Report of the Interim Deputy Chief Executive

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS – ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

1. Purpose of report

To inform the Committee of treasury management activity and the actual prudential indicators for 2017/18.

2. Detail

This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. Both Codes were revised in December 2017 and further details of the changes are set out in appendix 1.

During 2017/18 the minimum reporting requirements were that an annual treasury management strategy be approved in advance of the year, a mid year report and finally an annual report be produced following the year describing the activity compared to the strategy. This report fulfils this requirement.

The Council is required to comply with both Codes through regulations issued under the Local Government Act 2003.

The CIPFA Code of Practice on Treasury Management required the Section 151 Officer to operate the treasury management function in accordance with the treasury management strategy approved at the Council meeting of 6 February 2017. Details of all borrowing and investment transactions for 2017/18 together with the balances at 31 March 2018 and treasury management limits on activity are also provided in appendix 1. There are no issues of non-compliance with these practices that need to be reported to the Committee.

Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council is required to prepare a number of prudential indicators against which treasury management performance should be measured. Performance against prudential indicators is given in appendix 2.

Recommendation

The Committee is asked to NOTE the annual report for the year ended 31 March 2018.

Background papers
Nil

APPENDIX 1

1. Local Authority Regulatory Changes

   a) CIPFA Code Changes

   CIPFA published revised versions of the Code of Practice on Treasury Management and the Prudential Code for Capital Financing in Local Authorities in December 2017. The required changes from the previous versions of the Codes published in 2011 will be incorporated within the Treasury Management Strategy Statement and the Investments Strategy from 2018/19.

   The revised Code of Practice on Treasury Management has widened the definition of "investments" to include financial assets as well as non financial assets held primarily for financial returns such as investment property. These, along with other investments made for non treasury management purposes (such as loans supporting service outcomes and investments in subsidiaries) must be set out in the Capital Strategy (see below) or Investments Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

   The revised Prudential Code for Capital Financing in Local Authorities introduces a requirement for the production of a Capital Strategy. This is intended to provide a high level overview of the Council's capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed in order to ensure future financial sustainability. The Capital Strategy will be presented to a meeting of full Council for approval which, in turn, will allow the Treasury Management Strategy Statement to be approved by the Finance and Resources Committee as part of the Budget Proposals and Associated Strategies in February each year.

   b) Investment and Minimum Revenue Provision (MRP) Guidance

   In February 2018 the Ministry of Housing, Communities and Local Government (MHCLG) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

   The most significant changes to the Investment Guidance include a wider definition of "investments" to include non-financial assets held primarily for generating an income return along with a new category called "loans" (eg. the temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Investment Guidance introduces the concept of "proportionality", proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. The Investment Strategy must now detail the extent to which service delivery objectives are reliant on investment income and include a contingency plan should yields on investments fall.

The MRP Guidance has changed the definition of prudent MRP to "put aside revenue over time to cover the capital financing requirement (CFR)". MRP can now not be a negative charge and can only be zero if the CFR is nil or negative. The guidance on asset lives has been updated and applies to any calculation of MRP using the asset life method. Any change in MRP Policy cannot create an overpayment of MRP and the new MRP Policy must only be applied to the outstanding CFR going forward.

c) Second Markets in Financial Instruments Directive (MiFID II)

Following the introduction of the second Markets in Financial Instruments Directive (MiFID II) on 3 January 2018, local authorities were automatically treated as retail clients but could "opt up" to professional client status providing certain criteria were met. These criteria included having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the Council having at least one year's professional experience.

The Council has met the conditions necessary to opt up to professional status and has done so in order to maintain the its erstwhile MiFID II status prior to 3 January 2018. This means that the Council will continue to have access to financial products including money market funds, pooled funds, treasury bills, bonds and shares as well as to financial advice.

2. Borrowing

a) Debt Outstanding and Transactions during the Year

Loan debt outstanding as at 31 March 2018 together with comparative figures for 31 March 2017 are shown below:

	Amount Outstanding at 31 March 2018 £	Amount Outstanding at 31 March 2017 £
Short Term Loans	15,696,980	13,557,237
Long Term Loans:		
Public Works Loan Board	79,789,061	79,797,584
Local Authorities	0	2,000,000
Barclays Bank	3,000,000	3,000,000
	98,486,041	98,354,821

Short term loans outstanding at 31 March 2018 included £688,456 invested with the Council by the Bramcote Crematorium Joint Committee at 31 March 2018. The equivalent figure was £549,549 as at 31 March 2017.

