## Lancaster City Council | Report Cover Sheet

| | | | |
|---|---|---|---|
| **Meeting** | Cabinet | **Date** | 24 November 2020 |
| **Report of** | Chief Finance Officer | | |

**Purpose of Report**

This report seeks Cabinets consideration of various matters in connection with the Treasury Management Mid-Year Review 2020/21.

| | | | | | |
|---|---|---|---|---|---|
| **Key Decision (Y/N)** | **N** | **Date of Notice** | | **Exempt (Y/N)** | **N** |

**Report Summary**

This report provides Cabinet with

- Performance information in relation to the Council's Treasury Management Activities for the period 1st April to 30th September 2020 (Appendix A).

**Recommendations of Councillors**

That Cabinet

(1) Consider the various matters in connection with the Treasury Management Mid-Year Review 2020/21

(2) Forward the Mid-Year Review 2020/21 on to Budget & Performance Panel and Full Council for consideration in accordance with CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code.

**Relationship to Policy Framework**

Treasury Management forms part of the Councils budget framework

**Conclusion of Impact Assessment(s) where applicable**

| | |
|---|---|
| **Climate** | **Wellbeing & Social Value** |
| **Digital** | **Health & Safety** |
| **Equality** | **Community Safety** |

***A Thriving & Prosperous Economy:***

***Clean Green & Safe Neighbourhoods:***

***A Smart & Forward-Thinking Council***:

Effective Treasury Management and use of the Councils' resources is fundamental to the delivery of its priorities and outcomes

**Details of Consultation**

Consultation has been undertaken with the Council's external Treasury Management Advisors

| **Legal Implications** | |
|---|---|
| None directly arising from this report | |
| **Financial Implications** | |
| There are no financial implications arising directly from this report.<br><br>However, although currently impacted by COVID-19 areas of capital investments may require additional borrowing and other associated costs. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal and external advice considered ahead of any borrowing being incurred. | |
| **Other Resource or Risk Implications** | |
| There are no additional resource or risk implications | |
| **Section 151 Officer's Comments** | |
| The s151 Officer has written this report in his role as Chief Finance Officer | |
| **Monitoring Officer's Comments** | |
| The Monitoring Officer has been consulted and has no further comments | |
| **Contact Officer** | Paul Thompson |
| **Tel** | 01524 582603 |
| **Email** | pathompson@lancaster.gov.uk |
| **Links to Background Papers** | |
| | |

## 1.0 INTRODUCTION

1.0 The Council's Treasury Management Activities are regulated the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003

1.1 During 2020/21 the minimum reporting requirements are that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 26 February 2020)
- 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

1.2 In addition, Members will receive treasury management update reports on which are presented to Cabinet and Budget and Performance Panel.

## 2.0 BACKGROUND

2.1 The Mid-Year Review (Appendix A) sets out the performance of treasury operations for the first six months of the 2020/21 financial year in terms of long- and short-term borrowing, investment activities and relevant borrowing limits and prudential indicators.

2.2 Under CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) it is a requirement that an information report on these matters be presented to Cabinet and full Council.

## 3.0 SUMMARY DETAILS

<u>Investments</u>

3.1 The average level of funds available for investment purposes over the six-month period was £41.0M. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

3.2 The Council's investments returned an average rate 0.05% on deposit generating c£51K of interest against a budget of c£54K.

<u>Borrowing</u>

3.3 The Council has **<u>not</u>** undertaken any new borrowing which currently stands at £61.084M. This figure is spilt between the General Fund (£39.215M) and Housing Revenue Account (£22.869M). All current borrowing is via the Public Works Loan Board (PWLB) and is a mixture of Maturity and Equal Interest & Principal (EIP) loans with interest rates ranging from 3.03% - 7.87%.

3.4 Although COVID-19 has impacted the Council's capital programme it may be necessary to undertake some new borrowing during this financial year to deliver on its Priorities and Outcomes. This will be considered when the need arises and will be in consultation with the Council's external advisors.

Changes to Prudential Indicators

3.5 In compliance with the Prudential Framework the Council sets an annual Treasury Management Strategy including key indicators, determined under regulation, to assist Members in assessing the affordability of borrowing and in determining that it is prudent and sustainable.

