

Report to: **Audit Committee**
Date: **4 February 2021**
Title: **Treasury Management Mid-Year Review**
Portfolio Area: **Support Services – Cllr H Bastone**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**
Date next steps can be taken: **N/A**

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RECOMMENDATION:

It is RECOMMENDED that the Audit Committee resolves to endorse the contents of the report.

1. Executive summary

1.1 To date, the Council has outperformed the industry benchmark by 0.19%. The Council has achieved a rate of return of 0.24%, against the Sterling Overnight Interbank Average (SONIA) rate of 0.05%. The Council's budget for investment interest of £203,000 for 2020/21. The current forecast is £167,515 leaving a shortfall against budget of £35,485.

2. Background

2.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

2.3 Treasury management is defined as:

“The management of the local authority’s 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.”

2.4 The Council’s Finance Procedure Rules require that a report be taken to the Audit Committee three times a year on Treasury Management. The specific reporting requirements are:

- An annual treasury strategy in advance of the year (Council 30/04/2020 – 86/19)
- A mid-year (minimum) treasury update report (This report)
- An annual review following the end of the year describing the activity compared to the strategy

2.5 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (i.e. Treasury Management Strategy Statement (TMSS), annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.

3. Economics and Interest Rates

Economics Update

3.1 As expected, the Bank of England’s Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown. The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020. It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses. It also has “other instruments available”, including QE and the use of forward guidance. The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the “turn of the year”. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently. In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to downside risks, which were judged to persist both in the short

and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year.

3.2 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February.

3.3 The economy was recovering well towards the end of Q2 after a sharp drop in GDP. However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support. The Bank of England has forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

Interest Rate Forecast

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

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

3.5 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 meeting on 6th August (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

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

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

4. Treasury Management Strategy Statement

4.1 The Treasury Management Strategy Statement (TMSS) for 2020/21, was approved by the Council on 30/04/20 – 86/19. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

4.2 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value

available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

4.3 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5. Investment Portfolio 2020/21

5.1 In accordance with the 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 shown by the interest rate forecasts in 3.4, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

5.2 The Council held £44.833m of investments as at 30 September 2020 (£34.76m at 31 March 2020) and the investment portfolio yield for the first six months of the year is 0.24% against a benchmark (SONIA rate) of 0.05%. The £44.833m of investments is made up of Money Market Funds, Fixed Term Deposits and Property Funds.

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

Money Market Funds

Amount	Investment	Average Interest rate
£6,000,000	Aberdeen Standard Investments	0.24%
£1,850,000	Deutsche	0.13%
£6,000,000	BlackRock ICS-Inst GBP	0.16%
£6,000,000	LGIM Sterling Liquidity Fund	0.20%

The Council currently has four Money Market Funds. The money market funds allow immediate access to the Council’s funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

Fixed Term Deposits – Current

Counterparty	Fixed to	£	Interest Rate
Nationwide Building Society	09/10/2020	5,000,000	0.07%
Nationwide Building Society	15/10/2020	1,000,000	0.05%
Barclays Banks Plc	15/10/2020	3,500,000	0.05%
Lloyds Bank Plc	06/10/2020	5,000,000	0.10%
Lloyds Bank Plc	03/11/2020	1,000,000	0.10%
Debt Management Office	01/10/2020	1,643,500	0.01%
Debt Management Office	20/10/2020	4,700,000	0.01%

5.3 The Council's Investments mid-way through the year are always higher than at the end of the year (at 31st March) due to the cash flow advantage that the Council benefits from part way through the year.

This is, in part, due to the timing differences between the Council collecting council tax income and paying this over to major precepting authorities such as Devon County Council, the Police and the Fire Authority

The Council's current counterparty limit is £6 million (£7 million for Lloyds plc).

Property Funds

Amount	Investment	Dividend Yield
£1,347,588	CCLA – Property Fund	4.26%
£1,791,655	CCLA – Diversified Income Fund	3.46%

5.4 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2020/21.

