Report of the Director of
Governance and Partnerships

Agenda Item No: 4
Meeting: 20 September 2018

NORTH LINCOLNSHIRE COUNCIL

Council

Treasury Management Outturn 2017-18

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1. This report provides an overview of the Council's treasury performance in 2017/18.

1.2. The key points are that the Council's:

- Investment activity during the year conformed to the approved strategy, and there were no liquidity difficulties.
- Borrowing remained comfortably within the control levels set.
- Treasury activity was compliant with the Prudential Indicators set for the financial year.

1.3. The report sets out national factors that affect the Council's Treasury activity:

- 2017-18 saw changes in both inflation and interest rates, with the first rise in Bank of England Base Rates in a decade.
- It also saw changes to key regulatory frameworks and legislation covering Treasury activity.

2. BACKGROUND INFORMATION

2.1 This report fulfils the Authority's legal obligation under the Local Government Act to have regard to both the CIPFA Code and the Department for Communities and Local Government (CLG) Investment Guidance. The CIPFA Code requires that Full Council receive a report at the start of the financial year, mid-year and year end. The Audit Committee also receive regular updates regarding treasury activity, providing assurance on the effectiveness of the Council's treasury management arrangements.

2.2 The CIPFA Code sets out the following objectives for treasury management:

"It is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield risk, in that order of importance. No treasury management transaction is without risk and management of risks is the key purpose of the treasury management strategy."

2.3 Full Council agreed the Treasury Management Strategy for 2017/18 in February 2017. The Annual Treasury Report (included as an Appendix) provides the detail of the activity and performance against the strategy, including the agreed Prudential Indicators for 2017/18.

3. OPTIONS FOR CONSIDERATION

3.1 This is a report on past performance and Council are required to receive and note the information presented.

4. ANALYSIS OF OPTIONS

4.1 The key messages are:

- Whilst interest rates remain near all-time lows, 2017-18 did see the first base rate rise in a decade from 0.25% to 0.5% with forward guidance that further rises will follow on 'gentle' upward path.

- At the end of 2017/18 there were revisions to both CIPFAs Code of Practice and the Ministry of Housing, Communities and Local Government's Guidance on treasury/capital financing. Both updates have been adopted by the Council and, in accordance with guidance from the relevant bodies, required changes will be made during 2018-19.

- January 2018 also saw the implementation of the Markets in Financial Instruments Directive (MiFID) II legislation. The Council has retained its Professional Client status with all its key counterparties. This ensures that NLC continues to have the ability to access a wide range of financial risk management tools in the future.

- The change in direction for rates has implications for future borrowings the Council will require in order to fund its Capital Programme. With this in mind two longer-term borrowing transactions totalling £7.5m were completed in the year in addition to the £5.9m for a specific capital investment

- The Council's investment balances have been kept relatively low, consistent with ensuring the council's liquidity, such that it is always in a position to meet its liabilities, while managing risks associated with carrying cash balances.

- The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

- Budgeted income from investments was over-achieved and so no pressure resulted from low market yields.

- The Council's risk profile improved during the year.

- The percentage of the Council's income required to service its debt came in below projections, through a change to the MRP methodology, rephased capital spending and greater use of capital receipts.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 Not applicable

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1. Not applicable.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 Not applicable.

8. RECOMMENDATIONS

8.1 That the Council receives and notes the Treasury Management performance set out in the Annual Treasury Report for the 2017-18 financial year.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report

2017-18 Treasury Management Strategy
2017-20 Capital Programme
CIPFA Code of Practice in the Public Service Fully Revised 2011
CIPFA The Prudential Code Fully Revised Second Edition 2011
DCLG Guidance
Local Government Act 2003

Appendix 1

North Lincolnshire Council Annual Treasury Report 2017/18

NORTH LINCOLNSHIRE COUNCIL

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Key Messages:

The Council uses in-house knowledge, advisors, treasury management software (Treasury Live) and the CIPFA Treasury Management Code to manage these risks.

