management Outturn for 2019/20 and Mid-Year Review for 2020/21;
- b) refer this report to the Governance, Audit, Risk Management and Standards Committee for review.

Reason: (for recommendations)

- a) to promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003, other relevant guidance and the Council's Financial Regulations.
- b) to keep Members informed of Treasury Management activities and performance.

Section 2 – Report

1. Background

- 1.1 The purpose of this report is to present the Council's Annual Treasury Management outturn position for 2019/20 and update members with the Mid-Year Report for 2019/20 in accordance with the Council's Treasury Management Practices and in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS) as the treasury management function.
- 1.2 Additional finance lease liabilities entered into during 2019/20 in respect of vehicles and machinery has resulted in the Operational Boundary for other long-term liabilities being exceeded. This element of the Operational Boundary will be revised as part of the 2021/22 Treasury Management Strategy development process. The Operational Boundary is based on the expected debt position of the Authority (and Periods where the actual position is either below or over the boundary are acceptable subject to the Authorised Limit not being breached. The Authority remained well within its Authorised Limit and apart from this element of the Operational Boundary, the Authority has operated within the Treasury Limits and Prudential Indicators as set out in the both the 2019/20 and 2020/21 TMSS documents which are confirmed in the individual sections of this report.
- 1.3 Treasury management comprises:
 - Managing the Council's borrowing to ensure funding of the Council's current and future Capital Programme is at optimal cost;
 - Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.
- 1.4 The annual revenue budget includes the revenue costs that flow from capital financing decisions. Under the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code, increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the Council's revenue account.

1.5 The Council regards the successful identification, monitoring and control

of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation to ensure the security and liquidity of the Council's treasury investments.

1.6 The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of the CIPFA Treasury Management Code of Practice.

2. Reporting Requirements

2.1 The Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

2.2 **Treasury Management Strategy Statement Report** - The first, and most important report is presented to the Council in February and covers:

- The Treasury Management Strategy Statement (TMSS), which details how the investments and borrowings for capital expenditure are to be organised, including Treasury Limits and Prudential Indicators.
- The Annual Investment Strategy which forms part of the TMSS, (the parameters on how investments are to be managed).
- the MRP Policy (how capital expenditure is charged to revenue over time).

2.3 **Mid-Year Review Report** – This is presented to Cabinet in December/January and updates Members on the progress of the Capital Programme, reporting on Prudential Indicators to give assurance that the treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS.

2.4 **Treasury Management Outturn Report** – This is typically presented to Cabinet in June and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the TMSS.

This report will fulfill the requirements of the Treasury Management Outturn Report for 2019/20 and the Mid-Year Review Report for 2020/21. It is accepted that the information in this report would normally have come to Cabinet earlier in the year. However due to the challenge of filling staff vacancies during the pandemic and that no treasury activity, in the form of borrowing, has been undertaken since treasury management was reported to Cabinet in February 2020, this report is presented at this time.

- 2.5 **Scrutiny** - The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet / Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMS). The Council has complied with the CIPFA Treasury Management Code of Practice to the extent that all Treasury Management reports have been scrutinised though the efficient conduct of the Council's business may require consideration

by

GARMS subsequent to consideration by Cabinet/Council.

- 2.6 The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 Officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly.

3. Matters covered in report

- 3.1 This report covers the following:
- Treasury Management Outturn Report for 2019/20
 - Capital Expenditure, Financing and Limits
 - Treasury Position as at 31st March 2020
 - Summary of 2019/20 Strategy
 - Mid-Year Review Report 2020/21
 - Treasury Position as at 30 September 2019
 - Compliance with Treasury Limits and Prudential Indicators
 - Economic update and Interest Rate Forecast for 2020/21 (Appendix 1).

4. Options considered

- 4.1 The report is in accordance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

5. Treasury Management Outturn Report 2019/20

- 5.1 The Treasury Management Strategy Statement, (TMSS), for 2019/20 was approved by Council on 28 February 2019. It stated that for the next three years the Capital Programme would continue to be funded from grants and revenue resources, but that substantial borrowing would also be required.