3.6 This table shows the current estimates for the General Fund and Housing Revenue Account capital programmes, compared to the original estimates

| Capital Expenditure by Service | 2020/21 Original Estimate £m | 2020/21 Quarter 2 Position £m |
|---|---|---|
| Communities and Environment | 9.57 | 3.58 |
| Economic Growth and Regeneration | 6.26 | 7.01 |
| Corporate Services | 0.28 | 0.30 |
| Development Pool | 13.13 | 0.30 |
| **Total for General Fund** | **29.24** | **11.18** |
| **Council Housing (HRA)** | **4.12** | **3.54** |
| **Commercial activities/non-financial investments** | **16.00** | **16.00** |
| **Total Capital Expenditure** | **49.36** | **30.72** |

3.7 Capital Expenditure by service is in line with figures provided with the published Q2 monitoring (Delivering our Ambitions Q2). The reduction in capital expenditure reflects programmes placed on hold due to COVID-19.

3.8 This table shows the changes in the financing of the capital programmes, and the level of borrowing required.

| Capital Expenditure | 2020/21 Original Estimate £m | 2020/21 Quarter 2 Position £m |
|---|---|---|
| **Total capital expenditure** | **49.36** | **30.72** |
| Financed by: | | |
| Capital receipts | 0.57 | 0.56 |
| Capital grants | 12.09 | 7.56 |
| Capital reserves | 4.51 | 3.27 |
| Revenue | 0.00 | 0.01 |
| **Total Financing** | **17.17** | **11.40** |
| **Borrowing Requirement** | **32.19** | **19.33** |

3.9 The Capital Financing Requirement (CFR) measures the Council's underlining need to borrow for capital purpose, i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue

| Capital Financing Requirement | 2020/21 Original Estimate £m | 2020/21 Quarter 2 Position £m |
|---|---|---|
| General Fund | 57.67 | 45.05 |
| HRA | 37.25 | 37.25 |
| Commercial activities/non-financial investments | 30.75 | 20.93 |
| **Total Capital Financing Requirement** | **125.67** | **103.23** |
| **Net movement in CFR** | **38.97** | **-22.45** |

3.10 The table shows that the capital financing requirement (CFR) is £22.42M lower than the original estimate due to the 2020/21 Budget being set prior to the coronavirus outbreak and subsequent lockdowns which have prevented progress and restricted spending on non-urgent works.

3.11 A key control over treasury management activity is to ensure that over the medium term, net borrowing (borrowings less investments) will only be for capital purposes. Gross external borrowing should not, except in the short term, exceed the total capital financing requirement.

3.12 The table below shows compliance with this control as the Council's external borrowing £61.09M compared to its CFR £103.23M

| External Debt v Borrowing Need (CFR) | 2020/21 Original Estimate £m | 2020/21 Quarter 2 Position £m |
|---|---|---|
| External Debt | 62.13 | 62.13 |
| Other long term liabilities | -1.04 | -1.04 |
| Expected Change in Other long term liabilities | 33.00 | 0.00 |
| **Total Debt** | **94.09** | **61.09** |
| **Compared to current :** | | |
| **Capital Financing Requirement** | **125.67** | **103.23** |
| **Operational Boundary:-** | | |
| Debt | **125.67** | **125.67** |
| **Authorised Limit:-** | | |
| Debt | **142.00** | **142.00** |

## 4.0 OPTIONS AND OPTIONS ANALYSIS

4.1 As the report is for consideration and progressing to Council no alternative options are put forward.

## 5.0 CONCLUSION

5.1 Consideration of Treasury Management Mid-Year Review and presentation to Full Council will ensure the Council complies with CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

**Appendix A**

# Treasury Management Strategy Statement and Annual Investment Strategy

## Mid-Year Review 2020/21

## Report of Chief Finance Officer

## 1. Background

### Capital Strategy

In December 2017 CIPFA (Chartered Institute of Public Finance and Accountancy) issued revised Prudential and Treasury Management codes. As from 2020/21, all local authorities will be required to prepare a Capital Strategy which is intended to provide:

- 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

A report setting out our Capital Strategy was taken to Council on 26 February 2020.

### Treasury Management

The Council operates a balanced budget, which broadly means that 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 optimising investment return.