During 2017-18 there were changes in both inflation and interest rates with the first rise in Bank of England Base Rates in a decade.

2017-18 also brought changes to key regulatory frameworks and legislation covering Treasury activity.

The Council operated its borrowing and investment activity within the strategy and limits set for 2017/18.

The Council had no liquidity issues.

The Council's risk profile improved during the year.

Director Overview

The 2017/18 Treasury operating environment was shaped by both national and international events and policy drivers with some familiar economic factors came to the forefront once more, namely inflation and, after a decade's absence, interest rate rises.

The Bank of England's guidance on interest rate trajectory from it's September 2017 meeting onward pushed short term rates higher. By the time the first rate rise was confirmed in November inflation was starting to peak and the guidance (on future rate trajectory) softened to 'gradual and limited'. The Council chose this point as an opportune time to transact some £5m of longer term borrowing at near historic lows and certainly lower than had been seen in the period since that September 'heads up' from the Bank of England.

The balancing of immediate need with future cost of borrowing is a key thread of our Treasury Management Strategy and whilst rates have remained low for many years we, like many authorities, have chosen to pursue a policy of 'internally borrowing' to delay more costly (from the outset), long term commitments. As this strategy reached it's limits (we had used up our existing cash balances) we moved to short-term borrowing from local authorities as a means to deferring long-term borrowing. With rates now on the rise we need to convert that deferred requirement into real borrowing as efficiently as possible. With no certainty on actual future rates we are pursuing a strategy of regular smaller sized long-term transactions to 'pound cost average' those commitments.

Aside from the economic developments 2017-18 also brought about updates to the regulatory environment in which Treasury operates. In addition to revised guidance and Code updates from the Ministry for Housing, Communities and Local Government and CIPFA, MiFID II Legislation required considerable effort from officers to ensure the Council maintained it's professional client categorisation which ensures we have access to risk mitigation tools that may prove useful in the coming periods of ever present change.

Becky McIntyre, Director of Governance and Partnerships

September 2018

Key Messages:

No Treasury activity is without risk. These risks include, but are not limited to, Credit Risk, Liquidity Risk, Interest Rate Risk, Inflation Risk and Reputational Risk.

The Council uses in-house knowledge, advisors, treasury management software (Treasury Live) and the CIPFA Treasury Management Code to manage these risks.

Introduction and External Context

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved.

This report confirms that the council has complied with the requirement under the Code. Regular updates in respect of treasury management activity and in year performance are presented to the Audit Committee. Member training on treasury management issues will be undertaken during 2018/19 in order to support audit committee members' scrutiny role.

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the potential loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

Key Messages:

The major UK landmark event of the year was the general election in June 2017. However, this had relatively little impact on financial markets.

The UK Official Bank Rate was raised to 0.50% from 0.25% in November 2017.

There was a further rise to 0.75% in August 2018 Our advisors are forecasting further increases over the next two years.

Introduction and External Context

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy experienced strong growth in the second half of 2016, growth in 2017 was weak in the first half of the year. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn rose significantly that the Monetary Policy Committee (MPC) would raise Bank Rate and on the 2 November the MPC quarterly duly delivered by raising Bank Rate from 0.25% to 0.50%.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 basis points (bps) for much of the year).

Regulatory changes announced in 2017-18

CIPFA Prudential Code - In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions focused on non-treasury investments and especially on the purchase of property with a view to generating income. CIPFA has issued a statement that accepts that the issue of revised codes in December 2017 will have made it very difficult for most authorities to implement both codes for the 2018/19 budget cycle. Full implementation is not expected until the 2019/20 budget cycle across all authorities.

The Ministry for Housing, Communities and Local Government (MHCLG) Guidance - The MHCLG investment guidance was issued on 2.2.18. This again focused particularly on non-financial asset investments. As our Treasury Reports deal solely with treasury type investments, non-financial assets have been excluded from this report.

Reporting for non-treasury and non-financial assets is currently being worked up and will be reported separately from later this financial year.

