Report of the Deputy Chief Executive

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2018/19 – MID YEAR REPORT TO 30 SEPTEMBER 2018

1. Purpose of report

To inform the Committee of treasury management activity and the actual prudential indicators for 2018/19 up to 30 September 2018.

2. Detail

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

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

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

The CIPFA Code of Practice on Treasury Management requires the Deputy Chief Executive to operate the Treasury Management function in accordance with the Treasury Management Strategy approved at the Council meeting of 15 February 2018. Details of all borrowing and investment transactions undertaken in 2018/19 up to 30 September 2018, together with the balances at this date and treasury management limits on activity, are provided in appendix 1. There are no issues of non-compliance with these practices that need to be reported to the Committee.

Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council is required to prepare a number of prudential indicators against which treasury management performance should be measured. Performance against prudential indicators is given in appendix 2. The Council has complied with its 2018/19 prudential indicators to 30 September 2018.

Recommendation
The Committee is asked to NOTE the 2018/19 mid-year report to 30 September 2018.

Background papers
Nil

APPENDIX 1

1. Borrowing

a) Debt activity during 2018/19

The loan debt outstanding as at 30 September 2018 compared to the opening position at 31 March 2018 is shown below:

	Amount Outstanding at 31/03/2018 £	**Amount Outstanding at 30/09/2018 £**
Short Term Loans		
Bramcote Crematorium	688,456	910,411
Money Market Loans	15,000,000	12,000,000
Public Works Loan Board	8,523	4,372
Long Term Loans:		
Money Market Loans	3,000,000	3,000,000
Public Works Loan Board	79,789,422	79,789,060
	98,486,401	**95,703,843**

Short term loans at 31 March 2018 included:

- A £2.0m loan from London Borough of Hounslow, taken for 2 years at 0.85%, matured on 29 May 2018. This loan was replaced by a £1.0m loan from Hyndburn Borough Council for 1 year at 0.87% that is due to mature on 17 May 2019. It was decided not to replace the other £1.0m but instead to reduce the level of investments.

- A £2.0m loan from South Northamptonshire Council, taken for 273 days at 0.36%, matured on 18 June 2018. Given the level of investments, it was decided not to replace this particular loan.

- A £2.0m loan from Bolsover District Council, also for 273 days at 0.36%, matured on 29 June 2018. This loan was subsequently replaced by a £2.0m loan from Wealden District Council for 6 months at 0.65% that is due to mature on 2 January 2019.

- A £1.0m loan for 364 days at 0.62% from Hyndburn Borough Council that is due to mature on 19 December 2018.

- A £1.0m loan from Lancaster City Council, for 1 year at 0.40%, matured on 28 September 2018. This loan was replaced on 24 September 2018 by a £1.0m loan from Tendring District Council for 182 days at 0.75%. This new loan will mature on 25 March 2019.

- A £2.0m loan from Wokingham Borough Council, for 254 days at 0.35%, matured on 8 August 2018. This loan was replaced on 31 July 2018 by a £2.0m loan from Tendring District Council for 1 year at 0.75%. This new loan will mature on 30 July 2019.

- A £2.0m loan from Tendring District Council, for 273 days at 0.35%, matured on 2 July 2018. This loan was replaced by a £2.0m loan from West Yorkshire Police and Crime Commissioners for 319 days at 0.80% that will mature on 17 May 2019.

- A £2.0m loan from Vale of Glamorgan Council, for 73 days at 0.50%, matured on19 April 2018. This loan was subsequently replaced by two loans for £1.0m each from Fylde Borough Council and Craven District Council. Both loans are for 214 days at 0.60% and they are due to mature on 19 November 2018.

- A £1.0m loan from Tendring District Council, for 181 days at 0.52%, matured on 28 August 2018. This loan was replaced by a £1.0m loan from Rushcliffe Borough Council for 1 year at 0.75%. This new loan will mature on 27 August 2019.

- Short-term loans at 31 March 2018 included PWLB annuities of £8,523. A sum of £4,152 was repaid on 13 September 2018 and the remaining £4,371 is due for repayment on 13 March 2019.

- Short-term loans at 31 March 2018 also included £688,456 that had been invested with the Council by Bramcote Crematorium. At 30 September 2018 Bramcote Crematorium had invested £910,411 with the Council, most of which will be used to pay the 50% of the amount to be distributed to each of the constituent authorities.

Long-term loans at 31 March 2018 included a loan of £3.0m at 4.19% with Barclays Bank that is due to mature on 4 February 2073.

