Report of the Deputy Chief Executive

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2019/20 – MID YEAR REPORT TO 30 NOVEMBER 2019

1. Purpose of report

To inform the Committee of treasury management activity and the actual prudential indicators for 2019/20 up to 30 November 2019.

2. Detail

Regulations issued under the Local Government Act 2003 require the Council to fulfil the requirements of the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities when undertaking its treasury management activities.

As well as the Treasury Management and Prudential Indicators annual report that is presented to this Committee in June each year, there is a regulatory requirement for Members to receive a mid-year review. This is intended to enhance the level of Member scrutiny in these areas.

Following consultation in 2017, CIPFA published new versions of the Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities. The local authority specific Guidance Notes to the former Code were issued in October 2018. The Ministry of Housing, Communities and Local Government (MHCLG) has also published its revised Investment Guidance and this came into effect from April 2018.

The CIPFA Code of Practice on Treasury Management requires the Deputy Chief Executive to operate the Treasury Management function in accordance with the Treasury Management Strategy approved at the Council meeting of 14 February 2019. Details of all borrowing and investment transactions undertaken in 2019/20 up to 30 November 2019, together with the balances at this date and treasury management limits on activity, are provided in appendix 1. There are no issues of non-compliance with these practices that need to be reported to the Committee.

Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council is required to prepare a number of prudential indicators against which treasury management performance should be measured. Performance against prudential indicators is given in appendix 2. The Council has complied with its 2019/20 prudential indicators to 30 November 2019.

Recommendation
The Committee is asked to NOTE the 2019/20 mid-year report to 30 November 2019.

Background papers
Nil

APPENDIX 1

1. Borrowing

a) Debt activity during 2019/20

The loan debt outstanding as at 30 November 2019 compared to the opening position at 31 March 2019 is shown below:

	Amount Outstanding at 31/03/2019 £	**Amount Outstanding at 30/11/2019 £**
Short Term Loans		
Bramcote Crematorium	512,299	562,782
Money Market Loans	14,000,000	11,000,000
Public Works Loan Board	9,451	4,848
Long Term Loans:		
Money Market Loans	3,000,000	3,000,000
Public Works Loan Board	79,779,610	79,779,610
	97,301,360	**94,347,240**

b) Short Term Loans

The short term money market loans are loans from other local authorities and public sector bodies. Details of the movement in these during the period are set out in the table below:

Lender	Balance at 31 March 2019 (£)	Start Date	End Date	Rate (%)	Balance at 30 November 2019 (£)
Hyndburn Borough Council	1,000,000	18 May 2018	17 May 2019	0.87	-
West Yorkshire Police and Crime Commissioner	2,000,000	2 July 2018	17 May 2019	0.80	-
Tendring District Council	2,000,000	31 July 2018	30 July 2019	0.75	-
Rushcliffe Borough Council	1,000,000	28 August 2018	27 August 2019	0.75	-
Northern Ireland Housing Executive	2,000,000	19 November 2018	20 May 2019	0.90	-
Ryedale District Council	1,000,000	19 December 2018	19 December 2019	1.05	1,000,000
Tendring District Council	2,000,000	2 January 2019	2 July 2019	0.95	-

North West Leicestershire District Council	1,000,000	1 February 2019	1 August 2019	0.92	-
Fylde Borough Council	2,000,000	25 March 2019	25 September 2019	0.95	-
Tendring District Council	-	20 May 2019	20 November 2019	1.00	2,000,000
Guildford Borough Council	-	17 May 2019	15 May 2020	1.00	2,000,000
Notts Police and Crime Commissioner	-	5 July 2019	6 April 2020	0.90	2,000,000
West Yorkshire Police and Crime Commissioner	-	30 July 2019	30 January 2020	0.82	2,000,000
Rhondda Cynon Taff County Borough Council	-	3 July 2019	5 July 2019	0.65	-
East Suffolk Council	-	25 September 2019	23 September 2020	0.90	2,000,000
Lichfield District Council	-	8 November 2019	11 May 2020	0.72	-
Hyndburn Borough Council	-	6 December 2019	4 December 2020	0.90	-
North West Leicestershire District Council	-	30 January 2020	30 July 2020	0.85	-

Short term loans at 31 March 2019 included PWLB annuities of £9,451. A sum of £4,603 was repaid on 13 September 2019 and the remaining £4,848 is due for repayment on 13 March 2020.