Key Messages:

In line with the approved Capital programme and planned use of reserves, the Council will need to undertake a programme of external borrowing over the coming years.

The overall level of investment balances fell sharply up to 2015/16, as the Council used internal borrowing to defer more expensive long-term borrowing and reduce its credit risk exposure. By 2016 balances had reduced to a level where they presented a level of liquidity risk that warranted a measured reversal of this strategy. For 2017-18 a cash level of between £5-10m at quarter ends was targeted. For 2018-19 this target was amended to a *minimum* of £10m.

Local Context

At the beginning and the end of 2017/18 the Council's treasury (excluding borrowing by finance leases) position was as follows:

TABLE 1	31 March 2017 Principal	Rate/ Return	Average Life yrs		31 March 2018 Principal	Rate/ Return	Average Life yrs
Total debt	£161.5m	3.87%	9.56		£188.0m	3.18%	9.46
Capital Financing Requirement (CFR)	£240.7m				£211.6m		
Over / (under) borrowing	(£79.2m)				(£23.6)		
Total investments	£7.6m	0.14%	0.00		£16.9m	0.40%	0.00
Net debt	£153.9m	4.05%			£171.1m	3.45%	

At 31/03/2018, the Council had **£188.0m** of borrowing and **£16.9m** of investments. The Council's current strategy is to maintain borrowing and investments below their underlying (CFR) levels, referred to as internal borrowing, subject to holding a minimum investment balance of between £5-10m.

The Council has an increasing CFR over the next four years due to the capital programme, and with reduced investments will therefore need to borrow up to £30m over the forecast period.

Key Messages:

When undertaking new borrowing the Council will review both the source and tenure of loans it seeks to take.

The Council's current borrowing portfolio is predominantly of a long-term and fixed nature. Whilst this provides certainty of cost it restricts flexibility to restructure debts as plans and finances change.

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Council determined it was more cost effective to take predominantly short-term borrowing

Borrowing short-term from other local authorities provides a useful alternative below current fixed rates and with the ability to exit loans within a reasonable timeframe.

Borrowing Strategy

At 31/03/2018 the Council held £188m of loans, (an increase of £16.5m on 31/03/2017) as part of its strategy for funding previous years' capital programmes. In year activity is shown below:

Counterparty	Start Date	Maturity Date	Principal	Effective Rate
PWLB	01/11/2017	01/11/2057	£5,906,000.00	2.7800%
PWLB	10/11/2017	10/11/2047	£5,000,000.00	2.6200%
Vale of Glamorgan Council	26/09/2017	07/12/2017	£2,500,000.00	0.2200%
Basildon Borough Council	26/09/2017	19/12/2017	£1,500,000.00	0.2300%
Aberdeenshire Council	29/09/2017	22/12/2017	£5,000,000.00	0.4000%
Wealden District Council	25/07/2017	16/01/2018	£2,000,000.00	0.2500%
Wigan Metropolitan Borough Council	07/12/2017	03/04/2018	£3,000,000.00	0.4500%
Northern Ireland Housing Executive	01/12/2017	04/04/2018	£5,000,000.00	0.4700%
Basildon Borough Council	30/10/2017	30/04/2018	£2,000,000.00	0.4500%
Braintree District Council	31/10/2017	30/04/2018	£2,000,000.00	0.4500%
Pembrokeshire County Council	25/04/2017	25/07/2017	£2,000,000.00	0.3500%
West Yorkshire Police and Crime Commissioner	25/04/2017	25/07/2017	£3,000,000.00	0.3500%
Vale of Glamorgan Council	31/07/2017	07/09/2017	£2,500,000.00	0.1500%
Harlow District Council	28/04/2017	30/10/2017	£4,000,000.00	0.3800%
Tees Valley Combined Authority	29/08/2017	29/11/2017	£3,000,000.00	0.2000%
Tyne & Wear Pension Fund	13/02/2018	13/04/2018	£5,000,000.00	0.4700%
Blaby District Council	20/02/2018	20/04/2018	£2,000,000.00	0.4700%
Hastings Borough Council	13/02/2018	03/04/2018	£3,000,000.00	0.4700%
Mid Sussex District Council	09/03/2018	09/04/2019	£1,000,000.00	0.9800%
Hampshire County Council	16/03/2018	16/04/2019	£9,000,000.00	1.0300%
PWLB	29/03/2018	29/09/2048	£2,500,000.00	2.5400%
Tameside Metropolitan Borough Council	28/03/2018	10/04/2019	£6,000,000.00	1.1400%
Swansea City and Borough Council	21/12/2017	23/04/2018	£5,000,000.00	0.4500%
			£81,906,000.00	0.8919%