5.5 The Council's budgeted investment return for 2020/21 is £203,000 and based on performance for the year to date a shortfall of £35,485 is expected.

Investment Counterparty Criteria

5.6 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Borrowing Position

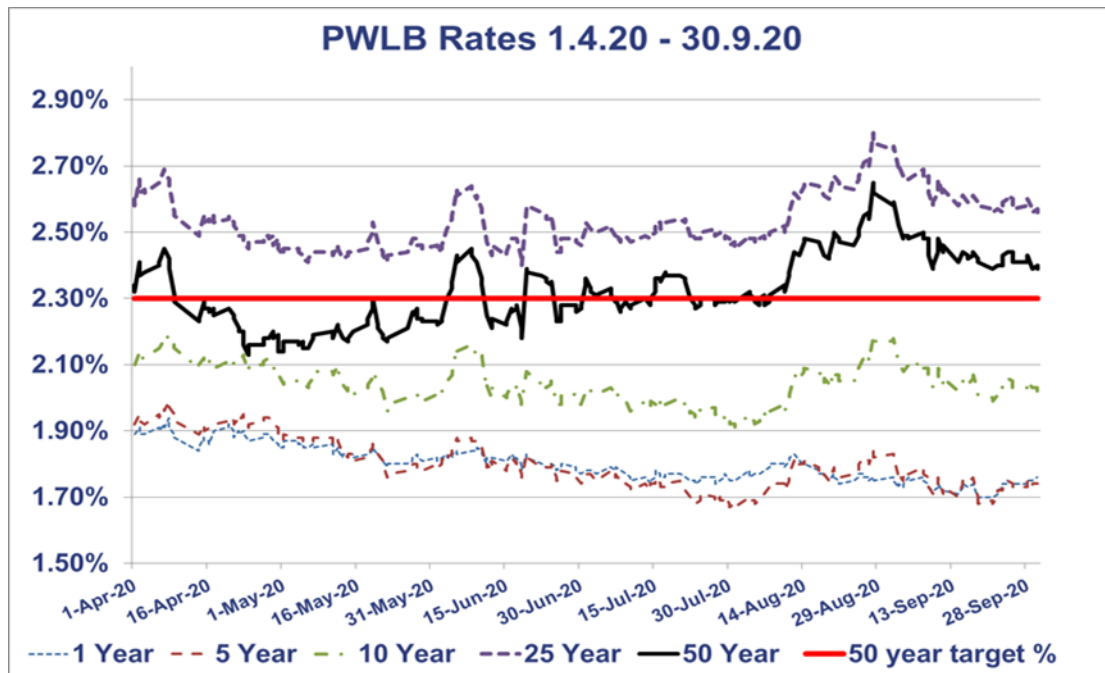
5.7 The Council's capital financing requirement (CFR) for 2020/21 is £13.20million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

A summary of the Council's debt position at 30 September 2020 compared with 31 March 2020 is shown in the table below:

Lender	Maturity	Interest Rate %	Principal held at 31 March 2020 £'000	Principal held at 30 Sept 2020 £'000
PWLB - Maturity	5-19 Years	2.41*	5,490	5,490
PWLB - Annuity	50 Years	1.97	3,977	3,952
PWLB - Annuity	50 Years	3.09	5,100	5,078
Total			14,567	14,520

*Average interest rate

5.8 PWLB rates varied within a relatively narrow range between April and July but the longer end of the curve rose during August. This increase came in two periods; the first in the second week of the month was on the back of hopes for fresh US stimulus. This saw investors switch monies out of government bonds and into equities. The second shift higher at the longer end of the curve came in the latter stages of the month as investors reacted to the announcement of the tweak to the Fed's inflation target. Despite moves further out in the yield curve, the short end remained anchored on the basis of no fundamental change to the interest rate outlook. The 50-year PWLB target rate for new long-term borrowing was unchanged at 2.30%.