6. The Council's Capital Expenditure and Financing

6.1 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.

6.2 The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure for 2019/20 against that budgeted and how this was financed.

Table 1: Capital Expenditure

Capital expenditure £'000	2018/19	2019/20	2019/20	2019/20	Variance Analysis	
	Actual	Budget	Actual	Variance	Slippage to 2020/21	Underspend
- Resources and Commercial	9,802	143,434	36,269	107,165	106,268	897
- People's	5,690	29,049	4,464	24,585	24,034	551
- Community	35,198	114,021	40,369	73,652	70,082	3,570
General Fund	50,690	286,504	81,102	205,402	200,384	5,018
HRA	7,091	32,565	9,483	23,082	15,347	7,735
Total	57,781	319,069	90,585	228,484	215,731	12,753

Table 2: Financing of Capital Expenditure

Financing of capital expenditure £'000	2018/19 Actual	2019/20 Actual
Capital Receipts	1,120	2,530
Grants	13,063	13,170
S106/S20 Contributions	337	0
Revenue	6,191	8,770
External Funding	20,711	24,470
Net Financing need for the year (Borrowing)	37,070	66,115

- 6.3 Further details of the capital expenditure position are included within the Revenue and Capital Outturn Report 2019/20.
- 6.4 In light of the impact of the pandemic the Capital Programme for 2020/21 has been revisited and a large amount of the figures identified as slippage to 2020/21 above are expected to be removed from the programme altogether. Revised estimates for 2020/21 provided as part of the Mid-Year Report later in this document reflect the updated capital programme for 2020/21.

7. The Council's Overall Borrowing Need

- 7.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The CFR increases within any net financing need for the year and reduces through the application of resources, including an annual charge to the revenue budget, the Minimum Revenue Provision (MRP).

7.2 Gross Debt 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 debt (borrowing plus other long term liabilities such as PFI and Finance Leases) does not, except in the short term, exceed the total CFR in the preceding year (2019/20) plus the estimates of any additional borrowing requirement for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's gross debt position against the CFR in 2019/20. The Council has complied with this prudential indicator.

Table 3: Gross Debt and CFR

CFR £'000	2018/19 Actual	2019/20 Actual
General Fund	366,849	410,978
HRA	150,683	150,683
Total CFR	517,532	561,661
Gross Debt	361,762	440,781
Under/(Over) Borrowing	155,770	120,880

7.3 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 2019/20 the Council has maintained gross borrowing within its Authorised Limit.

Table 4: Authorised Limit

Authorised limit £'000	2019/20
Debt & Other long term liabilities	587,820

7.4 **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. The Council entered into new finance leases of vehicles and machinery in 2019/20 with a liability of £3.6m. Together with the existing PFI liabilities this resulted in total long-term liabilities of £18.5m, in excess of the Operational Boundary for this category of debt. This limit will be increased as part of the 2021/22 TMSS process to accommodate these additional liabilities to the Council.

Table 5: Operational Boundary

Operational boundary £'000	2019/20
Debt	432,771
Other long term liabilities	15,501
Total	448,272

8. Treasury Position as at 31 March 2020

8.1 **Borrowing Outturn (excluding borrowing by PFI and finance leases)**

The Council has maintained an internal borrowing strategy for a number of years, forgoing lost investment income on investments to use its cash balances to temporarily fund capital expenditure and avoid external borrowing costs. This has proved efficient given the differential between short term investment returns and borrowing costs.

8.2 During 2019/20 the Council took £100m of new PWLB loans and a further £20m market loan. As detailed in the 2019/20 mid-year treasury report £100m of new PWLB borrowing was taken in April 2019 in the form of two 50-year maturity loans at interest rates of 2.2% and 2.31%. In December 2019, a 30-year maturity loan was taken from the market at an interest rate of 2.55%. This new borrowing partially refinanced temporary borrowing and market debt in place at the 1st April 2019 that matured in 2019/20 and was also used to fund the Authority's underlying need to borrow, represented by the CFR.

