EXECUTIVE BOARD – 18 JUNE 2019

Subject:	Treasury Management 2018/19 Annual Report
Corporate Director(s)/Director(s):	Laura Pattman, Director of Strategic Finance
Portfolio Holder(s):	Councillor Sam Webster, Portfolio holder for Finance, Growth and the City Centre
Report author and contact details:	Theresa Channell, Head of Strategic Finance and Deputy S151 Officer 0115 8764157 theresa.channell@nottinghamcity.gov.uk
Subject to call-in: ☒ Yes ☐ No	
Key Decision: ☐ Yes ☒ No **Criteria for Key Decision:** **(a)** ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision **and/or** **(b)** Significant impact on communities living or working in two or more wards in the City ☐ Yes ☐ No	
Type of expenditure: ☐ Revenue ☐ Capital	
Total value of the decision: Nil	
Wards affected: All	
Date of consultation with Portfolio Holder(s):	
Relevant Council Plan Key Theme: Strategic Regeneration and Development ☒ Schools ☒ Planning and Housing ☒ Community Services ☒ Energy, Sustainability and Customer ☒ Jobs, Growth and Transport ☒ Adults, Health and Community Sector ☒ Children, Early Intervention and Early Years ☒ Leisure and Culture ☒ Resources and Neighbourhood Regeneration ☒	
Summary of issues (including benefits to citizens/service users): This report sets out the 2018/19 performance in respect of the management of the Council's external debt and investments (i.e. treasury management). The key issues are: • the balance of external debt increased by £87.7m to £953.2m (see section 4.3); • the average rate of interest payable on the debt portfolio decreased from 3.398% at 31 March 2018 to 3.359% at 31 March 2019 (see section 4.3); • the average rate of interest earned on short-term investments in 2018/19 was 0.728%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged 0.507% for the same period (see section 4.7); • the latest budget estimate for 2018/19 was £81.547m against an actual General Fund Treasury Management expenditure of £80.933m (see section 5.1). • there were no breaches of the Prudential Indicators in 2018/19 (see section 4.10).	
Exempt information: None	
Recommendation(s):	
1 To note the performance information in relation to Treasury Management for 2018/19.	

1 REASONS FOR RECOMMENDATIONS

1.1 The treasury management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the City Council must have regard to the CIPFA Prudential Code and the CIPFA Code of Practice. Under the latter Code, an annual report is required to be submitted to and considered by councillors.

1.2 The Council's Treasury Management Strategy for 2018/19 was approved by full Council on 5 March 2018.

1.3 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the 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.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

2.1 Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks. To assist in this process the Council retains external financial advisors.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 Options for management of the Council's debt and investment portfolio are continually reviewed. The overall aim is to minimise the net revenue costs of our debt whilst maintaining an even debt profile in future years and to maximise investment returns within stated security and liquidity guidelines.

4 TREASURY MANAGEMENT ACTIVITY IN 2018/19

4.1 Growth and Inflation

4.1.1 After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% year on year confirming that the UK was the third fastest growing country in the G7 in quarter 4.

4.1.2 CPI inflation has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the Monetary Policy Committee's (MPC) target of 2%.

4.1.3 UK Monetary Policy:
After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC

until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth.

Appendix 3 shows the money market interest rates and the Public Works Loans Board (PWLB) borrowing rates for 2018/19.

4.2 Local Context

4.2.1 The Council undertakes capital expenditure on long-term assets. 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 impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources based on robust financial modelling, the capital expenditure will give rise to a borrowing need.

4.2.2 At 31 March 2019 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,383.2m.

4.2.3 At 31 March 2019, the Council had £1,154.3m of borrowing including £201.0m of Private Finance Initiative (PFI) Debt and £90.6m of investments.

4.2.4 The Council's 2018/19 strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to maintaining a liquidity investment balance of around £30m. Against the risks within the economic forecast and the forecast interest rates for 2018/19 in table below, a cautious and pragmatic approach to changing circumstances was taken:

•when it was felt that there was a significant risk of a sharp RISE in long and short term rates forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Interest rate forecast from 2018/19 Treasury Management Strategy

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

4.2.5 The Council's CFR is forecast to increase over the next 3 years due to the capital programme, investments are expected to remain below their underlying levels resulting in new borrowing £105m being required as reported in the 2019/20 Treasury Management Strategy Report.