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

On 26 November 2020, the Public Works Loans Board reduced interest rates by 1% for all new loans arranged from 26 November 2020. Local Authorities are required to submit a summary of their planned capital spending and PWLB borrowing for the following three years. This is updated on at least an annual basis. In March of each year, Council approves its Capital Strategy, Investment Strategy and Treasury Management Strategy. PWLB borrowing is permitted in the future for the four categories of regeneration, service delivery, housing and refinancing.

Debt Rescheduling

5.12 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2019. No debt rescheduling has therefore been undertaken to date in the current financial year.

6. Outcomes/outputs

6.1 The Council's budget for investment interest of £203,000 for 2020/21 is not expected to be met. A forecast of £167,515 will leave a shortfall of £35,485 against budget.

6.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The average SONIA rate at the end of September was 0.05% which is 0.19% lower than our average return of 0.24% as at 30 September 2020.

7. Options available and consideration of risk

7.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £6m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

7.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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

8. Proposed Way Forward

8.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

8.2 Following the increase in the cost of borrowing from the PWLB (1% increase), work is currently being undertaken to reassess the financial viability of capital projects included in the capital programme and business cases being considered under the Commercial Investment Strategy.

9. Compliance with Treasury Limits and Prudential Indicators

9.1 During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2020/21 are detailed and shown in Appendix B.

10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are the Local Government Act 1972 Section 151 and the Local Government Act 2003.
Financial implications to include reference to value for money	Y	To date, the Council has outperformed the industry benchmark by 0.19%. The Council has achieved a rate of return of 0.24%, against the Sterling Overnight Interbank Average rate (SONIA) of 0.05%. The Council's investment income target of £203,000 for 2020/21 is not expected to be met with a shortfall of £35,485.
Risk		<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Executive through the quarterly budget monitoring reports.</p>
Supporting Corporate Strategy		The treasury management function supports all six of the Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change – Carbon/Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Lending list as at 30 September 2020

Appendix B – Prudential and Treasury Indicators 2020/21

Background Papers:

Annual treasury strategy in advance of the year (Council 30/04/20 – 86/19)

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed/sign off	Yes
SLT Rep briefed/sign off	Yes
Relevant Heads of Practice sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	N/A

APPENDIX A

Counterparty as at 18th Sept 2020		Fitch Rating				Moody's Ratings			S&P Ratings			Suggested Duration	
United Kingdom		Long Term	Short Term	Viability	Support	Long Term	Short Term	Long Term	Short Term				
AAA Rated and Government Backed Securities	Collateralised LA Deposit*											Y - 60 mths	
	Debt Management Office											Y - 60 mths	
	Multilateral Development Banks											Y - 60 mths	
	Supranationals											Y - 60 mths	
	UK Gilts											Y - 60 mths	
Banks	Abbey National Treasury Services PLC	NO	A+	F1		1	NO	Aa3	P-1			O - 12 mths	
	Bank of Scotland PLC (RFB)	NO	A+	F1	a	5	NO	Aa3	P-1	NO	A+	A-1	O - 12 mths
	Barclays Bank PLC (NRFB)	NW	A+	F1	a	5	SB	A1	P-1	NO	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	NO	A+	F1	a	1	NO	A1	P-1	NO	A	A-1	R - 6 mths
	Close Brothers Ltd	NO	A-	F2	a-	5	NO	Aa3	P-1				R - 6 mths
	Goldman Sachs International Bank	NO	A+	F1		1	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	NO	AA	F1+		1				SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	NO	AA-	F1+	a	1	NO	Aa3	P-1	SB	A+	A-1	O - 12 mths
	HSBC UK Bank Plc (RFB)	NO	AA-	F1+	a	1	NO	Aa3	P-1	SB	A+	A-1	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	NO	A+	F1		1	SB	A1	P-1	NO	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	NO	A+	F1	a	5	NO	Aa3	P-1	NO	A+	A-1	O - 12 mths
	NatWest Markets Plc (NRFB)	NO	A+	F1	WD	1	PO	Baa2	P-2	SB	A-	A-2	G - 100 days
	Santander UK PLC	NO	A+	F1	a	2	NO	Aa3	P-1	NO	A	A-1	R - 6 mths
	Standard Chartered Bank	NO	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Sumitomo Mitsui Banking Corporation	NO	A	F1		1	SB	A1	P-1	SB	A	A-1	R - 6 mths
Building Societies	Coventry Building Society	NO	A-	F1	a-	5	NO	A2	P-1				R - 6 mths
	Leeds Building Society	NO	A-	F1	a-	5	NO	A3	P-2				G - 100 days
	Nationwide Building Society	NO	A	F1	a	5	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Skipton Building Society	NO	A-	F1	a-	5	SB	Baa1	P-2				G - 100 days
	Yorkshire Building Society	NO	A-	F1	a-	5	NO	A3	P-2				G - 100 days
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	NO	A+	F1	a	5	PO	A1	P-1	NO	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	NO	A+	F1	a	5	PO	A1	P-1	NO	A	A-1	B - 12 mths