The short term loans outstanding at 31 March 2018 consists of two loans of £1.0m and £2.0m each from Tendring District Council, loans of £2.0m each from Bolsover District Council, Wokingham Borough Council, South Northamptonshire Council and Vale of Glamorgan Council. There were also two loans for £1.0m each from Lancaster City Council and Hyndburn Borough Council. In addition to the above the £2.0m loan from London Borough of Hounslow Council has now been moved from long term loans to short term loans as it is due to mature on the 29 May 2018. Short term loans outstanding at 31 March 2018 also include nominal PWLB annuities totalling £8,523.

The Council has a loan of £3.0m at 4.19% with Barclays Bank that is due to mature on 4 February 2073. This is now a fixed rate loan.

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

The approved budget for 2017/18 indicated that further borrowing of £3,438,000 would be required to help fund the 2016/17 capital programme. As set out in 2 (b) below, no additional borrowing was undertaken in 2017/18 in an attempt to bring greater alignment between the overall borrowing level and the Council's underlying need to borrow as measured by the capital financing requirement (CFR).

b) <u>Loan Replacements</u>

Short term loans at 31 March 2017 included two £1.0m loans from Hyndburn Borough Council originally taken for 364 days at 0.55% that matured on 12 and 15 May 2017 respectively. These loans were replaced with a £2.0m loan for nine months at 0.42% from Vale of Glamorgan Council that matured on 22 February 2018. This loan was effectively replaced with a £1.0m loan on 20 December 2017 from Hyndburn Borough Council for 364 days at 0.62% that is due to mature on 19 December 2018 and with a further £1.0 loan on 28 February 2018 from Tendring District Council for six months at 0.52% that is due to mature on 28 August 2018.

There were two short term loans for £1.0m at 31 March 2017 that matured on 31 July 2017. The first loan was for 364 days from Tendring District Council at 0.38% and the second loan was from Hartlepool Borough Council for nine months at 0.33%. Neither of these loans were replaced upon maturity.

There was a short term loan for £2.0m at 31 March 2017 for 364 days from Lichfield District Council at 0.45% that matured on 19 February 2018. This was replaced with a further £2.0m from Vale of Glamorgan on 5 February 2018 at 0.50% that matured on 19 April 2018.

Short term loans at 31 March 2017 included a £3.0m loan for six months at 0.44% from Basildon District Council that matured on 29 September 2017. This loan was replaced upon maturity by a £2.0m loan from Bolsover District Council for nine months at 0.36% that matured on 29 June 2018 and a £1.0m loan from Lancaster City Council for 364 days at 0.40% that is due to mature on 28 September 2018.

There was a short term loan for £2.0m at 31 March 2017 for six months from Tendring District Council at 0.45% that matured on 20 September 2017. This loan was replaced on 2 October 2017 by a £2.0m loan again from Tendring District Council for nine months at 0.35% and which matured on 2 July 2018.

There was also a short term loan for £2.0m at 31 March 2017 for six months from Basildon District Council at 0.45% that matured on 18 September 2017. This loan was replaced upon maturity by a £2.0m loan from South Northamptonshire Council for nine months at 0.36% that matured on 18 June 2018.

Long term loans at 31 March 2017 included a £2.0m loan for 2 years at 0.85% from the London Borough of Hounslow. This is shown as a short term loan at 31 March 2018 and matured on 29 May 2018.

c) New Borrowing 2017/18

No new borrowing was undertaken in 2017/18. As set out above, all borrowing activity concerned the replacement of loans that matured during the year.

d) Debt Profile and Short-Term Borrowing

i) Debt Profile

The Council's debt had an average of 9.97 years to maturity at 31 March 2018 (31 March 2017 – 10.89 years). The average interest rate payable at that date was 2.91% (31 March 2017 – 2.92%).

The one-off preferential rates offered by the PWLB for the £66.446m additional loans taken out in March 2012 as part of the reform of council housing finance and the maturity profiles for these loans have a significant impact upon both the average interest rate payable and the debt profile.

ii) Short Term Borrowing

As set out in 1 (a) and (b) above, the approach to short term borrowing undertaken during 2017/18 was either to replace existing loans upon maturity or to align the overall level of borrowing with the Council's need to borrow as measured by the CFR.

No additional short-term borrowing for cash flow or other purposes was necessary during the financial year.

e) Debt Restructuring

The Section 151 Officer in association with the Council's treasury management advisors carefully scrutinises the Council's loan portfolio to identify potential opportunities to achieve a reduction in risks and/or savings in interest costs by prematurely repaying loans and refinancing them on similar or different terms.

