Agenda Item No:	**8**	
Committee:	**Corporate Governance Committee**	
Date:	**5 November 2019**	
Report Title:	**Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2019/20**	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to review the Council's Treasury Management activity for the first six months of 2019/20 and to provide members with an update on matters pertinent to future updates to the Council's Treasury Management Strategy.

2 Key issues

- The Council has operated within its Treasury Management Strategy Statement (TMSS), Annual Investment Strategy, treasury limits and prudential indicators set by Council for the first six months of 2019/20.
- Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.
- In the six months to 30 September 2019 PWLB rates fell to unprecedented historic low levels. On 9 October 2019 HM Treasury responded to the change in market rates by increasing, with immediate effect, the margin on gilt yields used to determine the interest rate for new PWLB borrowing by 100bps (1%). The wider market is still evaluating the impact of HM Treasury's decision so it is too early to confirm the impact on the cost of borrowing. HM Treasury has signalled that it will keep the impact of the change under review. This is pertinent since some commentators believe that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields.
- Prudential indicators for the Capital Financing Requirement (CFR) and the capital position have been revised. Due to the Council's long term debt portfolio (£7.8m at 31/03/19) currently attracting excessive premiums for early redemption of debt, as has been the case since 2007, it is not financially advantageous for the Council to comply with the Gross Borrowing and Capital Financing Prudential Indicator in 2019/20.
- Investment income received for the first six months of 2019/20 is £107k which is an improvement on the original estimate for this period. Consequently, the budgeted outturn for the year has been revised upwards from £180k to £190k. Nevertheless market rates remain low and are expected to continue to remain so based on current medium-term forecasts.
- Overall interest rate achieved from investments for the first six months of 2019/20 was 0.89% (7 day LIBID uncompounded rate 0.57%).

- Property Funds formed part of the Council's Annual Investment Strategy approved in February 2019 and the Council is now considering their use to increase investment returns from surplus cash balances. The use of Property Funds, as opposed to bank deposits, increases the level of risks and reward associated with the Council's treasury management activity.

3 Recommendations

It is recommended that Members note the report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Contact Officer(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Background Paper (s)	Link Asset Services template Council Report - 21 February 2019 - General Fund Budget 2019/20 and Capital Programme 2019-22 Cabinet Report – 27 June 2019 - Capital Programme Update

Report:

1 Context

1.1 The Council's responsibilities in relation to Treasury Management are defined as part of the Local Government Act 2003 ('the Act'). The Act requires the Council to have regard to the Treasury Management Code published by the Chartered Institute of Public Finance and Accountancy, (CIPFA). CIPFA updated the Treasury Management Code in December 2017 and this report has been prepared with reference to the requirements set out in the updated Code.

1.2 Additionally, there is a statutory requirement for the Council to comply with the Prudential Code which is also published by CIPFA and was also updated in December 2017. There is a close interaction between the Treasury Management Code and the Prudential Code. The Prudential Code establishes a framework for the Council to self-regulate the affordability, prudence and sustainability of its capital expenditure and borrowing plans whilst the Treasury Management Code is concerned with how the Council uses its Treasury Management function to progress the future plans developed with reference to the Prudential Code.

1.3 Reductions in central government funding for local government and declining returns on deposits invested with financial institutions has led some local authorities to explore other avenues for generating investment returns, including investment in non-financial assets. The updates to the Treasury Management Code and the Prudential Code reflect these trends and this has been further underlined by statutory guidance on Local Government Investments published by the Ministry of Housing and Local Government in February 2018. In particular, there is a recognition that all authorities need to ensure they can clearly identify the strategic considerations underpinning their investment strategies and effective governance frameworks are in place to protect and preserve each authority's long-term financial sustainability. Specifically, from 2019/20, all local authorities are required to approve a Capital Strategy which is intended to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

The Council's Capital Strategy for 2019/20 was approved by Full Council on the 21 February 2019. The strategy will be reviewed later this year and the updated strategy for 2020/21 will be presented to Full Council in February 2020.

1.4 Following discussion at the meeting of Cabinet held on 18 September 2019 and Council's consideration of the proposed Commercial and Investment Strategy on 4 November 2019, Cabinet and Council will consider more detailed proposals at their meetings on 13 December 2019. The updated Capital Strategy will take account of these proposals and projections and estimates relating to treasury management will be revised where necessary.