Short term loans at 31 March 2019 also included £512,299 that had been invested with the Council by Bramcote Crematorium. At 30 November 2019 Bramcote Crematorium had invested £562,782 with the Council. A distribution of £250,000 was made to each of the constituent authorities on 1 October 2019.

The major element of the long-term loans from the PWLB is the loans totalling £66.446m taken out on 28 March 2012 to make the payment to the Department for Communities and Local Government (DCLG). This enabled the Council to exit the Housing Revenue Account (HRA) subsidy system and move to self-financing arrangements that allow local authorities to support their housing stock from their own HRA income. These loans were for maturity periods between 10 and 20 years and were at special one-off preferential rates made available by the PWLB for this exercise of 13 basis points above the equivalent gilt yield at the date on which the loans were taken out.

Debt is kept under review in order to match the level of borrowing with the financing requirement for assets, based on analysis of the Council's balance sheet, with the aim of maintaining borrowing at the most efficient level in line with the prudential framework for capital finance.

The planned financing of the 2019/20 capital programme as at 30 November 2019 indicates that further borrowing of £4,052,450 would be required to help fund the General Fund part of the programme. This borrowing has not, as yet, been undertaken as the availability of large investment balances has meant that there has been no specific need to undertake this borrowing thus far.

The Council will continue to adopt a cautious and considered approach to any borrowing that it may undertake. The Council's treasury advisors, Arlingclose, actively consult with investors, investment banks, and capital markets to establish the attraction of different sources of borrowing and their related trade-off between risk and reward. The Council will liaise with their advisors before making any borrowing decisions and then report these to Members.

Arlingclose expects short-dated borrowing from the money markets to remain cheaper than long-term borrowing from the PWLB over the next 12-month period.

b) Debt rescheduling

In conjunction with the treasury management advisors, the Council continues to seek opportunities for the rescheduling of debt that could reduce its overall borrowing costs. No debt rescheduling has taken place from April to November 2019.

Whilst the possibility of achieving savings by repaying a loan may initially appear attractive, if a replacement loan is taken out to facilitate this then the replacement loan will have to be replaced at some stage. There is a risk that, as interest rates rise, future loans could be more expensive and the initial decision to pursue the repayment of the original loan could turn out to be costly in the long term.

There may be opportunities in the future to achieve discounts by repaying loans using funds that are currently invested but the Council's primary concern will be to ensure that it has sufficient liquidity available to meets its liabilities and this represents a significant barrier to debt repayment activity.

Currently all of the Council's PWLB loans would attract a premium, i.e. a penalty, on premature repayment of between 5% and 99%. Those which have a higher probability of attracting a discount in the future were interest rates to rise (i.e. where the current premium is between 0% and 10%) are some loans that were taken out on 28 March 2012 at preferential rates as part of the move to exit the HRA subsidy system as referred to in 1(a) above.

The Council and its treasury management advisors will continue to monitor the situation and evaluate potential opportunities where appropriate. Debt rescheduling activity will only be undertaken when annual revenue savings can be achieved and both a stable debt maturity profile and suitable interest rate structure can be maintained.

c) Cost of borrowing and debt profile

i. Long term debt

The Council's long term debt had an average of 8.93 years to maturity at 30 November 2019 (31 March 2019 was 9.22 years). The average interest payable at that date was 3.06% (31 March 2019 was 3.00%).

ii. Short term borrowing

Short-term borrowing comprises the continuing loan from the Bramcote Crematorium Joint Committee and the loans outlined in 1(a) above.

The Council has taken advantage of exceptionally low interest rates for short term loans that have been available from other local authorities and public sector bodies.

iii. PWLB Rate Increase and Future Borrowing

Most of the Council's long term debt is borrowed from the PWLB. On 9 October 2019 PWLB borrowing rates were increase by 1% for new loans borrowed on or after this date. This means that PWLB borrowing rates are now 180 basis points above gilt rates (i.e. the government cost of borrowing). PWLB borrowing rates were previously 80 basis points above gilt rates.