No suitable debt restructuring opportunities were identified in 2017/18 as the cost associated with the high premiums payable on the premature repayment of leans, ranging from 8% to 80% of the loan principal amount, was not outweighed by lower refinancing rates.

3. Investments

a) Investment Policy

The Council's investment policy is governed by CLG Guidance and was incorporated in the annual investment strategy approved at the Council meeting on 6 February 2017. The investment activity during 2017/18 conformed to the approved strategy with security of capital being the Council's main investment objective.

Counterparty credit quality was assessed and monitored with reference to credit ratings and other available information. The minimum long-term counterparty credit rating determined for the 2017/18 investment strategy was BBB+ (or equivalent) across the Fitch, Standard and Poor and Moody's credit rating agencies.

In keeping with the CLG Guidance, the Council sought to maintain a sufficient level of liquidity through the use of money market funds (MMFs) and overnight deposit/call accounts. The Council had no liquidity difficulties in 2017/18.

The Council attempted to optimise returns commensurate with its objectives of security and liquidity.

b) Interest Received

The total interest receivable for the year amounted to £171,702.83 (2016/17 - £139,224) and included £14,400 in respect of an investment in a Local Authority Mortgage scheme (LAMS). In addition, investment interest of £89,623 was received in 2017/18 from investments totalling £2.0m made in the Local Authorities Property Fund (LAPF) in 2015/16.

The table in 2 (d) includes details of the changes in the average life of investments during 2017/18.

The average interest rate received on investments was 1.03% in 2017/18 compared to 1.33% in 2016/17. The United Kingdom bank rate increased from 0.25% to 0.50% with effect from November 2017. Short term money market rates also remained at very low levels and this had a significant impact upon the level of investment income. The average 3 month LIBID (London Interbank Bid) rate during 2017/18 was 0.27%, the 6 month LIBID rate averaged 0.38% and the 1 year LIBID rate averaged 0.59%. The rates of return on the Council's investments reflect prevailing market conditions and the Council's objective of optimising returns commensurate with the principles of security and yield.

c) Investments Placed

A summary of all investments placed during 2017/18 is set out in the table below.

	Balance at 01/04/2017 £000s	Investments Made £000s	Investments Repaid £000s	Balance at 31/03/2018 £000s	Increase/ Decrease in Investments
UK Banks and Building Societies					
Barclays	30	245	-	275	245
Santander UK	2,000	11,000	(12,840)	160	(1,840)
Bank of Scotland	-	7,500	(7,500)	-	-
Local Authorities Property Fund (LAPF)	2,000	-	-	2,000	-
Other Local Authorities					
Kingston Upon Hull CC	-	2,000	(2,000)	-	-
Forest of Dean DC	-	2,000	-	2,000	2,000
Blackpool BC	-	2,000	-	2,000	2,000
East Dunbartonshire	-	2,000	-	2,000	2,000
Money Market Funds					
Standard Life MMF	2,230	19,565	(21,795)	-	(2,230)
LGIM MMF	985	8,865	(9,270)	580	(405)
Insight MMF	715	23,035	(21,590)	2,160	1,445
Royal London Cash Plus	1,000	1,000	-	2,000	1,000
Federated MMF/ Cash Plus	-	27,050	(27,050)	-	-
Total	**8,960**	**106,260**	**(102,045)**	**13,175**	**4,215**

Investments with counterparties such as Santander UK and Money Market Funds are set up as individual accounts where funds can be placed short-term (often overnight) and monies withdrawn as and when required. This has a major impact upon the number of investments made with these institutions during the year.

The Council took advantage of the opportunity to invest with other local authorities during 2017/18. These investments totalled £6.0m invested at 31 March 2018.

d) Credit Score Analysis

Counterparty credit quality has been maintained during 2017/18 as demonstrated by the quarterly credit score analysis figures shown in the following table:

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life of Investments (Days)
31/03/2017	4.98	A+	5.29	A+	9
30/06/2017	4.99	A+	5.32	A+	24
30/09/2017	5.14	A+	5.30	A+	41
31/12/2017	4.96	A+	5.02	A+	28
31/03/2018	4.10	AA-	3.64	AA-	27

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

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

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

The Council aimed to achieve an average score of 5 or lower in order to reflect its overriding priority of maintaining the security of any sums invested. The minimum credit rating threshold of BBB+ for investment counterparties as set out in the 2017/18 investment strategy equates to a score of 8. The tables above show that the Council achieved the targets for the average credit risk score and credit rating throughout 2017/18.