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

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

The planned financing of the 2018/19 capital programme as at 30 September 2018 indicates that further borrowing of £1,509,900 would be required to help fund the General Fund part of the programme. This borrowing has not, as yet, been undertaken as the availability of large investment balances has meant that there has been no specific need to undertake this borrowing thus far.

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

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

b) Debt rescheduling

In conjunction with the treasury management advisors, the Council continues to seek opportunities for the rescheduling of debt that could reduce its overall borrowing costs. No debt rescheduling has taken place from April to September 2018. Falls in PWLB repayment rates have enlarged the premium on the premature repayment of the Council's loans and limited the opportunity for the rescheduling of debt.

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

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

Currently all of the Council's PWLB loans would attract a premium, i.e. a penalty, on premature repayment of between 5% and 67%. Those which have a higher probability of attracting a discount in the future were interest rates to rise (i.e. where the current premium is between 0% and 10%) are some loans that were taken out on 28 March 2012 at preferential rates as part of the move to exit the HRA subsidy system as referred to in 1(a) above.

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

c) Cost of borrowing and debt profile

i. Long term debt

The Council's long term debt had an average of 9.87 years to maturity at 30 September 2018 (31 March 2018 was 9.97 years). The average interest payable at that date was 3.02% (31 March 2018 was 2.91%).

i Short term borrowing

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

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

2. Investments

a) Investment Policy

The Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved at the Council meeting on 15 February 2018. This gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

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

(i) Long Term A– (or equivalent)

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

The investment activity during the first six months of 2018/19 conformed to the approved strategy and the Council had no security or liquidity difficulties.

b) Interest Received

The total interest receivable for the period to 30 September 2018 amounted to £104,064 (2017/18 equivalent was £63,500). The Local Authority Property Fund (LAPF) investment remained at £2.0m and generated average income totalling approximately £22,000 per quarter.

The UK Bank Rate was increased to 0.75% on 2 August 2018 by the Bank of England's Monetary Policy Committee. This increase in Bank Rate resulted in higher money market rates with the. 1 month, 3 month and 12 month LIBID rates averaging 0.56%, 0.70% and 0.95% respectively over the period from 1 April to 30 September 2018.

The average interest rate earned for the period up to 30 September 2018 was 1.15%, compared to 1.02% for the equivalent period in 2017/18. This decrease is mainly attributable to a reduction in the interest rates on both MMF and notice accounts.

c) Investments Placed

A summary of all investments made and repaid from 1 April 2018 to 30 September 2018 is set out in the following table:

	Balance at 01/04/2018 £000s	Investments Made £000s	Investments Repaid £000s	Balance at 30/09/2018 £000s	Increase/ Decrease in Investments
UK Banks and Building Societies					
Barclays	275		(85)	190	(85)
Santander UK	160	4,000	(2,160)	2,000	1,840
Bank of Scotland	-	6,000	(4,000)	2,000	2,000
Goldman Sachs	-	2,000	-	2,000	2,000
Other Local Authorities					
Blackpool BC	2,000	-	(2,000)	-	(2,000)
Forest of Dean DC	2,000	-	(2,000)	-	(2,000)
East Dunbartonshire	2,000	-	(2,000)	-	(2,000)
Rhondda Cynon Taff CBC	-	1,000	-	1,000	1,000
Money Market Funds					
Insight MMF	2,160	12,380	(14,060)	480	(1,680)
LGIM MMF	580	23,815	(20,745)	3,650	3,070
Standard Life MMF	-	8,735	(8,735)	-	-
LA Property Fund	2,000	-	-	2,000	-

Royal London Enhanced Cash Plus	2,000	-	-	2,000	-
Total	**13,175**	**57,930**	**(55,785)**	**15,320**	**2,145**

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

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

A total of £2.0m is now invested in the Local Authorities' Property Fund (LAPF). This is intended to be a long-term investment with dividends paid quarterly. The dividend yield was 4.27% at 30 September 2018.

The Council has invested £2.0m in the Royal London Enhanced Cash Plus Fund, which is intended to be a long term investment.

d) Credit Risk

Security of capital has remained the Council's main investment objective. Counterparty credit quality has been maintained at an appropriate level during 2018/19 as shown by the credit score analysis in the following table:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2018	4.10	AA-	3.64	AA-
30/06/2018	5.16	A+	4.93	A+
30/09/2018	4.57	A+	4.84	A+

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

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

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5

A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The Council aimed to achieve a score of 7 or lower in order to reflect its overriding priority of maintaining the security of any sums invested. This equates to the minimum credit rating threshold of A– for investment counterparties as set out in the 2018/19 investment strategy. The tables above show that the Council achieved the minimum credit risk scores and credit ratings from April to September 2018.