This increase in PWLB borrowing rates means that the PWLB is widely regarded as a relatively expensive source of borrowing. The Council will now look to other sources for long term borrowing including banks, pension funds and other local authorities in order to lower interest costs and reduce the over-reliance on one source of borrowing.

2. Investments

a) Investment Policy

The Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved at the Council meeting on 14 February 2019. This gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

The Council only places investments with banks and building societies which are UK domiciled and have, as a minimum, the following rating from the Fitch, Moody's and Standard and Poors credit rating agencies:

(i) Long Term A– (or equivalent)

The Council is also able to invest in Money Market Funds (MMF) that are AAA rated and with the UK government, as well as with other local authorities. The maximum permitted duration of investments is two years.

The investment activity during the first nine months of 2019/20 conformed to the approved strategy and the Council had no security or liquidity difficulties.

b) Interest Received

The total interest receivable for the period to 30 November 2019 amounted to £247,759 (2018/19 to 30 September was £104,064). The increase in interest receivable is largely attributable to the greater use of long term investments.
The Council now has a total four long term investment totalling £7.0m and details of these along with the average interest income received per quarter are as follows:

- CCLA Local Authority Property Fund (LAPF) - £2.0m (£22,000)
- CCLA Diversified Income Fund (DIF) - £2.0m (£17,000).
- Royal London Enhanced Cash Plus Fund - £2.0m (£7,000)
- Investec Diversified Income Fund – £1.0m (£15,000)

The average interest rate earned for the period up to 30 November 2019 was 1.73%, compared to 1.15% for the period up to 30 September in 2018/19. This increase is mainly attributable to the £2.0m and £1.0m investments in the CCLA and Investec Diversified Income Funds whose dividend yields generally average around 3.20% and 4.25% respectively.

The £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF) had a dividend yield of 4.38% at 30 November 2019 whilst the £2.0m invested in the Royal London Enhanced Cash Plus Fund had a dividend yield of 1.26% at that date.

Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes, global growth and trade concerns. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside with the resulting volatility continuing to offer longer-term borrowing opportunities.

The UK 1 month, 3 month and 12 month LIBID rates averaged 0.66%, 0.73% and 0.83% respectively over the period from 1 April to 30 November 2019.

c) Investments Placed

A summary of all investments (either short or long term) made and repaid from 1 April 2019 to 30 November 2019 is set out in the following table:

	Balance at 01/04/2019 £000s	Investments Made £000s	Investments Repaid £000s	Balance at 30/11/2019 £000s	Increase/ Decrease in Investments
UK Banks and Building Societies					
Barclays	130	-	-	-	-
Santander UK	-	9,000	(5,000)	4,000	4,000
Lloyds	2,000	5,000	(4,000)	3,000	1,000
Other					
Debt Management Office	-	250	(250)	-	-
Money Market Funds					
Insight MMF	-	30,825	(30,825)	-	-
LGIM MMF	-	17,855	(17,815)	40	40
Aberdeen MMF	2,730	23,696	(24,166)	2,260	(470)
Federated MMF	3,820	580	(4,170)	230	(3,590)
Long Term Funds					
LA Property Fund	2,000	-	-	2,000	-
Royal London Enhanced Cash Plus	2,000	-	-	2,000	-
CCLA Diversified Income Fund	2,000	-	-	2,000	-
Investec Diversified Income Fund	-	1,000	-	1,000	1,000
Total	**14,680**	**88,206**	**(86,226)**	**16,530**	**1,980**

The Money Market Funds (MMF) are set up as individual accounts where funds can be placed short-term, often overnight, and monies withdrawn as and when required. This has a major impact upon the number of investments made with these institutions during the period above.

Increasing use continues to be made of MMF due to their ability to provide a secure and highly liquid place in which to invest and the reduced number of other potential counterparties available as outlined in 2(g) below.

d) Credit Risk

Security of capital has remained the Council's main investment objective. Counterparty credit quality has been maintained at an appropriate level during 2019/20 as shown by the credit score analysis in the following table:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2019	4.64	A+	4.66	A+
30/06/2019	4.76	A+	4.77	A+
30/09/2019	4.85	A+	4.83	A+

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit.