4. Treasury Management Limits on Activity

There are four treasury management indicators that were previously prudential indicators. The indicators are:

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

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

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

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

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

	2017/18 Planned Upper		**2017/18 Actual 31 March 2018**	
Limits on fixed interest rates	100%		84%	
Limits on variable interest rates	40%		16%	
Maturity Profile of Borrowings				
	Lower	**Upper**	**Lower**	**Upper**
Under 12 months	0%	50%	0%	16%
12 months to 2 years	0%	50%	0%	0%
2 years to 5 years	0%	50%	0%	10%
5 years to 10 years	0%	75%	0%	42%
10 years to 20 years	0%	100%	0%	25%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	3%
40 years to 50 years	0%	100%	0%	0%
50 years and above	0%	100%	0%	3%

* The CIPFA Prudential Code for Capital Finance in Local Authorities requires indicators to be set for the maturity structure of fixed borrowing only. The above limits applied equally to total borrowing (fixed and variable borrowing).

As suggested in the CIPFA Code of Practice on Treasury Management, all investments (whether fixed or variable rate) with a period of less than twelve months to maturity are regarded as variable rather than fixed rate investments as they are potentially subject to movements in interest rates when they mature. Likewise, any fixed rate borrowing that is due to mature within twelve months is regarded as being at a variable rate as the rate to be paid on any replacement loan could differ from the rate currently being paid.

With regard to the total principal funds invested, the investment strategy 2017/18 proposed that investments would only be made with those institutions on the counterparty list that were viewed as presenting the least risk. The investment strategy 2017/18 set an upper limit for total principal funds invested over 364 days of £4 million.

At 31 March 2018 the Council's investments over 364 days totalled £4.0m. This consists of £2.0m invested in the Royal London Enhanced Cash Plus Fund and £2.0m in the Local Authorities Property Fund (LAPF).

5. Regulatory Framework, Risk and Performance

The Council has complied with all of the relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular, the Council's adoption of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities means that its capital expenditure is prudent, affordable and sustainable and that its treasury management practices demonstrate a low risk approach.

6. Banking Services

Cabinet on 4 November 2014 resolved that a contract for the provision of banking services be awarded to Barclays Bank for four years from 1 April 2015 with the option to extend this for a further two years.

APPENDIX 2

Prudential Indicators

1. Introduction

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

2. Capital Expenditure and Financing 2017/18

   The Council undertakes capital expenditure on assets which have a long term value. These activities may either be:

   - Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc) which has no resulting impact upon the Council's borrowing need; or

   - If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

   The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2016/17 Actual £000s	**2017/18 Estimate £000s**	**2017/18 Actual £000s**
General Fund	9,978	2,996	1,858
HRA	7,813	4,704	4,645
Total Capital Expenditure	**17,791**	**7,700**	**6,503**
Financed by:			
Capital Receipts	1,526	404	157
Capital Grants	827	2,538	740
Revenue	6,865	4,044	5,162
Unfinanced Capital Expenditure	**8,573**	**714**	**444**

   Further details of capital spending for 2017/18 are reported separately on this agenda.

3. The Council's Overall Borrowing Need

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position and represents net capital expenditure in 2017/18 and prior years that has not yet been paid for by revenue or other resources.

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

Whilst additional borrowing can be undertaken or existing loans repaid at any time within the confines of the treasury management strategy, the Council is required by statute to make an annual revenue charge to reduce the CFR. This charge is effectively a repayment of the General Fund borrowing need and is known as the minimum revenue provision (MRP).

The total CFR can also be reduced by:

- The application of additional capital resources (such as unapplied capital receipts); or

- Charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision (VRP)

The Council's 2017/18 MRP Policy (as required by CLG Guidance) was approved at the Council meeting on 6 February 2017. For expenditure incurred before 1 April 2008, the General Fund MRP was based upon 4% of the CFR at that date. For all unsupported borrowing incurred from 1 April 2008, the MRP was based upon the estimated life of the assets that the borrowing was intended to finance.

There is no statutory requirement to charge MRP to the HRA. However, an authority can charge VRP to the HRA should it wish to do so. The Council meeting on 6 February 2017 determined that no VRP was to be charged to the HRA in 2017/18.

The Council engaged its treasury management advisors (Arlingclose) in March 2018 to undertake a review of its MRP Policy to ensure it was aligned with the Council's objectives and to determine if there were any opportunities for savings and other benefits from by adopting alternative approaches.