e) Risk Benchmarking

The Investment Strategy 2018/19 to 2020/21 contained a number of security, liquidity and risk benchmarks to allow officers to monitor the current and trend positions and incorporate these within investment decisions. The benchmarks have been met in full from April to September 2018 such that:

- the Council’s maximum average credit risk score has been less than 8 (as set out in 2d above)
- a bank overdraft limit of £1m has been maintained
- liquid short-term deposits of at least £0.5m have been available within one week
- the average weighted life of investments has been below a maximum of six months
- returns on investment have been above the 7 day London Interbank Bid rate (LIBID).

f) Counterparty Update

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

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

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

g) Changes to the Investments Strategy

Due to the level of uncertainty in financial markets, it is important that there is sufficient flexibility to enable changes to be made to the Investments Strategy at short notice should they be considered necessary by the Deputy Chief Executive.
Any such changes to the Investments Strategy will be made by the Chief Executive exercising Standing Order 32 powers following consultation with the Chair of the Finance and Resources Committee. A report setting out the detail behind these changes would then be presented to this Committee at the next available opportunity.

h) Regulatory Update

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

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

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

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

i) Prudential and Treasury Management Code Changes

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

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

3. Treasury Management Limits on Activity

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

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

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

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

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

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

a) Upper Limits on Fixed and Variable Rate Exposures

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

Interest Rate Exposures	Actual 31/03/2018 %	2018/19 Approved %	Actual 30/09/2018 %	Compliance with Limits
Fixed				
Upper Limit for Fixed Interest	84	100	87	Yes

Rate Exposure on Debt				
Upper Limit for Fixed Interest Rate Exposure on Investments	(0)	(25)	(0)	Yes
Net Fixed Exposure	84	75	87	See below
Variable				
Upper Limit for Variable Interest Rate Exposure on Debt	16	40	13	Yes
Upper Limit for Variable Interest Rate Exposure on Investments	(100)	(100)	(100)	Yes
Net Variable Exposure	(84)	(60)	(87)	Yes

b) Maturity Structure of Fixed Rate Borrowing

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

Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %	Actual Fixed Rate Borrowing at 30/09/2018 (£000s)	Fixed Rate Borrowing at 30/09/2018 (%)	Compliance with Set Limits
Under 12 months	0	50	12,004	13	Yes
12 months to 2 years	0	50	9	0	Yes
2 years to 5 years	0	50	10,135	11	Yes
5 years to 10 years	0	75	41,639	44	Yes
10 years to 20 years	0	100	25,006	26	Yes
20 years to 30 years	0	100	0	0	Yes
30 years to 40 years	0	100	3,000	3	Yes
40 years to 50 years	0	100	0	0	Yes
50 years and above	0	100	3,000	3	Yes

Investments are limited to a maximum of two years as set out earlier. As suggested in the CIPFA Code, fixed rate investments of less than 12 months and fixed rate borrowing with less than 12 months to maturity are regarded as variable rather than fixed rate investments and borrowings as their replacement could be subject to movements in interest rates. This principle has been applied in calculating the fixed and variable interest rate exposures on debt and investments. However, the borrowing with less than 12 months to maturity at 30 September 2018 is shown as fixed rate borrowing in the maturity structure.

c) Principal Sums Invested for Periods Longer than 364 days

With regard to the total principal funds invested, £2.0m is invested in the Local Authorities' Property Fund (LAPF). Although the Council can theoretically redeem part or all of its holding in the fund on the last working day of each month, this investment is intended to be a long-term investment.

A sum of £2.0m is also invested in the Royal London Enhanced Cash Plus Fund. It is intended that this is a long term investment but should the Council require the funds they can be redeemed with one day's notice.

The upper limit for this Prudential Indicator has been set at 40% of the estimated in-year average of total investments of £15.0m. The Council has complied with the limit set.

4. Local Authority Mortgage Scheme

A meeting of the Council on 18 December 2013 approved Broxtowe Borough Council, in association with Nottinghamshire County Council, joining a Local Authority Mortgage Guarantee Scheme (LAMS) with Lloyds Bank. Both local authorities contributed £500,000 to the scheme which is intended to help first time buyers looking to acquire other than new properties who can afford mortgage payments, but not the initial deposit, to get on to the property ladder.

If a potential buyer meets the strict credit criteria applied by the lender and meets the criteria set by the Council to qualify for a mortgage under the scheme, the Council will provide an indemnity to the value of the difference between 75% of the value of the property and the amount borrowed. The potential buyer would therefore obtain a mortgage for up to 95% on similar terms to one for 75% of the property value if they meet the other lending criteria.