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

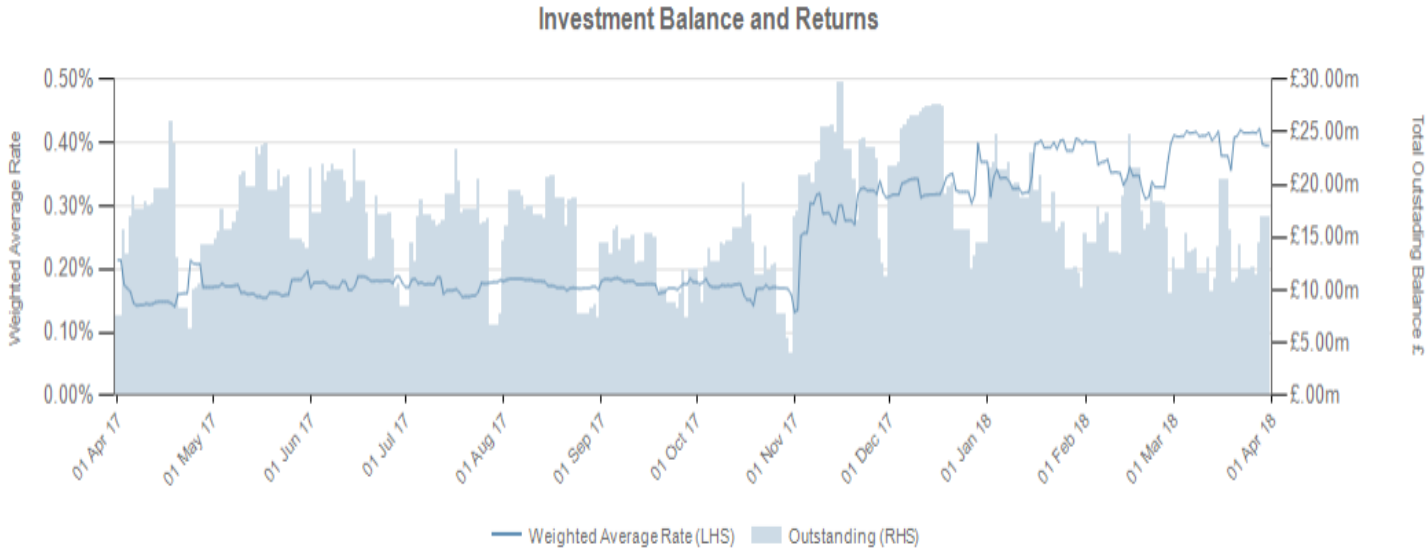
The benefits of internal and short-term borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years as long-term borrowing rates rise.

Key Messages:

Investment balances have been kept relatively low, consistent with ensuring the council's liquidity, such that it is always in a position to meet its liabilities, while managing risks associated with carrying cash balances.

Investment Activity

The Council has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18 investment balances ranged between £4.0m and £27.4 million.



Investment Policy – the Council's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Council on 16 February 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The Investment Strategy for 2017/18 aimed to reduce risk by;

- Limiting the maximum investment period to twelve months
- Applying a maximum investment limit of £5m or lower for counter-parties (except Debt Management Office)
- Investing in a range of financial institutions including UK institutions with a minimum of an adequate credit rating or equivalent and Money Market Funds.
- Investing in additional instruments such as Certificates of Deposit. No Certificates of Deposit were held during the period although the Council did purchase some UK Treasury Bills when these offered a better yield over DMO deposits (same risk).