8.3 As the new loans are at lower interest rates than the average rate of the borrowing portfolio as at 1st April 2019, this average rate reduced over the year from 3.7% to 3.34% as at 31st March 2020. The long-term nature of the PWLB loans resulted in the average life of the borrowing portfolio increasing from 31 years to 38 years as at 31st March 2020.

Table 6: Borrowing Portfolio

Borrowing Portfolio £'000	31-Mar-19			31-Mar-20		
	Principal	Average Rate (%)	Average Life (yrs)	Principal	Average Rate (%)	Average Life (yrs)
- PWLB	248,461	3.93%	33.21	348,461	3.45%	37.04
- Market	65,800	4.19%	39.68	73,800	2.84%	42.69
- Temporary	32,000	0.97%	0.37			
Total borrowing	346,261	3.70%	31.41	422,261	3.34%	38.02

The maturity structure of the debt portfolio remained within the Prudential Indicator limits set as part of the Treasury Management Strategy:

Table 7: Maturity Structure of Borrowing

Maturity structure of borrowing	Lower	Upper	Actual 31.03.19	Actual 31.03.20
Under 12 months	0%	40%	24%	10%
12 months to 2 years	0%	30%	0%	0%
2 years to 5 years	0%	30%	1%	1%
5 years to 10 years	0%	40%	3%	5%
10 years and above	30%	100%	71%	84%

8.4 Investment Outturn

The Council made investments throughout 2019/20 in accordance with the Treasury Management Strategy approved by Full Council on 28 February 2019.

8.5 Due to the internal borrowing strategy being undertaken by the Council, cash balances continued to be held for liquidity purposes, in Money Market Funds and banks. Investment returns remained low throughout 2019/20 so while the additional borrowing taken by the Authority reduced the internal borrowing position and increased the cash available to invest in the market, a reduction in investment returns particularly for liquid investments was experienced within the portfolio, especially as the impact of the pandemic was beginning to be realised.

8.6 The investment portfolio remained highly liquid throughout 2019/20. Investments increased from £26m to £65m over the year while the average rate of interest reduced from 0.42% as at 31st March 2019 to 0.19% as at 31st March 2020.

Table 8: Investment Portfolio

Investment Portfolio £'000	31-Mar-19			31-Mar-20		
	Principal	Average Rate (%)	Average Life (days)	Principal	Average Rate (%)	Average Life (days)
- MMFs	1,604	0.72%	1	1,615	0.35%	1
- Banks	24,724	0.40%	2	62,917	0.18%	4
Total Investments	26,328	0.42%	2	64,532	0.19%	4

9. The strategy for 2019/20

9.1 Investment strategy and control of interest rate risk

Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but only to 1.0% during 2020. Shorter term investment interest rates were fairly flat during most of the year until the two cuts in Bank Rate in March 2020 as part of the emergency response to the pandemic caused investment rates to fall sharply.

Investment balances continued to remain relatively low through the agreed strategy of using reserves and balances to support internal borrowing, despite the additional external borrowing taken in 2019/20. Further external borrowing would have incurred an additional cost, due to the continued differential between borrowing and investment rates. Maintaining an internal borrowing strategy provides additional benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets than would be the case if the Authority had borrowed up to its CFR.

9.2 Borrowing strategy and control of interest rate risk

During 2019-20 the Council maintained an internal borrowing position. Additional borrowing of £120m was taken during the year, £44m of which related to refinancing temporary and market debt maturing in year. The Authority's CFR increased by £44m during 2019/20. The cumulative impact of the new borrowing, additional finance lease liabilities and movement in the CFR was a reduction in the internal borrowing position from £156m to £121m as at 31st March 2020.

- 9.3 This means 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.
- 9.4 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt. The new borrowing decisions taken in 2019/20 were made within this context given the relatively low levels of investments in place as at 31st March 2019 and the anticipated increase in the CFR required to fund the capital programme.
- 9.5 Interest rate forecasts expected only gradual rises in medium- and longer-term fixed borrowing rates during 2019/20 and the two subsequent financial years. The impact of the pandemic and continued Brexit discussions up to the recent agreement at the end of 2020 has resulted in lower interest rate expectations throughout 2020/21. Link Asset Services latest Economic commentary and interest rate forecast is contained in Appendix 1.