Key	
Watches and Outlooks	Duration
SB Stable Outlook	Yellow - Y 60 Months
NO Negative Outlook	Blue - B 12 Months
NW Negative Watch	Orange - O 12 Months
PO Positive Outlook	Red - R 6 Months
PW Positive Watch	Green - G 100 Days
EO Evolving Outlook	
EW Evolving Watch	

APPENDIX B

PRUDENTIAL AND TREASURY INDICATORS 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure

This prudential Indicator is a summary of the Council's capital expenditure.

	2019/20 Actual £000	2020/21 Budget £000	2020/21 Estimate £000
General Fund services	4,691	8,482	4,297
Community Housing	-	5,400	-
Capital investments*	4,996	15,370	100
TOTAL	9,687	29,252	4,397

*Capital investments relate to areas such as capital expenditure on investment properties.

The estimate for 2020/21 is lower than the Budget due to the anticipated timing of spend on each of the projects. Some of the Budget for 2020/21 is anticipated to be spent in 2021/22.

The table below summarises the financing of the Council's capital programme.

	2019/20 Actual £000	2020/21 Budget £000	2020/21 Estimate £000
External sources	2,261	1,285	1,234
Own resources	2,189	4,557	1,108
Debt	5,237	23,410	2,055
TOTAL	9,687	29,252	4,397

NB. Please note that the budget for 2020/21 represents the approved capital programme for that year. However, the estimated capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.

The Council's Borrowing Need (the Capital Financing Requirement)

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-

financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	2019/20 Actual £000	2020/21 Budget £000	2020/21 Estimate £000
General Fund services	6,406	8,608	8,061
Community Housing	-	5,400	-
Capital investments	5,088	20,445	5,144
TOTAL CFR	11,494	34,453	13,205

The Council's Gross Debt and the Capital Financing Requirement

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £1.27m in 2020/21. This is only a short term position as this will finance future capital expenditure which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

	2019/20 Actual £000	2020/21 Budget £000	2020/21 Estimate £000
Debt	14,567	34,015	14,474
Capital Financing Requirement	11,494	34,453	13,205

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

The financing costs were increased in the 2020/21 budget to reflect the proposals within the commercial property acquisition strategy, and therefore increased this indicator. These proposals will now take place in 2021/22 and 2022/23.

	2019/20 Actual	2020/21 Budget	2020/21 Estimate
Financing costs (£m)	(165,967)	1,074,067	544,329
Proportion of net revenue stream	(1.9%)	11.4%	5.8%

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2019/20	2020/21
	£	£
Borrowing	70,000,000	70,000,000
Other long term liabilities	-	-
Total	70,000,000	70,000,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit

needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

Authorised limit	2019/20	2020/21
	£	£
Borrowing	75,000,000	75,000,000
Other long term liabilities	-	-
Total	75,000,000	75,000,000

South Hams District Council's current level of borrowing as at 30 September 2020 was £14.52 million.

As part of the Medium Term Financial Strategy, Members approved an overall Borrowing Limit of £75 million.