The table below shows how credit risk scores are related to credit ratings:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The Council aimed to achieve a score of 7 or lower in order to reflect its overriding priority of maintaining the security of any sums invested. This equates to the minimum credit rating threshold of A– for investment counterparties as set out in the 2019/20 investment strategy. The tables above show that the Council achieved the minimum credit risk scores and credit ratings from April to November 2019.

e) Risk Benchmarking

The Investment Strategy 2019/20 to 2021/22 contained a number of security, liquidity and risk benchmarks to allow officers to monitor the current and trend positions and incorporate these within investment decisions. The benchmarks have been met in full from April to November 2019 such that:

- the Council's maximum average credit risk score has been less than 8 (as set out in 2d above)

- a bank overdraft limit of £1m has been maintained

- liquid short-term deposits of at least £0.5m have been available within one week

- the average weighted life of investments has been below a maximum of six months

- returns on investment have been above the 7 day London Interbank Bid rate (LIBID).

f) Counterparty Update

The Deputy Chief Executive maintains a counterparty list based upon criteria set out in the Investment Strategy. Any proposed revisions to the criteria will be submitted to Finance and Resources Committee for formal approval as set out in 2(g) below.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For example, if an institution is rated by two agencies and one meets the Council's criteria and the other does not, the institution will fall outside the lending criteria.

Creditworthiness information is provided by the treasury management advisors, Arlingclose, on all counterparties that comply with the criteria set out in the Investments Strategy. Any counterparty failing to meet the criteria is removed from the counterparty list.

g) Changes to the Investments Strategy

Due to the level of uncertainty in financial markets, it is important that there is sufficient flexibility to enable changes to be made to the Investments Strategy at short notice should they be considered necessary by the Deputy Chief Executive.

Any such changes to the Investments Strategy will be made by the Chief Executive exercising Standing Order 32 powers following consultation with the Chair of the Finance and Resources Committee. A report setting out the detail behind these changes would then be presented to this Committee at the next available opportunity.

h) Regulatory Update

The MHCLG consulted in July 2018 on statutory overrides relating to the introduction of the IFRS 9 Financial Instruments accounting standard from 2018/19. It has now decided to introduce a statutory override for fair value movements in pooled funds for at least five years until 31 March 2023.

MHCLG accepted arguments made by many respondents to the consultation that the unamended adoption of IFRS 9 could result in unwarranted volatility for the General Fund and impact unnecessarily upon council tax or service expenditure. It will therefore a statutory override that, while requiring IFRS 9 to be adopted in full, requires fair value movements in pooled investment funds to be taken to a separate unusable reserve instead of to the General Fund.

MHCLG accepted that the three year statutory override suggested in the consultation was too short a period and committed to keeping the override in place for five years. It will keep under review whether permitting the override to lapse in March 2023 will have a detrimental impact on balanced budget calculations in subsequent years.

The override will apply to all collective investment schemes and not just to pooled property funds as suggested in the consultation. As set out above, in order to promote transparency MHCLG will require a separate unusable reserve to be used to hold the fair value movements rather than the Financial Instruments Adjustment Account.

i) Prudential and Treasury Management Code Changes

The new version of the Prudential Code requires the production of a new high-level Capital Strategy report to full Council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. Certain other prudential indicators have been dropped. However, local indicators are recommended for ring fenced funds (including the HRA) and for group accounts.

The definition of investments in the new version of the Treasury Management Code now covers all of the Council’s financial assets as well as other non-financial assets that are held primarily for a financial return. This is replicated in MHCLG’s Investment Guidance in which the definition of investments is further broadened to include all such assets held partially for financial return. The Council has no such assets at present.

3. Treasury Management Limits on Activity

There are four treasury management indicators that were previously prudential indicators, being:

- Upper limits on fixed rate exposure – this indicator identifies a maximum limit for fixed interest rates based upon the debt position (net of investments)

- Upper limits on variable rate exposure – similar to the previous indicator, this covers a maximum limit on variable interest rates

- Maturity structures of fixed rate borrowing – these gross limits are set to reduce the Council's exposure to large fixed sums falling due for refinancing and are for upper and lower limits

- Total principal funds invested for periods longer than 364 days – These limits aim to reduce the risk of long-term investments needing to be realised before their natural maturity dates due to cash flow requirements, which could result in the investment being realised when market conditions are unfavourable.