The second main function of the treasury management services 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, and, on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, 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."

## 2. Introduction

This report has been written in accordance with the requirements of CIPFA's Code of Practice for Treasury Management.

The primary requirements of the Code are as follows:

(i) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

(ii) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

(iii) 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.

(iv) 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.

(v) Delegation by the council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Budget and Performance Panel.

This mid-year report covers the following:

- An economic update for the first part of the 2020/21 financial year
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators
- A review of the Council's investment portfolio for 2020/21
- A review of the Council's borrowing strategy for 2020/21
- A review of any debt rescheduling undertaken during 2020/21
- A review of compliance with Treasury and Prudential Limits for 2020/21

## 3. Economics update (provided by Link Asset Services)

*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. Its forecasts were optimistic in terms of three areas:*

- *The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.*
- *The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.*
- *It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.*

*It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.*

*The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.*

*Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.*

*There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.*

*One key addition to **the Bank's forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate*

## 4. Interest Rate Forecast

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 |

*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 6$^{th}$ 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 31$^{st}$ March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged*

## 5. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy (TMS) for 2020/21, which includes the Annual Investment Strategy, was approved by the Council on 26 February 2020. There are no policy changes to the TMS; the details in this report update the position in light of the updated economic position and budgetary changes already approved.

## 6. Investment Portfolio

The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. As shown by forecasts in section 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.

Officers confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2020.

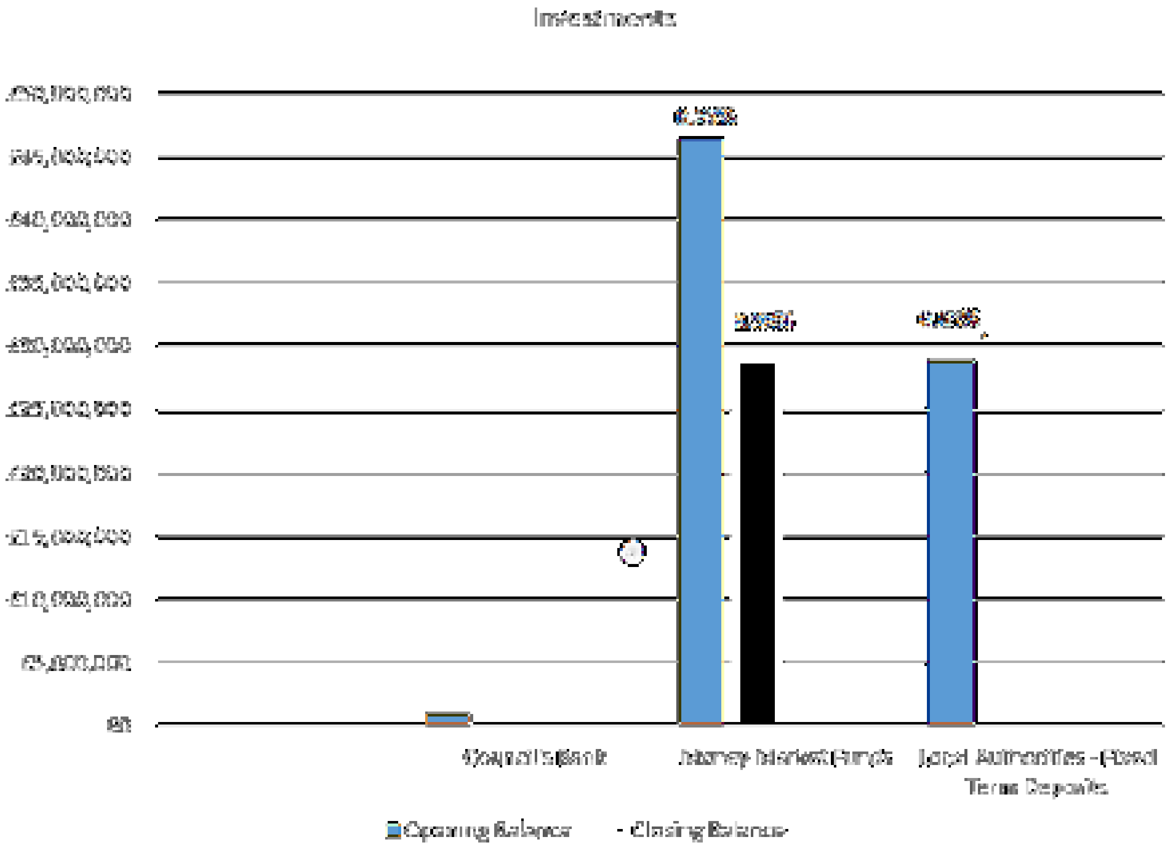
The average level of funds available for investment purposes over the six month period was **£41.0M**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates at the end of the period is as follows. This is viewed as reasonable performance, given the need to prioritise security of investments, and liquidity (i.e. making sure that the Council's cashflow meets its needs):