10. Mid-Year Review Report 2020/21

- 10.1 The Treasury Management Strategy Statement, (TMSS), for 2020/21 was approved by Council on 27 February 2020. It stated that for the next three years the Capital Programme would continue to be funded from grants and revenue resources, but that substantial borrowing would also be required, demonstrated by the projected increase in the Authority's CFR.
- 10.2 As part of the capital planning for 2021/22, service directorates were asked to carry out a review of the capital programme inclusive of the requirements for 2020/21 due to the impact of the pandemic which halted or delayed many capital projects for several months. This review is reflected in the revised estimates for 2020/21 within this report.

11. Treasury Position as at 30 September 2020

11.1 Investments

In accordance with the CIPFA Treasury Management Code of Practice and MHCLG Investment Guidance, the TMSS sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

- 11.2 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. This has been exacerbated by high levels of liquidity in the market in light of the uncertainty caused by the pandemic and Brexit negotiations. 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 for the foreseeable future.

Table 9: Investment Portfolio

Investment Portfolio £'000	31-Mar-20			30-Sep-20		
	Principal	Average Rate (%)	Average Life (days)	Principal	Average Rate (%)	Average Life (days)
- MMFs	1,615	0.35%	1	1,616	0.01%	1
- Banks	62,917	0.18%	4	82,865	0.02%	4
Total Investments	64,532	0.19%	4	84,481	0.02%	4

- 11.3 The Council held £84.5m of investments as at 30 September 2019 compared with £64.5m at 31 March 2020. The portfolio remains highly liquid with the yield reflecting the current market for liquid investments. Cashflow forecasting has been challenging during 2020/21 due to the response to the pandemic and the impact this has had on the Authority

along with the Authority's role within that response. The internal borrowing strategy of the Authority focusing on minimising the net cost of borrowing also prevents longer term investment with a consequent impact on investment return.

- 11.4 The Council's investment income budget is £1.4m and the forecast outturn is £1.14m. This includes the loan income from the £15m loan to the West London Waste Authority which the Council approved in July 2013 to finance the cost of a new energy from waste plant. The term of the loan is 25 years at an interest rate of 7.604% on a reducing balance. The loan balance at the 31 March 2020 was £16.1m which includes interest accrued to date. For the financial year 2020/21, the outturn forecast on the interest accrued is £1.2m which is included as part of the investment income budget.
- 11.5 During the period cash investments have been held with Deutsche and Fidelity Money Market Funds, Lloyds, Royal Bank of Scotland PLC, and Svenska Handelsbanken. Counterparty use has been consistent with previous years and in accordance with the credit criteria set out in the TMSS. Officers can confirm that the approved limits within the Annual Investment Strategy have not been breached to the period of 31st December 2020.
- 11.6 **Borrowing**
The Authority took £120m of new borrowing in 2019/20 and continues to run an internal borrowing strategy with a borrowing portfolio of £422m (excluding £18.5m of PFI and Finance Lease Liabilities) below the actual CFR of £562m as at 31st March 2020 and the revised estimate of the CFR for the 31st March 2021 of £592m.
- 11.7 The Authority's current borrowing portfolio remains unchanged from 31st March 2020, with no new borrowing undertaken in 2020/21 up to 31st December 2020.
- 11.8 The forecast outturn on borrowing costs is £8.29m, a favourable variance of £2.4m on the budget of £10.7m, reflecting slippage on the Capital Programme.

Table 10: Borrowing Portfolio

Borrowing Portfolio £'000	31-Mar-20			30-Sep-20		
	Principal	Average Rate (%)	Average Life (yrs)	Principal	Average Rate (%)	Average Life (yrs)
- PWLB	348,461	3.45%	37.04	348,461	3.45%	36.53
- Market	73,800	2.84%	42.69	73,800	2.84%	42.19
Total borrowing	422,261	3.34%	38.02	422,261	3.34%	37.52

- 11.9 The Director of Finance will continue to keep borrowing decisions under review.