The purpose of these indicators is to contain the activity of treasury function within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

a) Upper Limits on Fixed and Variable Rate Exposures

The upper limits on fixed and variable rate exposure based upon the debt position (net of investments) are set out in the table below:

Interest Rate Exposures	Actual 31/03/2019 %	2019/20 Approved %	Actual 30/11/2019 %	Compliance with Limits
Fixed				
Upper Limit for Fixed Interest Rate Exposure on Debt	85	100	88	Yes
Upper Limit for Fixed Interest Rate Exposure on Investments	(0)	(25)	(0)	Yes
Net Fixed Exposure	85	75	88	See below
Variable				
Upper Limit for Variable Interest Rate Exposure on Debt	15	40	12	Yes
Upper Limit for Variable Interest Rate Exposure on Investments	(100)	(100)	(100)	Yes
Net Variable Exposure	(85)	(60)	(88)	Yes

b) Maturity Structure of Fixed Rate Borrowing

This indicator is intended to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %	Actual Fixed Rate Borrowing at 30/09/2019 (£000s)	Fixed Rate Borrowing at 30/11/2019 (%)	Compliance with Set Limits

Under 12 months	0	50	11,005	12	Yes
12 months to 2 years	0	50	10	0	Yes
2 years to 5 years	0	50	17,539	19	Yes
5 years to 10 years	0	75	41,549	44	Yes
10 years to 20 years	0	100	17,681	19	Yes
20 years to 30 years	0	100	0	0	Yes
30 years to 40 years	0	100	3,000	3	Yes
40 years to 50 years	0	100	0	0	Yes
50 years and above	0	100	3,000	3	Yes

Investments are limited to a maximum of two years as set out earlier. As suggested in the CIPFA Code, fixed rate investments of less than 12 months and fixed rate borrowing with less than 12 months to maturity are regarded as variable rather than fixed rate investments and borrowings as their replacement could be subject to movements in interest rates. This principle has been applied in calculating the fixed and variable interest rate exposures on debt and investments. However, the borrowing with less than 12 months to maturity at 30 November 2019 is shown as fixed rate borrowing in the maturity structure.

c) Principal Sums Invested for Periods Longer than a year

The Council has £7.0m long term investments as at 30 November 2019 consisting of: -

- £2.0m invested in the CCLA Local Authorities' Property Fund (LAPF). Although the Council can theoretically redeem part or all of its holding in the fund on the last working day of each month, this is intended to be a long-term investment.
- £2.0m invested in the CCLA Diversified Income Fund. Two days' notice is required should this investment need to be repaid to the Council.
- £2.0m invested in the Royal London Enhanced Cash Plus Fund. Whilst this is intended to be a long term investment, should the Council require this to be repaid then it can be done with one day's notice.
- £1.0m invested in the Investec Diversified Fund. The minimum recommended period for such an investment is 3-5 years. However, should this need to be repaid to the Council then it can be done with three days' notice.

The upper limit for this Prudential Indicator has been set at 50% of the estimated in-year average of total investments of £16.0m. The Council has complied with the limit set.

APPENDIX 2

Prudential Indicators

1. Introduction

The Local Government Act 2003 requires local authorities to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their capital budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators, which provide the basis for the management and monitoring of capital expenditure, borrowing and investments. The indicators are based on the Council's planned and actual capital spending.

2. Capital Expenditure and Financing 2019/20

The Council undertakes capital expenditure on assets which have a long term value. 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 resulting impact upon 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.