Treasury Management

1.5 Treasury management is defined as "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks."

1.6 The Council complies with the requirements of CIPFA's Code of Practice on Treasury Management (revised 2017).

1.7 The primary requirements of the Code applicable to the 2019/20 financial year are as follows:

- Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by Full Council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies (including Mid-year Review Report) to a specific named body. For this Council the delegated body is Corporate Governance Committee.

1.8 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the following:

- an economic update for the first six months of 2019/20 taking account of expert analysis provided by the Council's Treasury Management Advisors, Link Asset Services;
- a review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- the Council's capital plans;
- a review of the Council's investment portfolio for 2019/20;
- a report of the Council's borrowing strategy for 2019/20;
- a report of debt rescheduling during 2019/20;
- a review of compliance with Treasury and Prudential Limits for 2019/20.

2 Economic Update

2.1 **UK.** This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or before 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing, (first week in October), the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover relatively quickly. The Monetary Policy Committee (MPC) could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in government departments and services annual expenditure budgets and expenditure on infrastructure projects, to boost the economy.

2.2 The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

2.3 As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

2.4 With regard to the labour market, despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

2.5 In the political arena, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

2.6 **USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

2.7 **EUROZONE.** Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of targeted longer-term refinancing operations (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy. On the political front, Austria, Spain and Italy are in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The recent results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

2.8 **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress also still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. The trade war with the US does not appear currently to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transhipping exports through other countries, rather than directly to the US.

2.9 **JAPAN** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

2.10 **WORLD GROWTH**. The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak

2.11 Prospects for interest rates and borrowings over the medium term are shown below.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

2.12 The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

2.13 Bond yields / PWLB rates. There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty 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. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten 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. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

2.14 In the six months to 30 September 2019 PWLB rates fell to unprecedented historic low levels. On 9 October 2019 HM Treasury responded to the change in market rates by increasing, with immediate effect, the margin on gilt yields used to determine the interest rate for new PWLB borrowing by 100bps (1%). There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to move forward e.g. Housing, should not be subject to such a large increase in borrowing.

2.15 The wider market is still evaluating the impact of HM Treasury's decision so it is too early to confirm the impact on the cost of borrowing. It is anticipated that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves and any changes to the sources and types of borrowing currently authorised will be included in the upcoming review of the Treasury Management Strategy Statement for 2020/21.

2.16 Some commentators believe that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be is very difficult to forecast with any degree of confidence. HM Treasury has signalled that it will keep the impact of the change in the method of determining interest rates on new PWLB borrowing under review.

3 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Council on 21 February 2019. There are no policy changes to the TMSS.

3.2 Property Funds formed part of the Council's Annual Investment Strategy approved in February 2019 and the Council is now considering their use to increase investment returns from surplus cash balances. The use of Property Funds, as opposed to bank deposits, increases the level of risks and reward associated with the Council's treasury management activity. (see paragraph 5 below).

3.3 Prudential indicators for the Capital Financing Requirement (CFR) and the capital position have been revised.

4 The Council's Capital Position

4.1 This part of the report is structured to update:

- the Council's capital expenditure plans;
- how these plans are being financed;
- the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and compliance with limits in place for borrowing activity.

4.2 At its meeting on 27 June 2019 the Cabinet approved revised estimates for the 2019/20 capital programme and the financing of that programme. The increase in the capital programme in 2019/20 is mainly a result of re-profiling of schemes and associated financing from 2018/19. The table below compares he revised estimates with the original capital programme which was incorporated into the 2019/20 Treasury Management Strategy Statement (TMSS).

Capital Programme	**2019/20 Original Estimate £000**	**2019/20 Revised Estimate £000**
Forecast Capital Expenditure	**5,909**	**6,623**
Financed by :		
Capital Grants	1,018	1,371
Section 106's & Contributions	150	285
Capital Receipts	467	467
Capital Reserves	470	726
Total Financing	**2,105**	**2,849**
Borrowing Requirement	**3,804**	**3,774**

4.3 The table below shows the anticipated CFR at 31 March 2020, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period; this is termed the Operational Boundary.

Prudential Indicators	**2019/20 Original Estimate £000**	**2019/20 Revised Estimate £000**
Capital Financing Requirement as at 31 March 2020	**5,144**	**4,056**
External Debt / Operational Boundary		
Borrowing	12,000	12,000
Other Long Term Liabilities Finance Leases	1,000	1,000
Total Debt 31 March	**13,000**	**13,000**

4.4 The Council's revised estimate for CFR is £1.088m lower than the original estimate. This results principally from increases in financing of the capital programme from internal resources (grants, reserves and contributions) and re-profiling of capital expenditure between years.