The Arlingclose analysis found that a significant overprovision for MRP had been made in previous years in respect of borrowing for capital expenditure incurred prior to the introduction of new regulations in 2008 due to not applying a reducing balance approach. This, in association with a move to an annuity based as opposed to equal instalment approach to more accurately reflect the time value of money for borrowing from April 2008 and an adjustment for an under-provision of MRP in 2011/12 resulted in an MRP credit in 2017/18 of £0.183m as shown in the table below.

MRP Charge 2017/18	Total £000s
MRP on Pre April 2008 Borrowing	373
Over Provision of MRP from 2008/09 to 2016/17	(934)
Adjustment for 2011/12 MRP Charge	99
MRP on Post April 2008 Borrowing (Using Annuity Approach)	279
Total	**(183)**

The adoption of the reducing balance approach on borrowing for capital expenditure incurred prior to the introduction of new regulations in 2008 and the move to an annuity based as opposed to equal instalment approach to more accurately reflect the time value of money for borrowing from April 2008 are consistent with the MRP Policy for 2017/18 approved by the Finance and Resources Committee on 6 February 2017 and by Council on 1 March 2017.

The Council's CFR for 2017/18 represents a key prudential indicator and is shown below.

Capital Financing Requirement (CFR)	General Fund £000s	HRA £000s	Total £000s
Opening Balance at 1 April 2017	**17,939**	**81,330**	**99,269**
Add: Unfinanced Capital Expenditure 2017/18 (per above)	444	0	444
Add: MRP/VRP in 2017/18	183	0	183
Closing Balance at 31 March 2018	**18,566**	**81,330**	**99,896**

4. Treasury Position at 31 March 2018

Whilst the Council's gauge of its underlying need to borrow is the CFR, the Section 151 Officer can manage the Council's actual borrowing position by either:

- Borrowing to the CFR; or
- Choosing to utilise some temporary internal cash flow funds in lieu of borrowing (under borrowing); or
- Borrowing for future increases in the CFR (borrowing in advance of need)

The figures in this report are based upon the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest.

The Section 151 Officer managed the debt position in 2017/18 by, on occasions, choosing to utilise some temporary internal cash flow funds in lieu of additional borrowing.

The treasury position at 31 March 2018 compared with the previous year was:

Actual Borrowing Position	**31 March 2017**		**31 March 2018**	
	Principal £000s	**Average Rate**	**Principal £000s**	**Average Rate**
Fixed Interest Rate Debt	98,355	3.06%	98,486	2.89%
Variable Interest Rate Debt	0	0.0%	0	0.0%
Total Debt	**98,355**	**3.06%**	**98,486**	**2.89%**
Capital Financing Requirement				
CFR – General Fund	17,939		18,566	
CFR – HRA	81,330		81,330	
Total Capital Financing Requirement	**99,269**		**99,896**	
Over/(Under) Borrowing	**(914)**		**(1,410)**	

5. Prudential Indicators and Compliance Issues

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

i) Gross Borrowing and the Capital Financing Requirement (CFR)

In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council needs to ensure that its gross borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional increases to the CFR for the current and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes. The table below highlights the Council's gross borrowing position against the CFR.

	31 March 2017 Actual	**31 March 2018 Planned**	**31 March 2018 Actual**
	£'000	**£'000**	**£'000**
Gross Borrowing			
- PWLB and Market	97,805	97,798	97,798
- Bramcote Crematorium	550	382	688
Gross Borrowing Position	**98,355**	**98,180**	**98,486**
Capital Financing Requirement (CFR)			
CFR – General Fund	17,939	17,775	18,566
CFR – HRA	81,330	81,330	81,330
Total CFR	**99,269**	**99,105**	**99,896**

The Section 151 Officer can report that gross borrowing was below the CFR at 31 March 2018 as it was at 31 March 2017. Gross borrowing in terms of

PWLB and market loans remained largely unchanged throughout 2017/18 with the only movement being the repayment of some PWLB annuity loans. The increase in borrowing from Bramcote Crematorium over 2017/18 reflects their healthy financial position.

The CFR increased by £0.627m during 2017/18 due to unfinanced capital expenditure of £0.444m in the year plus MRP of £0.183m as set out in 3 above.

As stated above, gross borrowing at 31 March 2018 was below the CFR and it is anticipated that gross borrowing will continue to be below the CFR over the current and following two financial years. Any borrowing decisions will take account of the effect upon the total CFR.

ii) Authorised Limit and Operational Boundary for External Debt

The authorised limit is a statutory limit determined under section 3 (1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which could be afforded in the short term to maximise treasury management opportunities and cover temporary cash flow shortfalls, but is unlikely to be sustainable over the longer term. The table below demonstrates that during 2017/18 the Council has maintained gross borrowing within its authorised limit.