Key Messages:

Counterparty credit quality is assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A-); credit default swap prices, financial statements, information on potential government support and reports from quality financial news feeds.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Budgeted income from Investments was over-achieved and so no pressure resulted from low market yields.

Investment Activity

Investments	Balance on 01/04/2017 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2018 £m	Avg Rate/Yield (%) and Avg Life (years)
UK Government:					
- DMADF	-	112.8	(110.3)	2.5	0.18% 8 days
- Treasury Bills	-	9.5	(9.5)	-	0.33% 12 days
Bonds issued by Multilateral Development Banks	-	-	-	-	-
Direct Unsecured Investments (call accounts, deposits) with financial institutions					
- rated A- or higher	5.6	213.0	(207.2)	10.4	0.29% at Call
- rated below A-	-	-	-	-	
Tradable Investments with Financial institutions Corporates (CDs) rated A- or higher	-	-	-	-	-
Money Market Funds	2.0	31.9	(29.9)	4.0	0.24% at Call
TOTAL INVESTMENTS	**7.6**	**366.2**	**(356.9)**	**16.9**	**0.25% <7 days**
Increase/ (Decrease) in Investments £m				9.3	

Given the increasing risk and continued low returns from short-term unsecured bank investments, but having no funds available for longer-term investment, the Council is unable to simply diversify into more secure and/or higher yielding asset classes such as repurchase agreements or covered bonds which are secured on financial assets. Eliminating Credit Risk by running down balances whilst still maintaining adequate liquidity is therefore a key strand of operational activity.

The Council maintained an average balance of £16m of internally managed funds during the year. These internally managed funds earned an average rate of return of 0.25%. The comparable performance indicator is the average 7-day LIBID rate, which averaged 0.22%. The rate increase in November coupled with higher balances and consistent performance meant income budgets were exceeded for the year.

Key Messages:

The Council's risk profile improved during the year.

Compared to other Local Authorities NLC is taking less credit risk and investing its funds for shorter durations. The trade-off however, is lower average return.

Investment Activity (contd.)

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating
31/03/2017	5.42	A
30/06/2017	3.52	AA-
30/09/2017	4.49	AA-
31/12/2017	4.28	AA-
31/03/2018	4.52	A+

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Various indicators of credit risk improved during the year, rolling back reaction to the result of the referendum on the UK's membership of the European Union. The Bank of England's annual stress test assessments of major bank balance sheet robustness also showed improvement.

The UK's sovereign rating remained at AA although with Brexit negotiations uncertainty, both Fitch and S&P have the UK on negative outlook. Any downgrade would impact UK Financial Institution ratings in a similar way. UK bank ratings were also impacted at year end by adoption of ring-fencing arrangements designed to insulate both the taxpayer and smaller account holders from a credit crisis like that seen in 2007-08. In some cases although the ring-fenced bank kept it's rating the non-ring-fenced part received a one-notch downgrade as a result of the restructuring. Barclays (our bankers) was one of those affected in this way.

Key Messages:

In an environment where direct unsecured bank deposits present increased risk but low return NLC has sought to avoid this imbalance by utilising UK Sterling Government based investments.

Ultimately we seek to minimise counterparty risk by limiting our cash levels whilst still maintaining adequate liquidity.

Investment Activity (contd.)

- There were no operational breaches during the period.

Benchmarking

- Comparisons are made to other Authorities using the Treasury Live database which looks at £7bn of local Council investments. As at the outturn date this shows that other Authorities:-
  - Hold more cash than NLC. Average balance £83m (estimated) vs £16m at NLC
  - Invest for longer periods. 162 days on average based on the year end position, while NLC funds were all held at call
  - Deliver higher return than us. 0.71% vs 0.40%
- Whilst the above shows the greater return generated by term premiums NLC is of the view that, given the legislative changes which place the burden of rescuing failing UK banks onto unsecured investors including local authorities, elimination of credit risk through lower balances is worth lower overall return. NLC also recognises that this strategy needs to ensure it does not replace credit risk with liquidity risk and so a quarter end balance of between £5-10m was targeted. This figure will increase to a minimum balance of £10m for 2018-19.