| | |
|---|---|
| Base Rate | 0.10% |
| 7 day LIBID | -0.06% |
| Lancaster City Council investments | 0.05% |

## Investment Balances – quarter ended 30 September 2020

At the start of the year investments totalled £75M falling to £29M by 30 September. Fixed term investments with local authorities fell to £0 whilst Money Market Fund balances fell to £29M.




| Other Investments | Term | Maturity Date | Opening 1.4.20 £ | Closing 30.9.20 £ | Indicative Rate (YTD) | Current Fixed Rate | Interest to Date £ |
|---|---|---|---|---|---|---|---|
| **Call Accounts** | | | | | | | |
| Natwest (Cash Manager Plus) | | | 1,029,364 | 511,305 | | 0.01% | 249 |
| **Money Market Funds** | | | | | | | |
| Blackrock Sterling Liquidity First Fund | | | 6,000,000 | 5,000,000 | 0.01% | | 3,896 |
| Blackrock Sterling Government Liquidity Fund | | | 4,400,000 | | 0.00% | | 297 |
| Insight | | | 6,000,000 | | 0.01% | | 2,740 |
| LGIM | | | 6,000,000 | 6,000,000 | 0.05% | | 6,162 |
| Aberdeen Life Investments | | | 6,000,000 | 6,000,000 | 0.09% | | 7,142 |
| Goldman Sachs | | | 6,000,000 | | 0.01% | | 2,230 |
| Lancashire County Council | | | 12,000,000 | 12,000,000 | 0.05% | | 1,020 |
| **Fixed Term Deposits** | | | | | | | |
| South Somerset Council | 19 days | 20/04/2020 | 4,000,000 | 0 | | 1.05% | 2,186 |
| Gwynedd Council | 16 days | 17/04/2020 | 5,000,000 | 0 | | 1.15% | 2,521 |
| Gloucester City Council | 16 days | 17/04/2020 | 5,000,000 | 0 | | 1.15% | 2,521 |
| London Borough of Islington | 30 days | 01/05/2020 | 5,000,000 | 0 | | 1.00% | 4,110 |
| London Borough of Barking & Dage | 26 days | 27/04/2002 | 5,000,000 | 0 | | 0.78% | 2,278 |
| Thurrock Council | 29 days | 30/04/2020 | 5,000,000 | 0 | | 0.85% | 3,377 |
| Cheshire East Council | 38 days | 29/05/2020 | 0 | 0 | | 0.30% | 1,562 |
| Cheshire East Council | 61 days | 29/07/2020 | 0 | 0 | | 0.28% | 2,340 |
| Perth & Kinross Council | 30 days | 27/05/2020 | 0 | 0 | | 0.45% | 1,849 |
| Cheltenham Borough Council | 31 days | 04/06/2020 | 0 | 0 | | 0.45% | 1,911 |
| Cheltenham Borough Council | 61 days | 04/08/2020 | 0 | 0 | | 0.30% | 2,507 |
| **Sub-total** | | | 76,429,364 | 29,511,305 | | | 50,886 |
| | | | | | | Budgeted income | 53,500 |
| | | | | | | | (2,614) |

**Investment Counterparty criteria**

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

## 7. Borrowing

The Council's capital financing requirement (CFR) for 2020/21 was forecast as £125.67M as set out at **Annex A.** 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. The Council currently has borrowings of £61.08M. It intended to utilise £31.59M of cash flow funds in lieu of borrowing and take out new borrowing of £33M. The current forecast CFR at quarter 2 is, however, £103.23M as some capital expenditure funded by unsupported borrowing is now expected to slip.