4.3 Borrowing

4.3.1 The CFR is a gauge of the Council's indebtedness and results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2018/19 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

4.3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council (Internal Borrowing).

4.3.3 Total outstanding debt in 2018/19 increased by £87.7m to £953.2m as at 31 March 2019. The total long term debt increased by £94.1m while temporary borrowing had decreased by £6.5m as at 31 March 2019. The average rate of interest on total debt decreased, from 3.398% at 31 March 2018 to 3.359% at 31 March 2019 due to active management of the debt portfolio.

Table 2 analyses the debt portfolio:

TABLE 2: DEBT PORTFOLIO				
	01-Apr-18		31-Mar-19	
DEBT	**£m**	**%**	**£m**	**%**
PWLB borrowing	787.3	3.448	882	3.368
Market loans	49.0	4.348	49.0	4.348
Local bonds & Stock	0.6	3.001	0	0
Temporary borrowing	28.7	0.430	22.2	0.843
TOTAL DEBT	**865.6**	**3.398**	**953.2**	**3.359**

4.3.4 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

4.3.5 The Council raised a total of £130m of new long term fixed rate loans in 2018/19. Of these new loans £100m was allocated to the General Fund, these loans had an average life of 43 years and an average rate of 2.37% with a full year revenue cost of c.£2.366m per annum in interest payable. The increase in fixed rate loans provide long term cost certainty and reduces the Councils exposure to increases in long term interest rates. The PWLB was the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide.

4.3.6 Temporary loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. £292.5m of such loans were borrowed at an average rate of 0.588% and an average life of 49 days this total includes the replacement of maturing loans. The Council's outstanding balance of temporary loans has decreased by £6.5m with the debt portfolio showing £22.2m outstanding as at 31 March 2019.

4.3.7 The Council expects the under-borrowed position to have reduced by £67.3m in 2018/19 due to the new long term borrowing taken in year. This has reduced the Internal Borrowing to c.£228.9m as at 31 March 2019. This meant that the overall capital borrowing need including prior year capital expenditure (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as a temporary measure. This strategy remained prudent as investment returns were relatively low and counterparty risk was still an issue that needed to be considered.

4.3.8 As shown in **Appendix 3** the 2018/19 rates displayed significant level of correlation between movements in US Treasury yields and UK gilt yields - which determine PWLB rates. The Federal Reserve (Fed) is the central bank of the United States and are responsible for the monetary policy in America. The Fed Rate was increased four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. The outlook for growth now also looks to be weak for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

4.3.9 The interest equalisation reserve has been maintained to mitigate the risk of unexpected rises in long term interest rates with c.£10.4m ring-fenced to smooth the impact of further increasing the proportion of fixed long term loans.

4.4 Lender Option Borrower Option (LOBOs)

4.4.1 The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £24.000m of these LOBO loans had options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4.4.2 The council previously held LOBO loans with Barclays Bank, but in 2016/17 the Bank cancelled all the embedded options within the loans. This effectively converted the £15m of Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date.

4.5 Debt Rescheduling

4.5.1 The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

4.6 Housing Revenue Account (HRA) Borrowing

4.6.1 From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As a result of existing debt maturing and not being replaced, the HRA accumulates a variable rate internal borrowing position. During 2018/19 the HRA fixed £30m of new PWLB borrowing. These loans had an average life of 43 years and an average rate of 2.64% with a full year revenue cost of c.£0.792m per annum in interest payable. By using long term fixed rate loans the HRA gains cost certainty and removes the exposure to increases in long term interest rates for the HRA CFR as at 31 March 2019.

4.6.2 The HRA element of the CFR was £289.2m and is fully financed at an average rate of 4.32% as at 31 March 2019. The HRA interest charge for 2018/19 was £12.6m.

4.6.3 In October 2018 the Government announced the HRA debt cap was to be abolished, but the now notional cap has been retained as a useful indicator shown in **Appendix 1.** Any capital expenditure financed by borrowing would need to comply with the requirements of the CIPFA prudential code including ensuring the scheme was affordable, sustainable and in proportion to the resources available.

4.7 Investments

4.7.1 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy for 2018/19.

4.7.2 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating was A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

4.7.3 In the past 12 months, the Council's investment balance has ranged between £26m and £104m. The average sum invested during the year was £60.5m, earning total interest of £0.441m at an average rate of 0.728%. The Council benchmarks its average return against the 7-day London Interbank (LIBID) rate provided by the Bank of England. For 2018/19, the average 7-day LIBID rate was 0.507%. This performance was above the market due to active management of the investment portfolio.

4.7.4 At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

4.7.5 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments in the later part of the financial year by borrowing to reduce the internal borrowing position and 'cash backing' some of the reserves and increasing balances on investments. The Council has continued to minimise it's exposure to bank credit risk by depositing balances for investment in highly diverse and liquid money market funds and has placed term deposits with other local authorities as shown in table 3 below.

TABLE 3 - Investment Activity in 2018/19

Investments	Balance on 01/04/2018 £m	Balance on 31/03/2019 £m	Avg Rate / Yield (%) Avg days to maturity as at 31/03/2019
Short term Investments (call accounts, deposits)			
- Banks and Building Societies with ratings of A- or higher	0	0	N/A
- Local Authorities	10	57.5	0.90% / 107
Long term Investments	0	0	N/A
Money Market Funds	21.3	33.1	0.79% / 1
TOTAL INVESTMENTS	**31.3**	**90.6**	**0.86% / 68**
- Increase/ (Decrease) in Investments £m		59.3	

4.7.6 The council has retained its use of instant access money market funds with the dual benefit of increased diversity and a credit rating of AAAm.

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

4.7.8 **Appendix 2** provides details of the Council's external investments at 31 March 2019, analysed between investment type and individual counterparties showing the Fitch long-term credit rating.

4.8 Repayment of City of Nottingham Stock

4.8.1 As of 28 March 2019 the remaining £0.6m of City of Nottingham Stock was repurchased from holders at £110 per £100 of stock held. As this was classified as Public Interest Entities (PIE) stock as per updated EU legislation, this was attracting PIE enhanced audit requirements with additional fees that made holding the stock financially unviable.

4.9 External advisors

4.9.1 External treasury management advisors are retained to provide additional input on treasury management matters. The service comprises economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on other matters, as required.

4.9.2 The council has retained Link Asset Services (previously known as Capita Asset Services) as its treasury management advisors.

4.10 Compliance with Prudential Indicators

4.10.1 The Council confirms compliance with its Prudential Indicators for 2018/19 set on 5 March 2018 as part of the Council's Treasury Management Strategy Statement.

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

4.10.3 **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The limits on net fixed and variable rate interest rate exposures are:

	2017/18 £m	2018/19 £m	2019/20 £m

Upper limit on variable interest rate exposure	300	300	300
Actual	171.4	95.5	

4.10.4 **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 will be:

	Lower	Upper	Actual
Under 12 months	0%	25%	8%
12 months and within 24 months	0%	25%	3%
24 months and within 5 years	0%	25%	8%
5 years and within 10 years	0%	25%	13%
10 years and within 25 years	0%	50%	13%
25 years and within 40 years	0%	50%	18%
40 years and above	0%	50%	37%

4.10.5 **Principal Sums Invested for Periods Longer than 365 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 £m	2018/19 £m	2019/20 £m
Limit on principal invested beyond year end	100	100	100
Actual	0	0	

4.10.6 **Operational Boundary and Authorised Limit 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. 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.

	2018/19 Original Estimate £m	2018/19 Max Debt in year £m
Borrowing	952.8	953.2
Other Long-term Liabilities *	201.0	201.0
Total External Debt	1,153.8	1,154.3
Operational Boundary	1,313.8	
Authorised Limit	1,353.8	

'* Includes PFI and Leases liabilities

4.11 Treasury Management Reserve

4.11.1 The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year including new technical accounting entries relating to IFRS 9 expected loss model based impairments on Treasury related investments and capital investments such as loans to third parties and financial guarantees.

A reserve is maintained for interest equalisation specifically to balance the risk of having to secure new long term loans at higher interest rates than anticipated including the unwinding of internal borrowing position detailed in section 4.3.

The balance on these reserves at 31 March 2019 is £5.972m. In 2018/19 a technical adjustment of £11.346m has been made to account for the annual impairment review on non-treasury investments as at 31 March 2019 under the new IFRS 9 requirements. There was no expected loss impairment made to treasury investments.

4.12 Risk Management

4.12.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

4.12.2 The treasury management risk register's overall risk rating at 31 March 2019 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 31 March 2018. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

4.13 Other Issues

4.13.1 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.
A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the council at a much higher level than can be attained by treasury investments.

A Capital Investment Strategy report was considered alongside the Treasury Management Strategy at Executive Board and approved at Full Council on 8 March 2019. These reports provides a high level summary of the overall capital strategy and enables councillors to see how the cash resources of the council have been apportioned between treasury and non-treasury investments. These reports are as per the updated requirements within the CIPFA codes.

4.13.2 **IFRS 9**. Risk management will need to take account of the 2018/19 Accounting Code of Practice proposals for the valuation of investments.

- Expected credit loss model. Whilst this is not be material for vanilla treasury investments such as bank deposits, this can result in a revenue impact for non-treasury management investments dealt with in the capital strategy.

- The valuation of investments previously valued under the available for sale category e.g. equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

5 FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

5.1 General Fund Revenue Implications

5.1.1 Revenue costs associated with borrowing and lending can be volatile, being affected by a number of factors including movements in interest rates, the timing of capital spending, the extent of reserves held and actual cash flows during the year.

5.1.2 The General Fund outturn in 2018/19 for treasury management costs was £80.933m comprising of interest charges less receipts, provisions for the repayment of debt and PFI related expenditure. A proportion of the Council’s debt relates to capital expenditure on council housing and £12.600m of these costs was charged to the HRA. The PFI expenditure accounted for £26.504m which includes the NET lines 1 & 2.
The General Fund costs of £80.933m gave a favourable variance of £0.614m which is included within the General Fund corporate Budget Outturn Report on this Executive Board agenda.

5.2 Value for Money

5.2.1 Management of borrowing and investments is undertaken in conjunction with our appointed advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

Glyn Daykin/Sue Risdall, Technical Accounting dated 30 May 2019.

6 LEGAL AND PROCUREMENT COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

6.1 None

7 STRATEGIC ASSETS & PROPERTY COLLEAGUE COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

7.1 None.

8 SOCIAL VALUE CONSIDERATIONS

8.1 None.

9 REGARD TO THE NHS CONSTITUTION

9.1 N/A.

10 EQUALITY IMPACT ASSESSMENT (EIA)

10.1 The report has no proposal to change processes or systems therefore no equality impact assessment has been completed.

11 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

11.1 None.

12 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

12.1 Treasury Management Strategy 2018/19 and Revision to 2017/18 Debt Repayment Strategy.

12.2 Treasury Management Strategy 2019/20 and Capital Investment Strategy 2019/20

PRUDENTIAL INDICATORS **Appendix 1**

INDICATORS	2017/18 Actual	2018/19 Estimate	2018/19 Outturn
1) Prudence indicators			
i) Capital Expenditure			
General Fund	£166.8m	£113.0m	£103.4m
HRA	£53.4m	£59.3m	£44.6m
	£220.2m	**£172.3m**	**£148.0m**
ii) CFR at 31 March			
General Fund	£867.1m	£883.0m	£895.5m
HRA	£294.7m	£304.6m	£286.6m
PFI notional 'debt'	£208.0m	£201.0m	£201.0m
	£1,369.8m	**£1,388.6m**	**£1,383.2m**
iii) External Debt at 31 March			
Borrowing	£865.6m	£952.8m	£953.2m
PFI & leasing notional 'debt'	£208.0m	£201.0m	£201.0m
Gross debt	**£1,073.6m**	**£1,153.8m**	**£1,154.3m**
Less investments	£(31.3)m	£(30.0)m	£(90.6)m
Net Debt	**£1,042.3m**	**£1,123.8m**	**£1,063.7m**
2) Affordability indicators			
i) Financing costs ratio			
General Fund	12.80%	16.07%	18.93%
General Fund (Inc PFI costs)	22.86%		25.57%
HRA	12.00%	12.99%	11.96%
	Max in year		**Max in year**
ii) Authorised limit for external debt	£1,091.6m	£1,353.8m	£1,154.3m
iii) Operational limit for ext. debt	£1,091.6m	£1,313.8m	£1,154.3m
iv) HRA limit on indebtedness			
HRA Debt Cap (notional – cap lifted in 2018)	319.8	319.8	319.8
HRA CFR	280.3	304.6	286.6
Headroom (notional)	**39.5**	**15.2**	**33.2**
3) Treasury Management indicators	**£m**	**£m**	**£m**
i) Limit on variable interest rates	171.4	300.0	95.5
ii) Fixed Debt maturity structure			
- Under 12 months	17%	0-25%	8%
- 12 months to 2 years	4%	0-25%	3%
- 2 to 5 years	12%	0-25%	8%
- 5 to 10 years	16%	0-25%	13%
- 10 to 25 years	24%	0-50%	13%
- 25 to 40 years	21%	0-50%	18%
- 40 years and above	6%	0-50%	37%
	Max in year		**Max in year**
iii) Max sum invested for >365 days	£0m	£100.0m	£0m

NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS

1) **Prudence Indicators**

i) *'Estimate of total capital expenditure'* – a "reasonable" estimate of total capital expenditure to be incurred, split between the General Fund and the HRA.

- This estimate takes into account the current approved asset management and capital investment strategies.

ii) *'Capital financing requirement' (CFR)* – this figure constitutes the aggregate amount of capital spending which has not yet been financed by capital receipts, capital grants or contributions from revenue, and represents the underlying need to borrow money long-term. An actual figure at 31 March each year is required.

- This approximates to the previous Credit Ceiling calculation and provides an indication of the total long-term debt requirement.
- The figure includes an estimation of the total debt brought 'on-balance sheet' in respect of PFI schemes and finance leases.

iii) *'External debt'* - the actual level of gross borrowing (plus other long-term liabilities, including the notional debt relating to on-balance sheet PFI schemes and leases) calculated from the balance sheet.

2) **Affordability Indicators**

i) '*Ratio of financing costs to net revenue stream'* – expresses the revenue costs of the Council's borrowing (interest payments and provision for repayment) as a percentage of the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes revenue raised from the Workplace Parking Levy.

- These indicators show the impact of borrowing on the revenue accounts and enable a comparison between years to be made. The increase in the General Fund ratio reflects the falling grant from government and the impact of the extension of the NET capital scheme, funded from specific Government grant and the Workplace Parking Levy income streams.

ii) *'Authorised limit for external debt'* – this represents the maximum amount that may be borrowed at any point during the year.

- This figure allows for the possibility that borrowing for capital purposes may be undertaken early in the year, with a further sum to reflect any temporary borrowing as a result of adverse cash flow. This represents a 'worst case' scenario.

iii) *'Operating boundary for external debt'* – this indicator is a working limit and represents the highest level of borrowing is expected to be reached at any time during the year - It is recognised that this operational boundary may be breached in exceptional circumstances.

iv) *‘HRA limit on indebtedness’* – from 1 April 2012, a separate debt portfolio has been established for the HRA. The CLG have imposed a ‘cap’ on the maximum level of debt for individual authorities and the difference between this limit and the actual HRA CFR represents the headroom available for future new borrowing.

3) **Treasury Management Indicators**

i) *‘Upper limit on variable interest rate exposure’ - is set to control the Authority’s exposure to interest rate risk. The upper limits on variable rate interest rate exposures, expressed as the amount of net principal borrowed*.

- A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.

ii) *‘Upper and lower limits with respect to the maturity structure of the authority’s borrowing’* – this shows the amount of fixed rate borrowing maturing in each period, expressed as a percentage of total fixed rate borrowing.

- This indicator is designed to be a control over having large amounts of fixed rate debt falling to be replaced at the same time.

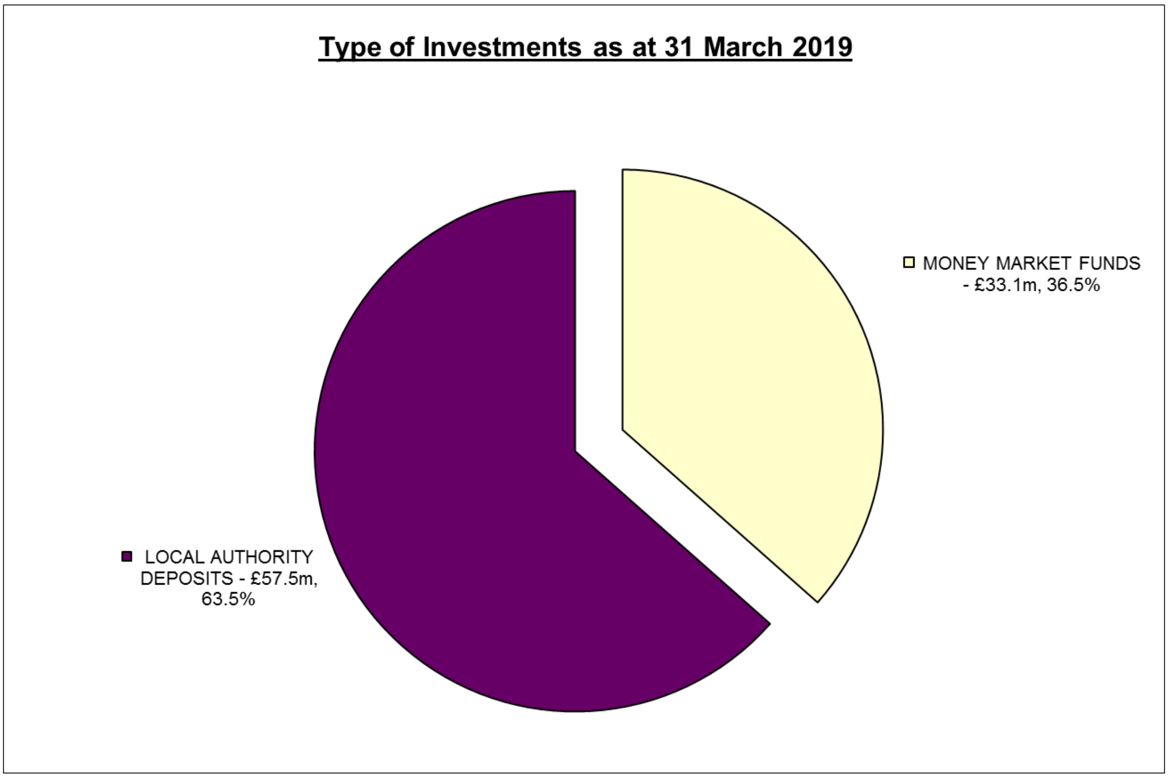
iii) *‘Total sums invested for periods of greater than 365 days* – a limit on investments for periods longer than 1 year.

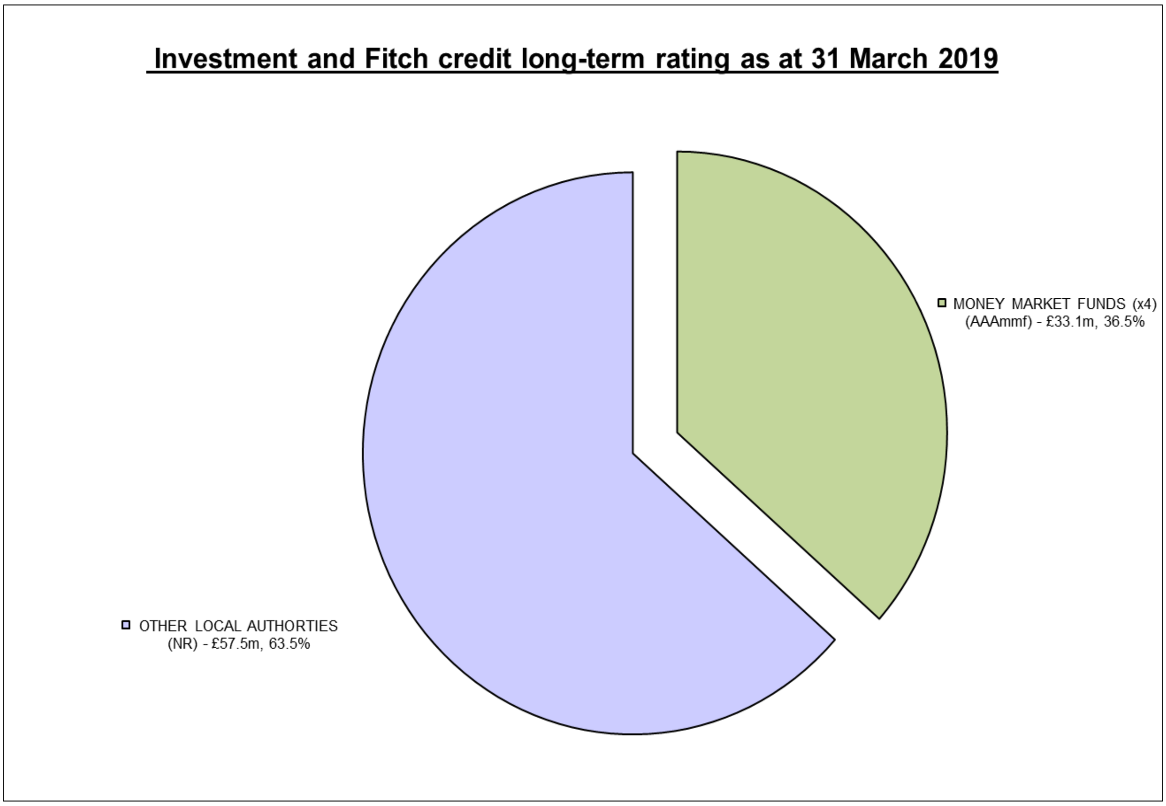
- This indicator is designed to protect the liquidity of investments, ensuring that large proportions of the cash reserves are not invested for long periods.

iv) *Credit risk* – The Council monitors a range of factors to manage credit risk, detailed in its annual Treasury Management Strategy.

Appendix 2

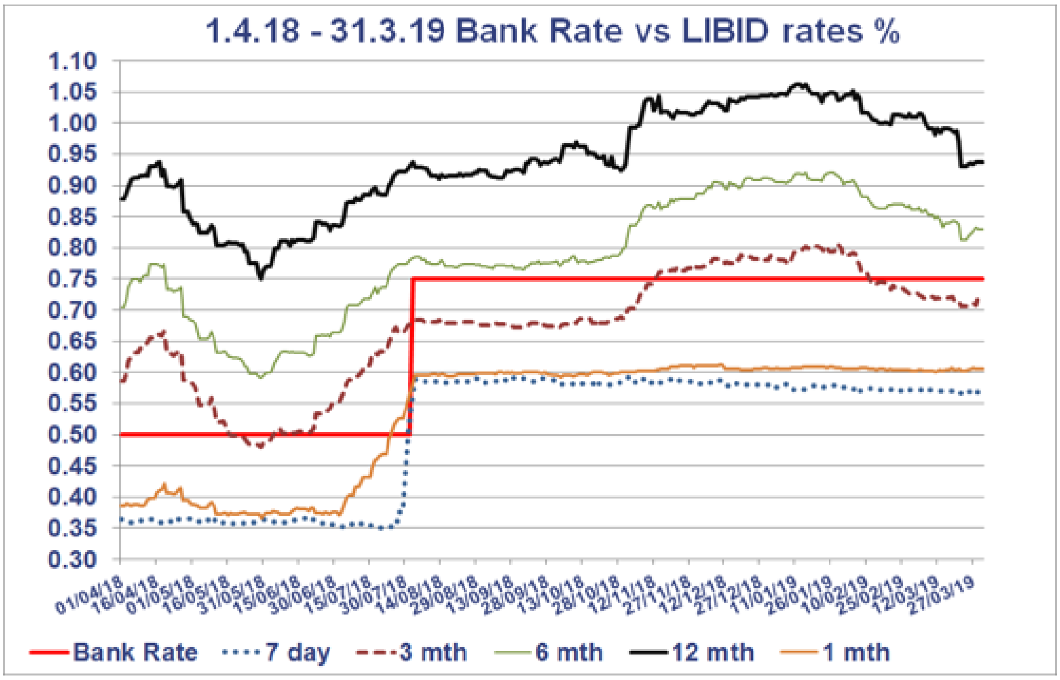
Investments Credit Risk



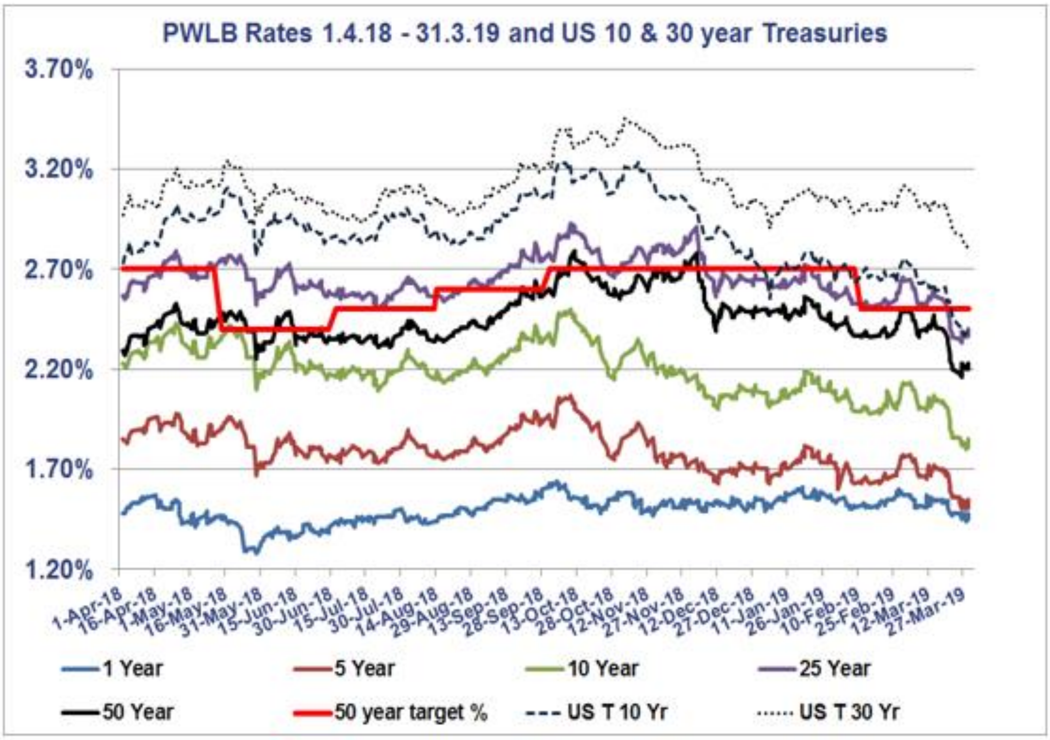


Appendix 3

Money Market Interest Rates and PWLB rates in 2018/19



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
01/04/2018	0.50	0.36	0.39	0.59	0.70	0.88
31/03/2019	0.75	0.57	0.61	0.72	0.83	0.94
High	0.75	0.59	0.61	0.81	0.92	1.06
High Date	02/08/2018	01/11/2018	10/12/2018	29/01/2019	15/01/2019	11/01/2019
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.67	0.51	0.54	0.68	0.79	0.94
Spread	0.25	0.24	0.25	0.33	0.33	0.31



	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%