The scheme commenced on 4 February 2014 and 10 loans with a total value of £978,050 had been made by 30 September 2018. The amount of the indemnity with respect to these loans totalled £177,328. No defaults with regards to loans made have been reported.

The LAMS with Lloyds Bank closed to new applications with effect from 31 July 2016. The number of applications had been declining, largely due to the introduction of similar schemes by the Chancellor of the Exchequer. Some applications submitted before July 2016 may yet progress to completion stage but it is unlikely that the number of loans made as stated above will change.

The £500,000 contributed to the LAMS by both local authorities will remain on deposit with Lloyds Bank until the full five year term of the LAMS is reached in January 2019 and will continue to earn a commercial deposit rate plus an accompanying premium.

The Council's £500,000 contribution to the LAMS was made on 31 January 2014 and was required to be classed as capital expenditure. The Council will be reimbursed with this sum on 31 January 2019 on the fifth anniversary of the payment and the reimbursement will be categorised as a capital receipt.

APPENDIX 2

Prudential Indicators

1. Introduction

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

2. Capital Expenditure and Financing 2018/19

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

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

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

Actual capital expenditure forms one of the required prudential indicators. The following table shows the 2018/19 capital programme as at 30 September 2018 compared with the original estimate for the year across each corporate priority area.

	2018/19 Original Estimate £000s	**2018/19 Estimate at 30/09/2018 £000s**
Housing	6,161	7,011
Community Safety	0	8
Jobs & Economy	78	168
Leisure & Environment	1,466	1,962
Finance & Resources	3,384	1,596
Total	**11,089**	**10,745**

The change to the original estimate is largely accounted for by the carry forward of unspent capital budgets totalling £1,552,850 from 2017/18 less £2,436,500 that has already been carried forward to 2019/20 in respect of the scheme to redevelop Beeston Town Centre. Included in the 2018/19 capital programme at 30 September 2018 are schemes totalling £978,650 that are on a "reserve list" and will be brought forward for formal approval to proceed once a source of funding is identified.

The table below shows the planned capital expenditure up to 30 September 2018 and how this will be financed.

	2018/19 Original Estimate £000s	2018/19 Estimate at 30/09/2018 £000s
General Fund	5,581	4,849
HRA	5,508	5,896
Total Capital Expenditure	**11,089**	**10,745**
Financed by:		
Capital Receipts	1,490	1,768
Capital Grants	653	1,429
Revenue	5,508	6,038
Unfinanced Capital Expenditure	**3,438**	**1,510**

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

2. <u>The Council’s Overall Borrowing Need</u>

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

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

As set out in 1(a) in appendix 1, the Council has not as yet taken out the anticipated borrowing of £1,509,900 in respect of the planned capital expenditure for 2018/19 shown as unfinanced above. It is presently anticipated that this borrowing will be undertaken later in 2018/19 and that this will align the Council’s overall borrowing level with the CFR. The Council at 30 September 2018 has nine short term loans totalling £12.0 million with other local authorities that are due to mature before 30 September 2019 as set out in 1(a) in appendix 1. Three of these short-term loans will mature before 31 March 2019. It is presently anticipated that all seven short term loans will be replaced with similar loans upon maturity.

The Council’s CFR will next be calculated as at 31 March 2019 when the financing of actual capital expenditure incurred in 2018/19 will be undertaken. This will be reported to this Committee in June 2019.

3. Prudential Indicators and Compliance Issues

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

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

In order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, exceed the CFR. This indicator will be calculated at the end of 2018/19 and the result reported to this Committee in June 2019. It is presently anticipated that the Council will comply with this indicator.

ii) The Authorised Limit

This is the statutory limit determined under section 3(1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which could be afforded in the short term to maximise treasury management opportunities and cover temporary cash flow shortfalls, but is unlikely to be sustainable over the longer term. The table below demonstrates up to 30 September 2018, the Council has maintained gross borrowing within its authorised limit.

iii) The Operational Boundary

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

	Amount £000's
Authorised Limit 2018/19	127,950
Operational Boundary 2018/19	102,350
Maximum Gross Borrowing (April – September 2018)	99,570

The maximum external debt in the period from April to September 2018 represents the gross borrowing figures as set out in 1(a) and includes the maximum amount received from Bramcote Crematorium during this period. The table above demonstrates up to 30 September 2018, the Council has maintained gross borrowing within its operational boundary.

iv) Ratio of Financing Costs to Net Revenue Stream

This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time. The indicator will be calculated for 2018/19 at the end of the financial year and reported to this Committee in June 2019.