4.5 The Council has made provision to repay all 'borrowing' liabilities through increased Minimum Revenue Provision (MRP) in the General Fund revenue budget.

4.6 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. Members should note that the current limits and estimates set out below have been determined with reference to the existing capital programme. Should the Council decide to expand its capital programme as part of the proposed Commercial and Investment Strategy and/or decide to invest in Property Funds the limits and estimates set out below will need to be subject to review.

Limits to Borrowing Activity	**2019/20 Original Estimate £000**	**2019/20 Revised Estimate £000**
Gross Borrowing	10,536	7,800
Plus Other Long Term Liabilities Finance Leases	406	406
Anticipated Gross Borrowing as at 31 March 2020	**10,942**	**8,206**
Anticipated Capital Financing Requirement as at 31 March 2020	**5,144**	**4,056**

4.7 As a result of the Council's long term Public Works Loan Board (PWLB) debt portfolio of £4.5m (31/03/2019) currently attracting excessive premiums (£3.267m at the time of writing this report) if it were prematurely repaid, it is not financially advantageous for the Council to fully comply with this prudential indicator. This position has not changed following the change in the pricing of new PWLB borrowing explained in paragraph 2.14 above. A similar issue applies to the fixed rate loan of £3.3m which the Council has with Barclays. This has been the case since the housing stock transfer in 2007 and has been acknowledged and approved by Council since then. In addition, the Council's external auditors have also acknowledged this situation and have not raised any issues with our strategy.

4.8 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit, which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level for borrowing which, while not desired could be afforded in the short term but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	2019/20 Original Estimate £000	2019/20 Revised Estimate £000
Borrowing	17,000	17,000
Plus Other Long Term Liabilities Finance Leases	1,000	1,000
Total Borrowing	**18,000**	**18,000**

4.9 The Corporate Director & Chief Finance Officer reports that no difficulties are envisaged for the current year in complying with the above prudential indicators.

5 Investment Portfolio

5.1 In accordance with the Treasury Management Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in section 2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual, investment returns are likely to remain low.

5.2 The Council held investments of £24.65m as at 30th September 2019 (£20.2m at 31st March 2019). The investment portfolio yield for the first 6 months of the year is 0.89% (7 day LIBID uncompounded rate 0.57%).

5.3 The Corporate Director and Chief Finance Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20. The Council has achieved investment income of £107k to 30th September 2019.The 2019/20 projected outturn of £180k has been revised upwards to £190k.

5.4 Property Funds formed part of the Council's Annual Investment Strategy approved in February 2019 and the Council is now considering there use to increase investment returns from surplus cash balances.

5.5 The Council has engaged Link Asset Services (the council's treasury management advisors), to help with due diligence and the property fund selection process.

5.6 In line with the 2017 CIPFA Codes and guidance notes greater emphasis is placed on the enhanced importance of risk management. Should the Council decide to invest in a Property Fund(s) this increases the level of risk associated with the Council's treasury management activity as the value of investments can go down as well as up and the Council may get back less than they originally invested. During the previous five years property funds have generally generated better investment returns (through capital appreciation and income) than bank deposits, though past performance or future projections are not indicative of future returns. One of the main characteristics of investment in Property Funds, compared to bank deposits, is that the Council will need to be prepared to hold on to its investment for a longer period – typically at least five years – to benefit from capital appreciation in the underlying value of the investment. Officers are working with Link Asset Services to examine the opportunities and evaluate the risks associated with investing in this way.

6 Borrowing Strategy

6.1 The Council's estimated CFR for 2019/20 is £4.056m (including finance lease borrowing facilities). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

6.2 Full Council has approved the use of £3.8m of borrowing to support capital investment. The decision whether to undertake internal or external borrowing to meet the Council's financing requirements will be undertaken as and when the financing is required based on an assessment of market conditions and the Council's overall financial position at that time.

6.3 At this point in time, it is not anticipated there will be any further borrowing undertaken during this financial year.

7 Debt Rescheduling

7.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling was undertaken during the first six months of 2019/20.

7.2 The 100bps(1%) increase in PWLB rates from 9.10.19 only applied to new borrowing rates, not to premature repayment rates.