11.10 The Authority's maturity structure of borrowing remains within the lower and upper limits of the Prudential Indicator set as part of the 2020/21 TMSS. While the portfolio remains unchanged in 2020/21, a PWLB loan within the portfolio has moved between categories as it comes closer to maturity in September 2022.

Table 11: Maturity Structure of Borrowing

Maturity structure of borrowing	Lower	Upper	Actual 31/03/20	Actual 30/09/20
Under 12 months	0%	40%	10%	10%
12 months to 2 years	0%	30%	0%	1%
2 years to 5 years	0%	30%	1%	0%
5 years to 10 years	0%	40%	5%	5%
10 years and above	30%	100%	84%	84%

11.11 PWLB Consultation

In response to concerns about commercial activity being undertaken by local authorities supported through borrowing from the PWLB HM Treasury increase the margin over the Gilt applied to all PWLB borrowing on the 9th October 2019 from 0.8% to 1.8% above the Gilt.

11.12 In March 2020 HM Treasury reversed this for HRA borrowing (with reference to the HRA CFR) and announced a consultation on the future lending terms of the PWLB. The Government's response to the consultation was published in November 2020, and reversed the additional 1% margin imposed on General Fund borrowing subject to local authority's confirming that they have no purely commercial activity within their three year capital programme, which will come from data submissions of the capital programme accompanied by an assurance from the s151 officer. Subject to this criteria being met borrowing for both the General Fund and HRA is now back at a margin of 80bps above the Gilt.

12. Economic and Interest Rates Updates

12.1 The coronavirus outbreak has done huge economic damage to the UK and 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 subsequent meetings to 16th December, 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. No increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

12.2 A full economic update along with the interest rate forecast and commentary provided by Link Treasury Services is included as Appendix 1.

13. Compliance with Prudential Indicators

13.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. With the exception of the issue regarding the Operational Boundary and additional finance leases referred to earlier in the report and carried over from 2019/20, the Council has operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement for 2020/21 during the half year ended 30 September 2020 (and given the timing of this report the period up to 31 December 2020).

13.2 The other long-term liabilities element of the Operational Boundary will be revised as part of the 2021/22 Treasury Management Strategy development process which will also take into account the revised capital programme due to be presented to Council.

13.3 All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices.

13.4 Capital Expenditure and Funding

The Council's Capital Programme is the key driver of Treasury Management activity. The output of the Capital Programme is reflected in the statutory prudential indicators, which are designed to assist Members' overview and confirm the capital expenditure programme. The tables below summarise the capital expenditure and funding for the current financial year.

Table 12: Capital Expenditure

Capital expenditure £'000	2019/20 Actual	2020/21 Budget	2020/21 Estimate
- Resources and Commercial	36,269	6,200	12,362
- People's	4,464	1,746	4,990
- Community	40,369	34,827	51,849
General Fund	81,102	42,773	69,201
HRA	9,483	36,297	24,150
Total	90,585	79,070	93,351

13.5 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected

financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 13: Financing of Capital Expenditure

Financing of capital expenditure £'000	2019/20 Actual	2020/21 Budget	2020/21 Estimate
Capital Receipts	2,530	5,113	4,283
Capital Grants	13,170	21,626	17,691
Section 106/Section 20/CIL		7,493	6,113
Revenue	8,770	7,089	12,946
External Funding	24,470	41,321	41,033
Net Financing need for the year (Borrowing)	66,115	37,749	52,318
Slippage from 2019/20		186,136	
Net Financing need inc Slippage (Borrowing)	66,115	223,885	52,318

	2018/19	2019/20	2019/20
	Actual	Estimate	Forecast
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	47,690	97,674	117,800
HRA	7,091	26,586	21,471
TOTAL	54,781	124,260	139,271
Funding:-			
Grants	9,011	20,845	18,399
Capital receipts	4,820	1,277	4,783
Revenue financing	6,386	6,135	11,988
Section 106 / Section 20	337	200	5,825
TOTAL	20,554	28,457	40,995
Net financing need for the year	34,227	95,803	98,276

13.6 Capital Financing Requirement (CFR)

The CFR as set out in Table 5, is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