Actual capital expenditure forms one of the required prudential indicators. The following table shows the 2019/20 capital programme as at 30 November 2019 (as opposed to 30 September 2019) compared with the original estimate for the year across each committee:

	2019/20 Original Estimate £000s	**2019/20 Estimate at 30/11/2019 £000s**
Housing	6,250	8,132
Community Safety	0	0
Jobs & Economy	0	291
Leisure & Health	140	215
Environment & Climate Change	1,195	1,593
Finance & Resources	2,972	4,796
Total	**10,557**	**15,026**

The change to the original estimate is largely accounted for by the carry forward of unspent capital budgets totalling £1,805,350 from 2018/19 plus £1,000,000 added for the acquisition of properties by the Housing Revenue Account in accordance with the Housing Delivery Plan as well as an additional £1,000,000 added to the Beeston Town Centre Phase 2 Development scheme. Excluded from the 2019/20 capital programme at 30 November 2019 are schemes totalling £2,438,400 that are on a "reserve list" and will be brought forward for formal approval to proceed once a source of funding is identified.

The table below shows the planned capital expenditure up to 30 November 2019 and how this will be financed.

	2019/20 Original Estimate £000s	2019/20 Estimate at 30/11/2019 £000s
General Fund	5,054	7,722
HRA	5,503	7,304
Total Capital Expenditure	**10,557**	**15,026**
Financed by:		
Capital Receipts	320	3,141
Capital Grants	1,163	2,115
Revenue	5,502	5,717
Unfinanced Capital Expenditure	**3,572**	**4,053**

The increase in the estimated use of capital receipts in 2019/20 is primarily due to schemes carried forward from 2018/19 and to the use of HRA capital receipts of £1,333,350 for the acquisition of properties and feasibility studies intended to result in further housing developments that were approved after the original budget for 2019/20 had been set.

It is anticipated that the schemes on the "reserve list" will be financed from capital receipts received at a future date. Unfinanced capital expenditure will be met from additional borrowing as set out above.

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position and represents net capital expenditure that has not yet been paid for by revenue or other resources.

Part of the treasury management activity seeks to address this borrowing need, either through borrowing from external bodies or utilising temporary cash resources within the Council.

As set out in 1(a) in appendix 1, the Council has not as yet taken out the anticipated borrowing of £4,052,450 in respect of the planned capital expenditure for 2019/20 shown as unfinanced above. It is likely that some of this borrowing will be delayed until 2020/21 if there is significant slippage in the capital programme from 2019/20 into the following year. Any additional borrowing to be undertaken will seek to align the Council's overall borrowing level with the CFR. The Council at 30 November 2019 has six short term loans totalling £11.0 million with other local authorities that are due to mature before 30 November 2020 as set out in 1(a) in appendix 1. Three of these short-term loans will mature before 31 March 2020. It is presently anticipated that all six short term loans will be replaced with similar loans upon maturity.

The Council's CFR will next be calculated as at 31 March 2020 when the financing of actual capital expenditure incurred in 2019/20 will be undertaken. This will be reported to this Committee in July 2020.

3. Prudential Indicators and Compliance Issues

Some of the prudential indicators provide either an overview or specific limits on treasury management activity. These are as follows:

i) Gross Borrowing Compared to the Capital Financing Requirement (CFR)

In order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, exceed the CFR. This indicator will be calculated at the end of 2019/20 and the result reported to this Committee in July 2020. It is presently anticipated that the Council will comply with this indicator.

ii) The Authorised Limit

This is the statutory limit determined under section 3(1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which could be afforded in the short term to maximise treasury management opportunities and cover temporary cash flow shortfalls, but is unlikely to be sustainable over the longer term. The table below demonstrates up to 30 November 2019, the Council has maintained gross borrowing within its authorised limit.

iii) The Operational Boundary

This indicator is based on the probable external debt during the course of the year. The operational boundary is not a limit and actual borrowing can vary around the levels shown for short times. The operational boundary should act as an indicator to ensure the authorised limit is not breached and is a key management tool for in year monitoring of treasury management activities by the Deputy Chief Executive.

	Amount £000's
Authorised Limit 2019/20	124,700
Operational Boundary 2019/20	99,750
Maximum Gross Borrowing (April – November 2019)	97,337

The maximum external debt in the period from April to November 2019 represents the gross borrowing figures as set out in 1(a) and includes the maximum amount received from Bramcote Crematorium during this period. The table above demonstrates up to 30 November 2019, the Council has maintained gross borrowing within its operational boundary.

iv) Ratio of Financing Costs to Net Revenue Stream

This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time. The indicator will be calculated for 2019/20 at the end of the financial year and reported to this Committee in July 2020.