Key Messages:

The Council has performed in line with its Prudential Indicators for 2017/18, which were set in February as part of the Council's Treasury Management Strategy Statement.

Compliance with Prudential Indicators

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	£302m	£306m	£302m
Actual	£94m	£92m	£89m
Upper limit on variable interest rate exposure	£60m	£60m	£60m
Actual	£31m	£21m	£4m

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. This is the approach suggested in the TM Code guidance notes.

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are:

	Upper	Lower	Actual
Under 12 months	50%	0%	17%
12 months and within 24 months	15%	0%	11%
24 months and within 5 years	50%	0%	7%
5 years and within 10 years	50%	0%	24%
Over 10 years	90%	25%	41%

Key Messages:

Compliance with Prudential Indicators (contd.)

Principal Sums Invested for Periods Longer than 364 days*: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£0m	£0m	£0m
Actual	£0m	£0m	£0m

*This indicator has been adjusted in recently issued Code of Practice/Guidance Notes. Going forward this indicator will be reported against 365 (rather than 364 days). This is not expected to make any material difference to limits or actuals.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	AA-

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet its payment requirements without additional borrowing, measured at quarter ends.

	Target	Actual
Total cash available within 1 month	£5-10m	£8.5m

Key Messages:

Borrowing remains comfortably below control levels as a result of continued internal borrowing support for the Capital Programme.

Borrowing levels were maintained well within the Operational Boundary and Authorised Limits set for 2017/18.

The actual position as at that date was £188m.

The outturn was higher than projected (£181m) due to accelerated spend in the capital programme.

Compliance with Prudential Indicators (contd.)

Other Prudential Indicators

The following prudential indicators are relevant to the treasury function as they concern limits on borrowing and the adoption of the CIPFA Treasury Management Code.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	£245m	£250m	£246m
Other long-term liabilities	£2m	£2m	£2m
Total Debt	£247m	£252m	£248m

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	£297m	£301m	£297m
Other long-term liabilities	£5m	£5m	£5m
Total Debt	£302m	£306m	£302m

Adoption of the CIPFA Treasury Management Code: The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition in February 2018.

Key Messages:

Higher than anticipated capital receipts to support the Capital Programme meant the level of funding required via borrowing could be reduced.

Compliance with Capital Finance Prudential Indicators

The Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Council's planned capital expenditure and financing as at 31 March 2017 may be summarised as follows.

Capital Expenditure and Financing	2017/18 Original £m	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Total Expenditure	**49.4**	**47.7**	**73.2**	**29.5**	**17.0**
Capital Receipts	4.0	7.1	6.0	7.0	3.5
Government Grants	21.8	20.7	26.2	16.9	9.5
Revenue Contributions	0.1	0.2	5.0	0.0	0.0
Borrowing	23.5	19.7	36.0	5.6	4.0
Total Financing	**49.4**	**47.7**	**73.2**	**29.5**	**17.0**

Key Messages:

The percentage of the Council's income required to service its debt came in below projections, through a change to the MRP methodology, rephased capital spending and greater use of capital receipts.

Compliance with Capital Finance Prudential Indicators (contd.)

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of borrowing for existing and proposed capital expenditure. It identifies the proportion of the revenue budget required to meet financing costs, net of investment income.

The actual charge for 2017-18 is lower than the original profile due to: a change to the MRP methodology approved by council on 1 March 2018 which spreads the charge to revenue for historic debt in the same way as current debt; a rephasing of capital spending; and greater use of capital receipts in 2017-18.

Planned borrowing will increase the ratio to 11.5% of net revenue stream by 2021-22.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Original Estimate %	2017/18 Actual %
General Fund	10.9	7.9