13.7 The original estimate for 2020/21 included £186m of slippage from previous years capital programmes, which increased to £216m based on the 2019/20 Capital Outturn Report. As part of the capital planning for 2021/22, service directorates were asked to carry out a review of the capital programme using a bottom up approach to ensure

programme represents capital investment that is necessary up to financial year 2023/24. The current financial year was also included as part of the review, so that services could better set out the likely spend for the 2020/21 due to the impact of the pandemic which halted or delayed many capital projects for several months. This is reflected in the revised estimates below:

Table 14: Capital Financing Requirement

Capital Financing Requirement £'000	2019/20 Actual	2020/21 Original Estimate*	2020/21 Revised Estimate
CFR – General Fund	410,978	617,526	439,093
CFR – HRA	150,683	166,102	152,685
Total CFR	561,661	783,628	591,778
Movement in CFR	44,129	201,385	30,117
* Original 2020/21 Movement in CFR was based on estimated outturn for 2019/20			
Movement in CFR represented by			
Net financing need for the year (above)	66,115	223,885	52,318
Less MRP/VRP/other financing movements	-21,986	-22,500	-22,201
Movement in CFR	44,129	201,385	30,117

13.8 Operational Boundary and Authorised Limit

- Operational Boundary – This limit is based on the Council's programme for capital expenditure, capital financing requirement and cash flow requirements for the year.
- Authorised Limit – This represents a limit beyond which external debt is prohibited. The Council's policy is to set this rate at the Capital Financing Requirement. The Government retains an option to control either the total of all councils' programmes, or those of a specific council, although this power has not yet been exercised.

Table 15: Operational Boundary & Authorised Limit approved as part of the 2020/21 TMSS

Operational boundary £'000	2019/20	2020/21	2021/22	2022/23
Borrowing	432,771	656,656	720,096	768,489
Other long term liabilities	15,501	14,827	14,153	13,479
Total	448,272	671,483	734,249	781,968
Authorised limit £'000	2019/20	2020/21	2021/22	2022/23
Borrowing & Other Long Term Liabilities	587,820	811,705	875,145	923,538
Total	587,820	811,705	875,145	923,538

13.9 The Council entered into new finance leases of vehicles and machinery in 2019/20 with liabilities of £3.6m. Together with the Authority's existing PFI liabilities, this resulted in long term liabilities of £18.5m, in excess of the Operational Boundary for this category of debt.

13.10 A full review of all the Authority's Treasury and Prudential Indicators will take place as part of the 2021/22 TMSS process.

14. Implications of the Recommendations

The recommendations are asking the Cabinet to note the position on treasury management activities. They do not affect the Council's staffing / workforce and have no equalities, procurement, data protection or community safety impact.

15. Procurement Implications

There are no procurement implications arising from this report.

16. Legal Implications

16.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

17. Financial Implications

In addition to supporting the Council's revenue and capital programmes the Treasury Management interest budget is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget.

18. Performance Issues

18.1 The Council meets the requirements of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practices for the Treasury Management function.

18.2 As part of the Code the Council must agree a series of prudential indicators and measure its performance against them. These indicators and performance are detailed in the report and reported to Council

19. Environmental Impact

There are no direct environmental impacts.

20. Risk Management Implications

20.1 This report is for noting and the Cabinet are not being asked to make any decisions hence there are no direct risk management implications to this report.

21. Equalities implications / Public Sector Equality Duty

There is no direct equalities impact.

Council Priorities

This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert

Chief Financial Officer

Date: 18 January 2021

Statutory Officer: Chris Cuckney

Signed on behalf of the Monitoring Officer

Date: 18 January 2021

Chief Officer: Charlie Stewart

Signed off by the Corporate Director

Date: 18 January 2021

Head of Procurement: Nimesh Mehta

Signed by the Head of Procurement

Date: 18 January 2021

Head of Internal Audit: Susan Dixson - N/A

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

EqlA carried out: NO

EqlA cleared by: N/A

Section 4 - Contact Details and Background Papers

Contact: Dawn Calvert – Director of Finance & Assurance,
dawn.calvert@harrow.gov.uk

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee – NOT APPLICABLE