The operational boundary is based on the probable external debt during the course of the year. The operational boundary is not a limit and actual borrowing can vary around the levels shown for short times. The operational boundary should act as an indicator to ensure the authorised limit is not breached and is a key management tool for in year monitoring of treasury management activities by the Section 151 Officer.

Actual external debt is gross borrowing plus other long-term liabilities. As mentioned previously, gross borrowing includes sums invested with the Council by Bramcote Crematorium. Other long-term liabilities are liabilities outstanding (other than borrowing) in relation to the financing of capital expenditure. They relate to, for example, private finance initiative (PFI) credits or finance leases. The Council did not have such long-term liabilities at 31 March 2018 or at any stage during 2017/18.

	Operational Boundary 31 March 2018 £000	Authorised Limit 31 March 2018 £000	Actual External Debt 31 March 2018 £000
Borrowing	**98,750**	**123,450**	**98,486**
Other Long-Term Liabilities	**0**	**0**	**0**
Total	**98,750**	**123,450**	**98,486**

The Section 151 Officer reports that there were no breaches of the authorised limit during 2017/18. The maximum level of borrowing during 2017/18 was £100.4m.

iv) Total Principal Sums Invested over 364 Days

This limit is intended to contain exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. If an investment has to be re-paid before its natural maturity date due to cash flow requirements then, if market conditions are unfavourable, there could be an adverse impact upon the Council.

The Council's policy for 2017/18 as set out in the annual investment strategy was to retain the flexibility to invest a proportion of its available balances for a period in excess of 364 days should credit conditions continue to show signs of stabilisation or improvement. An upper limit of £4.0m for these investments was set based upon 40% of an estimated in-year average of total investments of £10.0m. Details of investments made for a period greater than 364 days are set out in section 3 of appendix 1.

v) Adoption of the CIPFA Code of Practice on Treasury Management

As per the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes at the cabinet meeting of 26 February 2002. The CIPFA Code of Practice on Treasury Management was initially revised in 2009 and then revised again in 2011 to reflect recent developments and anticipated regulatory changes relating to the Localism Act 2011 including housing finance reform and the introduction of the General Power of Competence. The Council has incorporated the changes from the latest revised CIPFA Code of Practice on Treasury Management into its treasury management policies, procedures and practices. All treasury management activity complies with relevant statute, guidance and accounting standards.

vi) The Ratio of Financing Costs to Net Revenue Stream

This indicator as shown in the table below compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time.

	2016/17 Actual	**2017/18 Revised**	**2017/18 Actual**
General Fund	8.8%	14.6%	2.9%
HRA	15.5%	14.5%	14.6%

The actual ratio id General Fund financing costs to net revenue stream was significantly lower than had been anticipated due to the MRP charge for 2017/18 as set out in section 3. This followed the review of the MRP policy by the Council's treasury management advisers (Arlingclose) that found, among other items, a significant overprovision for MRP in previous years in respect of borrowing before the introduction of new regulations in 2008.

vii) Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the incremental impact of capital investment decisions on council tax and housing weekly rent levels. The indicator identifies the revenue costs associated with the capital programme for a particular year.

	2017/18 Estimate (£)	**2017/18 Actual (£)**
Increase in Council Tax – Band D	0.75	0.80
Increase in Weekly Rent Levels	0.00	0.00

The estimates for 2017/18 were based upon assumptions of borrowing £283,000 to fund the General Fund capital programme. No borrowing was required for the HRA schemes within the capital programme for the year.

The borrowing required to fund the actual capital expenditure in 2017/18 amounted to £443,658 for the General Fund and nil for the HRA. The majority of this was in respect of a scheme to refurbishment of the heath suite at Bramcote Leisure Centre.

vii) HRA Limit on Indebtedness

The Council is required to report the level of the limit imposed at the time of implementation of HRA self-financing by the Department for Communities and Local Government. This has to be compared with the HRA capital financing requirement.

HRA Limit on Indebtedness	**2017/18 Approved**	**2017/18 Revised**	**2017/18 Actual**
	£'000	**£'000**	**£'000**
HRA CFR	81,330	81,330	81,330
HRA Debt Cap (as prescribed by DCLG)	84,475	84,475	84,475
Difference	(3,145)	(3,145)	(3,145)