Due to the increase in PWLB margins over gilt yields in October 2019, and the subsequent consultation on these margins by HM Treasury - which ended on 31st July 2020 - the Authority has refrained from undertaking new long-term PWLB borrowing for the present and has met its requirements for additional borrowing by using short-term borrowing until such time as new PWLB margins are finally determined. In addition, the effect of coronavirus on the capital programme objectives are being assessed. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

It may remain necessary to undertake some new borrowing during this financial year.

## 8. Debt Rescheduling

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

.

## 9. Compliance with Treasury and Prudential Limits

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy and in compliance with the Council's Treasury Management Practices.

It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. During the half year ended 30th September 2020, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2020 and no difficulties are envisaged for the current or future years in complying with these indicators.

## 10. Other Issues

**Changes in risk appetite**

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or to other types of investment instruments this change in risk appetite and policy should be brought to members' attention in treasury management update reports. There are no such changes to report.

## PRUDENTIAL INDICATORS - MID YEAR REVIEW

There details in this annex update relevant prudential indicators to reflect the impact of the recommended investments

### Prudential Indicator for Capital Expenditure

This table shows the current estimates for the General Fund and Housing Revenue Account capital programmes, compared to the original estimates.

| Capital Expenditure by Service | 2020/21 Original Estimate £m | 2020/21 Quarter 2 Position £m |
|---|---|---|
| Communities and Environment | 9.57 | 3.58 |
| Economic Growth and Regeneration | 6.26 | 7.01 |
| Corporate Services | 0.28 | 0.30 |
| Development Pool | 13.13 | 0.30 |
| **Total for General Fund** | **29.24** | **11.18** |
| **Council Housing (HRA)** | **4.12** | **3.54** |
| **Commercial activities/non-financial investments** | **16.00** | **16.00** |
| **Total Capital Expenditure** | **49.36** | **30.72** |

### Changes to the Financing of the Capital Programmes

This table shows the changes in the financing of the capital programmes, and the level of borrowing required.

| Capital Expenditure | 2020/21 Original Estimate £m | 2020/21 Quarter 2 Position £m |
|---|---|---|
| **Total capital expenditure** | **49.36** | **30.72** |
| Financed by: | | |
| Capital receipts | 0.57 | 0.56 |
| Capital grants | 12.09 | 7.56 |
| Capital reserves | 4.51 | 3.27 |
| Revenue | 0.00 | 0.01 |
| **Total Financing** | **17.17** | **11.40** |
| **Borrowing Requirement** | **32.19** | **19.33** |

### Changes to the Capital Financing Requirement

The following table shows that the capital financing requirement (CFR) is £22.42M lower than the original estimate due to the 2020/21 Budget being set prior to the coronavirus outbreak and subsequent lockdowns which have prevented progress and restricted spending on non urgent works.

| Capital Financing Requirement | 2020/21 Original Estimate £m | 2020/21 Quarter 2 Position £m |
|---|---|---|
| General Fund | 57.67 | 45.05 |
| HRA | 37.25 | 37.25 |
| Commercial activities/non-financial investments | 30.75 | 20.93 |
| **Total Capital Financing Requirement** | **125.67** | **103.23** |
| **Net movement in CFR** | **38.97** | **-22.45** |

| External Debt v Borrowing Need (CFR) | 2020/21 Original Estimate £m | 2020/21 Quarter 2 Position £m |
|---|---|---|
| External Debt | 62.13 | 62.13 |
| Other long term liabilities | -1.04 | -1.04 |
| Expected Change in Other long term liabilities | 33.00 | 0.00 |
| **Total Debt** | **94.09** | **61.09** |
| **Compared to current :** | | |
| **Capital Financing Requirement** | **125.67** | **103.23** |
| **Operational Boundary:-** | | |
| Debt | **125.67** | **125.67** |
| **Authorised Limit:-** | | |
| Debt | **142.00** | **142.00** |

Definitions:
Operational Boundary
The limit beyond which external debt is not normally expected to exceed is known as the operational boundary.

**Authorised Limit for External Debt**
A further prudential indicator controls the overall level of borrowing. This is the authorised limit which represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, whilst not desired, could be afforded in the short term, but it is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements.