BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO COUNCIL

6 SEPTEMBER 2017

REPORT OF THE HEAD OF FINANCE & SECTION 151 OFFICER

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2016-17

1. Purpose of the Report

1.1 The purpose of the report is to:-

- Comply with the requirement of the Chartered Institute of Public Finance and Accountancy 'Treasury Management in the Public Services: Code of Practice' (the Code) to report an overview of treasury activities for the preceding financial year;

- Report on the actual Treasury Management and Prudential indicators for 2016-17.

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

2.1 The Annual Treasury Management Report is integral to the delivery of the Corporate Improvement Objectives as the allocation of resources determines the extent to which the Corporate Objectives can be delivered.

3. Background

3.1 The Council's Treasury Management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, develops the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

3.2 The Council is required to operate the overall treasury function with regard to the Code and this was formally adopted by the Council in February 2012. This includes a requirement for the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation and reporting arrangements. Council approved the TMS 2016-17 on 10 March 2016. The Code also requires that Council receives an Annual Report after the close of the financial year and this report fulfils that requirement. Audit Committee also received the Annual Report on the 29 June 2017.

3.3 The Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010, which requires the Council to approve an Investment Strategy prior to the start of each financial year and this is included in the TMS.

3.4 The Council is also required to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council's adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

3.5 This Annual Report covers the following areas for 2016-17:

- The Council's treasury position
- Treasury Risk Management
- External Context
- Borrowing Strategy & Outturn
- Investment Strategy & Outturn
- Performance Measurement
- Review of the Treasury Management Strategy
- Reporting Arrangements
- Treasury Management and Prudential Indicators

4. Current Situation

4.1.1 **The treasury position for 2016-17**:

		Principal as at 01-04-16 £m	Average Rate %	Principal as at 31-03-17 £m	Average Rate %
Fixed rate long term funding	PWLB*	77.62	4.70	77.62	4.70
Variable rate long term funding	LOBO**	19.25	4.65	19.25	4.65
TOTAL LONG TERM EXTERNALI BORROWING* **		**96.87**	**4.69**	**96.87**	**4.69**
Other Long Term Liabilities*** (including PFI)		22.42		21.77	
TOTAL GROSS DEBT		**119.29**		**118.64**	
Fixed rate investments		22.50	0.64	28.50	0.56
Variable rate investments		3.50	0.86	5.25	0.45
TOTAL INVESTMENTS******		**26.00**	**0.67**	**33.75**	**0.55**
TOTAL NET DEBT		**93.29**		**84.89**	

* Public Works Loan Board (PWLB)

** Lender's Option Borrower's Option (LOBO)

*** Long term borrowing/liabilities include all instruments with an initial term of 365 days or more so includes the short term liability relating to long term borrowing/liabilities included as "Current Liabilities" in the Council's balance sheet in the Statement of Accounts.

**** The investment totals include instant access deposit accounts which are included as "Cash" in the Council's balance sheet in the Statement of Accounts and also investments shown as "Cash Equivalents" in the Council's balance sheet that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. A breakdown of the movement during the year is shown in Section 4 below.

Fixed rate in the above table includes instruments which are due to mature in the year and also a £3m structured deal where the change in interest rate has been agreed and fixed in advance

4.1.2 It should be noted that the accounting practice to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures shown in the table above and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or are stated at fair value in different instances.

4.1.3 The £19.25 million in the above table relates to Lender's Option Borrower's Option (LOBO) loans due to mature in 2054, which may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the trigger dates being July and January) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The trigger dates in 2017-18 are July 2017 and January 2018 however it is not expected to be repaid on these dates. The current average interest rate for these LOBO's is 4.65% compared to the PWLB Loans average interest rate of 4.70%.

4.1.4 The long term liabilities figure of £21.77 million at 31 March 2017 includes £18.24 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg - seventeen years remaining term) which includes the short term PFI liability of £0.60 million which is included as current liabilities in the Council's balance sheet in the Statement of Accounts. Also included is £2.40 million relating to a loan from the WG Central Capital Retained Fund for regeneration works within the Llynfi Valley which had not yet commenced in 2016-17.

4.1.5 Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2017 was £33.75 million with an average rate of interest of 0.55%. This was an increase from the start of the financial year where investments were £26.00 million but the average rate of interest has reduced from 0.67% and at the same time the base rate reduced from 0.50% to 0.25% in August 2016, hence a reduction in yield. The first table in section 4.5 details the movement of the investments during 2016-17 by counterparty types and shows the average balances, duration and rates for the year.

4.1.6 The Treasury Management function is being reviewed by the Council's External Auditors, the Wales Audit Office during the 2016-17 annual audit which has not yet been finalised. To date no adjustments relating to Treasury Management have been identified, however, if there are any significant changes then these will be reported to Council in November. In addition to the External Audit work, Internal Audit undertook an audit of the Treasury Management function during 2016-17 and the audit identified that "the completed Control Risk Self-Assessment Questionnaire (CRSA) provided 100% positive responses which indicate that risks have been considered and mitigated. No weaknesses have been identified during the current review consequently no recommendations are deemed necessary on this occasion".

4.1.7 The Council’s Treasury Management Advisors are Arlingclose. Their contract expired on 31 August 2016 so the contract was retendered in July 2016 and Arlingclose were the successful tenderer and from 1 September 2016 awarded a new four year contract. The contract will be reviewed annually and either party may at any time terminate this agreement on 3 months prior written notice. The current services provided to the Council include:-

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

4.2 Treasury Risk Management

4.2.1 The Treasury Management Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks. The Council’s overall treasury risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

4.2.2 The Council’s activities expose it to a variety of financial risks, the key risks are:-

- Credit risk (i.e. security) – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

4.2.3 The Council’s primary objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return so not all the options available to the Council were utilised during 2016-17. The majority of the Council’s surplus funds during 2016-17 were therefore kept in the form of short-term investments and were all placed with counterparties satisfying the appropriate credit criteria and spread over a number of counterparties. This was deemed a much safer option even though it may be at the expense of extra basis points in interest and more detail is provided below in section 4.5.

4.2.4 The counterparty limits were constantly reviewed and where market conditions dictated, the limit was dropped below the limits detailed in the Investment Strategy. No breaches of the Council's counterparty criteria occurred during 2016-17 and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits**.** A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise. The second table below in section 4.5 summarises the credit risk exposures of the Council's investment portfolio by credit rating, based on the lowest long term rating.

4.3 External Context 2016-17

4.3.1 The interest rate views, incorporated in the Council's Treasury Management Strategy for 2016-17, were based upon officers' views supported by a selection of City forecasts provided by Arlingclose. Politically, 2016-17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45^{th} President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year.

4.3.2 The Bank Rate started the financial year at 0.50% after entering its eighth year at that level and remained at this rate until 4 August 2016 when it reduced to 0.25%. When the Treasury Management Strategy for 2016-17 was prepared it was forecast that the Bank Rate would increase by 0.25% in September 2016 and possibly rise to 1% by the end of the 2016-17 financial year, however as a result of the Brexit vote this did not happen and the Bank Rate remained at 0.25% for the remainder of 2016-17.

4.4 Borrowing Strategy and Outturn 2016-17

4.4.1 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council took a cautious approach to its treasury strategy. With short-term interest rates currently lower than long term rates, it is likely to be more cost effective in the short term to either borrow short term or use internal resources. Short term and variable rate loans expose the Council to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as shown in the Treasury Management indicators below in section 4.9 and **Appendix A**. However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against the potential longer-term costs. The Council's Treasury Management advisors will assist the Council with this 'cost of carry' and breakeven analysis.

4.4.2 The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the PWLB at long term fixed rates of interest. 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 so no rescheduling activity was undertaken as a consequence. Also, no long term borrowing was taken during 2016-17 (the last time the Council took long term borrowing was £5m from the PWLB in March 2012) however for cash-flow purposes four short term loans were taken during the year totalling £10.20 million all of which were repaid in less than a month from being taken.

4.4.3 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This is known as Internal Borrowing. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

4.5 Investment Strategy and Outturn 2016-17

4.5.1 Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, balancing the risk of incurring losses from defaults against receiving unsuitably low investment income. The Annual Investment Strategy incorporated in the Council's Treasury Management Strategy 2016-17 includes the credit ratings defined for each category of investments, the prudential use of non-specified investments and the liquidity of investments.

4.5.2 The Council's investments have historically been placed in bank and building society unsecured deposits and local and central government, however, investments may be made with any public or private sector organisations that meet the minimum credit criteria specified in the Investment Strategy. The Council is looking to diversify into more secure and/or higher yielding asset classes but any new instruments used will be in full consultation with the Council's Treasury Management advisors. In order to be able to use these different types of instruments the Council is required to hold a custody account with a third party (as we are unable to deal direct) and this has recently been approved and we are in the process of setting up this arrangement.

4.5.3 Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

4.5.4 On a day to day basis the Council potentially has positive cash balances arising from the cash flow e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in deposit accounts. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy. There were two new long term investments (original duration of 12 months or more) made with a local authority in 2016-17 both for four years totalling £4 million but all other investments in 2016-17 were short term (deposit accounts or fixed term deposits). The table below details these investments by counterparty type:-

Investment Counterparty Category	Balance 01 April 2016 (A) £m	Investments Made (B) £m	Investments Repaid (C) £m	Balance 31 March 2017 (A+B-C) £m	Average Duration Investment in force during 2016-17 Days	Average Original Duration of the Investment Days	Weighted Average Investment Balance 2016-17 £m	Weighted Average Rate 2016-17 %
Govt - DMO	-	53.70	53.70	-	**5**	**5**	**0.71**	**0.16**
Local Authorities	19.50	207.20	207.20	**19.50**	**51**	**91**	**32.52**	**0.43**
Building Societies	1.00	15.00	10.00	**6.00**	**132**	**141**	**5.96**	**0.54**
Banks (Fixed Maturity)	2.00	10.00	9.00	**3.00**	**139**	**170**	**4.38**	**0.78**
Banks Instant Access/Notice Accounts*	3.50	84.45	82.70	**5.25**	**n/a**	**n/a**	**4.67**	**0.61**
Total/Average	**26.00**	**370.35**	**362.60**	**33.75**	**82**	**102**	**48.24**	**0.49**

* An average duration is not shown as money is frequently added / withdrawn to/from these accounts as required by cash-flow

4.5.5 Occasionally, investments are placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits (as shown in the table above) and only as a last resort as the interest rates offered by this facility are lower than some other counterparties but this is commensurate with the high level of security and reduced risk offered. It provides another option when examining potential investments and ensures compliance with the Council's investment objective that security takes priority over yield. There were no deposits outstanding with the DMO at 31 March 2017.

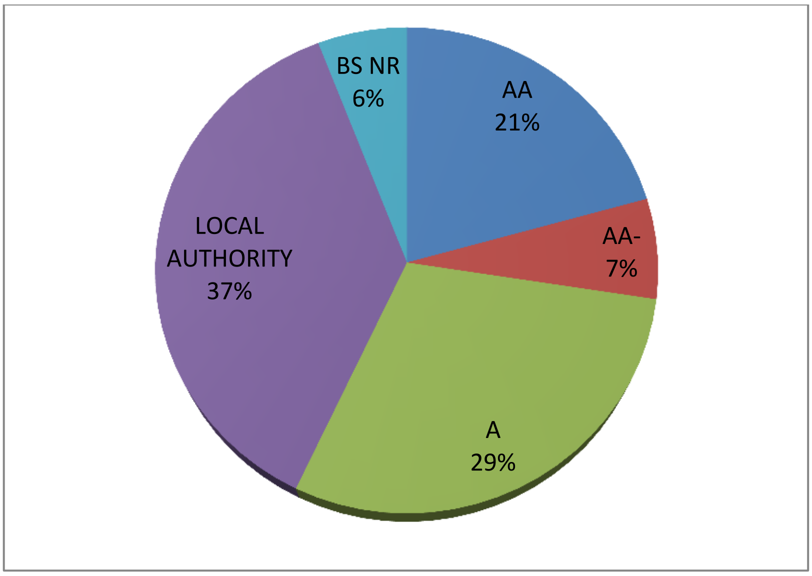
4.5.6 Favourable cash flows have provided positive cash balances for investment and as shown above the balance on investments at 31 March 2017 was £33.75 million made up of £4 million long term investments, £26.50 million short term investments and £3.25 million Cash and Cash Equivalents. The table below summarises the credit risk exposure of the Council's £33.75 million investments at 31 March 2017 by credit rating, (based on the lowest long term rating) maturity profile (remaining duration from 31 March 2017) and counterparty type:-

Counterparty Category	**Credit Rating**	**Instant Access Deposit Accounts £m**	**Notice Period Deposit Account £m**	**Deposits Maturing Within 1 Month £m**	**Deposits Maturing Within 1 to 3 Months £m**	**Deposits Maturing Within 3 to 6 Months £m**	**Deposits Maturing Within 6 Months to 1 Year £m**	**Deposits Maturing Within 3 to 4 Years** £m**	**Total £m**
Bank	AA-	2.25*							**2.25**
Bank	A	1.00	2.00		2.00	1.00			**6.00**
Local Authorities	AA				5.00		2.00		**7.00**
Local Authorities unrated					2.00	4.50	2.00	4.00	**12.50**
Building Societies	A			4.00					**4.00**
Building Societies unrated				1.00	1.00				**2.00**
Total		**3.25**	**2.00**	**5.00**	**10.00**	**5.50**	**4.00**	**4.00**	**33.75**

* The Bank is Svenska Handelsbanken which is a Swedish bank incorporated in the EEA and entitled to accept deposits through a branch in the UK and is classed as a UK Bank in the Government's Borrowing Statistical Return

**There are no current investments outstanding which are due to mature between 1 and 3 years

4.5.7 The Council defines high credit quality as organisations and securities having a credit rating of A- or higher. The pie chart below summarises the above table by credit ratings and shows the £33.75 million investments at 31 March 2017 by percentage outstanding. Most Local Authorities do not have credit ratings and unrated building societies (shown as BS NR below) were all approved by Arlingclose and the remainder of our investments all had a credit rating of A or above.



4.6 Performance Measurement 2016-17

4.6.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year and the ones set in the Treasury Management Strategy 2016-17 are shown below. These are distinct historic indicators as opposed to the Treasury Management and Prudential Indicators (shown below in section 4.9) which are predominantly forward looking. One debt performance indicator is where the average portfolio rate of interest is compared to an appropriate average available such as the average PWLB Debt for Welsh and UK Local Authorities.

4.6.2 The average long term borrowing rate for 2016-17 and at 31 March 2017 was 4.69% (the same rate as at 31 March 2016) and 80% of this was made up of Public Works Loan Board (PWLB) loans with an average rate of 4.70% (the same rate as at 31 March 2016). Comparable performance indicators are shown below:-

Bridgend CBC Average Rate of PWLB Debt at 31-03-17	**All Welsh Local Authorities Average Rate for outstanding PWLB Debt at 31-03-17**	**All UK Local Authorities Average Rate for outstanding PWLB Debt at 31-03-17**
4.70%	4.86%	4.24%
	-0.16%	**+0.46%**

4.6.3 The average rate on investments for 2016-17 was 0.49% and at 31 March 2017 was 0.55% (compared to 0.45% for 2015-16 and 0.67% at 31 March 2016). Comparable performance indicators for benchmarking purposes set in the Treasury Management Strategy 2016-17 were the average 1 month LIBID

(London Inter Bank Bid) rate and the average Bank Rate. The tables below show the investments average interest rate for 2016-17 and the actual rate as at 31 March 2017 compared favourably against these two benchmarking rates:-

Bridgend CBC Average Rate of Return on Investments 2016-17	Average 1 month LIBID (London Inter-Bank Bid rate) 2016-17	Average Bank Rate 2016-17
0.49%	0.22%	0.34%
	+0.27%	**+0.15%**
Bridgend CBC Average Rate of Return on Investments as at 31-03-17	**1 month LIBID (London Inter-Bank Bid rate) as at 31-03-17**	**Bank Rate as at 31-03-17**
0.55%	0.13%	0.25%
	+0.42%	**+0.30%**

4.6.4 Also as shown below, the Council's 2016-17 average rate of return on investments at each quarter end was more favourable compared to the average of Arlingclose Welsh Local Authority clients:

2016-17	Bridgend CBC Average Rate of Return on Investments	Arlingclose Welsh Local Authorities Clients Average Rate of Return on Investments
31-03-17	**0.55%**	0.34%
31-12-16	**0.51%**	0.32%
30-09-16	**0.51%**	0.46%
30-06-16	**0.58%**	0.51%

4.7 Review of the Treasury Management Strategy 2016-17

4.7.1 CIPFA's Code of Practice for Treasury Management requires all local authorities to conduct a mid-year review of its treasury management policies, practices and activities. As a result of this review it was not deemed necessary to make any major changes to the Treasury Management Strategy 2016-17.

4.8 Reporting Arrangements 2016-17

4.8.1 CIPFA's Code of Practice for Treasury Management requires that the Council reports on its treasury management as an annual strategy and plan in advance of the year, a mid-year review and an annual outturn report to Council. Quarterly monitoring reports are also produced and reported to Cabinet as Information Reports. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's Treasury Management Strategy and CIPFA's Standard of Professional Practice on Treasury Management.

4.8.2 In addition to the Code of Practice, the Welsh Government has issued Guidance on Local Government Investments which require local authorities to report their Annual Investment Strategy.

4.8.3 To ensure effective scrutiny of treasury management in accordance with the Treasury Management Strategy, Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. Audit Committee received training in June 2017 to assist them in their function of scrutinising treasury management, with particular emphasis on investment options available to the Council and Elected Members were also invited to attend.

4.8.4 During the 2016-17 financial year, in addition to the regular treasury management reports to Cabinet and Council, Audit Committee received the Annual Treasury Management Report 2015-16 in June 2016, the Half Year Treasury Management Report 2016-17 in November 2016, the Treasury Management Strategy (TMS) 2017-18 in January 2017 and the Annual Outturn Report in June 2017.

4.9 Treasury Management & Prudential Indicators 2016-17

4.9.1 The Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management and Prudential Indicators. Details are shown in **Appendix A** of the estimated indicators for 2016-17 as detailed in the Treasury Management Strategy (TMS) 2016-17 approved by Council 10 March 2016, the revised projection (where applicable) as set out in the Treasury Management Strategy 2017-18 approved by Council 1 March 2017, and the actual indicators for 2016-17.

4.9.2 In 2016-17, the Council operated within the treasury limits and Treasury Management and Prudential Indicators as set out in the agreed Treasury Management Strategy 2016-17.

5. Effect upon Policy Framework & Procedure rules

5.1 As required by Financial Procedure Rule 17.3 within the Council's Constitution, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Strategy 2016-17 as approved by Council.

6. Equality Impact Assessment

6.1 There are no equality implications.

7. Financial Implications

7.1 The financial implications are reflected within the report.

8. Recommendation

8.1 It is recommended that Council:

- Approve the treasury management activities for 2016-17;
- Approve the actual Treasury Management and Prudential Indicators for 2016-17.

Randal Hemingway
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28 July 2017

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Background documents:

Treasury Management Strategy 2016-17
Treasury Management Strategy 2017-18

1. Treasury Management Indicators 2016-17

1.1 The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks.

The Council needs to set the upper limits to its **Interest Rate Exposure** for the effects of changes in interest rates. There are two treasury management indicators relating to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk and are shown in the table below. The Section 151 Officer managed interest rate exposure between these limits during the year and as shown below the net borrowing position for fixed and variable rates was within the limits set.

No.	Interest Rate Exposure	TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual Outstanding 31-03-17 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2017	96.87	96.87	**96.87**
	Total Projected Principal Outstanding on Investments 31 March 2017	12.00	30.00	**33.75**
	Net Principal Outstanding	**84.87**	**66.87**	**63.12**
1.	**Upper Limit on fixed interest rates (net principal) exposure**	140.00	**n/a**	
2.	**Upper Limit on variable interest rates Exposure (net principal) exposure**	50.00	**n/a**	
	Fixed interest rate Exposure (net principal) 31-03-17			**49.12**
	Variable interest rate Exposure (net principal) 31-03-17			**14.00**

1.2 A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

No.	Maturity structure of fixed rate borrowing during 2016-17	TMS 2016-17 Upper limit	TMS 2016-17 Lower limit	Actual Outstanding 31-03-17
3.	Under 12 months	50%	0%	**19.87%**
	12 months and within 24 months	25%	0%	**0.00%**
	24 months and within 5 years	50%	0%	**0.00%**
	5 years and within 10 years	60%	0%	**12.47%**
	10 years and above	100%	40%	**67.66%**

The 19.87% in the table above relates to £19.25 million Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of their maturity date of 2054, as detailed in section 1. The Code requires the maturity of LOBO loans to be shown as the earliest date on which the lender can require payment, i.e. the next call date after 31 March 2017 which is July 2017, however, the lender is not expected to exercise this option due to current low interest rates and the Council is not anticipating that this will occur during 2017-18 so the maturity date is actually uncertain but is shown in the "Under 12 months" category as per the Code.

1.3 The **Upper Limit for Total Principal Sums invested over 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		TMS 2016-17 £m	Actual Principal Invested During 2016-17 £m
4.	**Upper Limit for Total Principal Sums Invested for more than 364 days**	15	**4**

The actual for all three treasury management indicators above are within the accepted range.

2. Prudential Indicators 2016-17

The Prudential Indicators are required to be set and approved by Council in accordance with CIPFA's Prudential Code for Capital Finance in Local Authorities.

Council is required to formally adopt CIPFA's Treasury Management Code and the revised edition of the 2011 code was adopted by Council on 22 February 2012.

2.1 Prudential Indicators for Prudence

2.1.1 The following Prudential Indicators are based on the Council's capital programme which is subject to change. The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure was funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence 2016-17	Estimate TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual 2016-17 £m
1	**Estimates of Capital Expenditure** (Non-HRA)	43.55	26.90	**18.27**
	Total Capital Expenditure	**43.55**	**26.90**	**18.27**
	Financed by :-			
	Capital Grants and Contributions	12.55	12.12	**9.96**
	Capital Receipts	17.20	6.86	**2.29**
	Revenue contribution to Capital	7.46	3.29	**2.11**
	Net Financing Need for Year	**6.34**	**4.63**	**3.91**

The capital expenditure figures have changed from the Treasury Management Strategy 2016-17 as the capital programme approved by Council on 10 March 2016 has been amended to include new approved schemes and to incorporate slippage of schemes identified as part of the capital monitoring which has resulted in a decrease in the Net Financing Need for 2016-17.

2.1.2 The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council and is shown in the table below. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to finance capital expenditure and forms the basis of the charge to the Council Fund under the Prudential Code system.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP).The actual MRP charge needs to be prudent and the methodology is detailed in the Council's MRP policy in the TMS 2016-17. The MRP requirement for the PFI Scheme and the Innovation Centre will be equivalent to the write down of the liability for the year and is met from existing budgets. Directorates who receive Council approval for capital schemes via Unsupported Borrowing, make annual contributions to the capital costs of their schemes and this is known as Voluntary Revenue Provisions (VRP) or additional MRP.

No.	Prudential indicators For Prudence	Estimate TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual 2016-17 £m
2	**Capital Financing Requirement (CFR)**			
	Opening CFR (1 April 2016) adjusted excluding PFI & other liabilities	155.44	154.82	154.82
	Opening PFI CFR	18.79	18.79	18.79
	Opening Innovation Centre	0.72	0.72	0.72
	Opening HALO	0.84	-	-
	Opening Coychurch Crematorium	-	0.13	0.13
	Total Opening CFR	**175.79**	**174.46**	**174.46**
	Movement in CFR excluding PFI & other liabilities	(0.18)	(4.18)	(5.75)
	Movement in PFI CFR	(0.55)	(0.55)	(0.55)
	Movement in Innovation Centre CFR	(0.05)	(0.05)	(0.05)
	Movement in HALO CFR	(0.12)	-	-
	Movement in CREM CFR		(0.05)	(0.05)
	Total Movement in CFR	**(0.90)**	**(4.83)**	**(6.40)**
	Closing CFR (31 March 2017)	**174.89**	**169.63**	**168.06**
	Movement in CFR represented by :-			
	Net Financing Need for Year (above)	6.34	4.63	3.91
	Minimum and Voluntary Revenue Provisions*	(7.24)	(9.46)	(10.31)
	Total Movement	**(0.90)**	**(4.83)**	**(6.40)**

*Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and include MRP for the Public Finance Initiative (PFI) and the Innovation Centre

2.2 Limits to Borrowing Activity

2.2.1 The Council’s long term borrowing at the 31 March 2017 was £96.87 million as detailed above in section 1, the Treasury Position. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. Because the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different especially when a Council is using Internal Borrowing as highlighted in paragraph 4.4.3 in the main report

The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown below.

No.	Prudential indicators For Prudence Gross Debt 2016-17	Estimate TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual Outstanding 31-03-17 £m
3	External Borrowing	96.87	96.87	**96.87**
	Long Term Liabilities (including PFI)	22.49	21.77	**21.77**
	Total Gross Debt	**119.36**	**118.64**	**118.64**

2.2.2 Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, debt will only be for a capital purpose. The Council needs to ensure that the external debt does not, except in the short term, exceed the Capital Financing Requirement for 2016-17. The table below shows that the Council has complied with this requirement.

No.	Prudential indicators For Prudence 2016-17	Estimate TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual Outstanding 31-03-17 £m
4	**Gross Debt & the CFR**			
	Total Gross Debt	119.36	118.64	**118.64**
	Closing CFR (31 March)	**174.89**	**169.63**	**168.06**

2.2.3 A further two Prudential Indicators detailed below control the Council's overall level of debt to support Capital Expenditure and were well within the limit set:

The Authorised Limit for External Debt – this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members.

The Operational Boundary for External Debt – this is not an actual limit and actual borrowing can vary around this boundary during the year. It is based on the probable external debt during the course of the year.

No	Prudential indicators For Prudence	TMS Limit 2016-17 £m	Actual 31-03-17 £m
5	**Authorised limit for external debt -**		
	Borrowing	140	
	Other long term liabilities	30	
	Total	**170**	
6	**Operational Boundary**		
	Borrowing	105	
	Other long term liabilities	25	
	Total	**130**	
	Borrowing		**96.87**
	Other long term liabilities		**21.77**
	Total		**118.64**

2.3 Prudential Indicators for Affordability

2.3.1 The Prudential Code Indicators Numbered 1 to 6 above cover the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

The **Ratio of Financing Costs to Net Revenue Stream** indicator demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by WG in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on Treasury Management activities and the Minimum Revenue Provision charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers. The projection has increased from the TMS estimates mainly due to additional MRP repaid in 2016-17 to repay unsupported borrowing early which will result in revenue savings in future years.

No.	Prudential Indicators for Affordability 2016-17	Estimate TMS 2016-17	Revised Projection TMS 2017-18	Actual 2016-17
7.	**Ratio of Financing Costs to Net Revenue Stream**	5.24%	5.76%	**6.05%**