

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

16 NOVEMBER 2017

REPORT OF THE HEAD OF FINANCE & SECTION 151 OFFICER

HALF YEAR TREASURY MANAGEMENT REPORT 2017-18

1. Purpose of the Report

- 1.1 The purpose of the report is to update Audit Committee on the mid-year review and half year outturn position for Treasury Management activities, Treasury Management and Prudential Indicators for 2017-18 and to highlight the compliance with the Council's policies and practices which have been reported to Cabinet and Council.

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1 The work of the Audit Committee supports corporate governance and assists in the achievement of all corporate and service objectives. Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council make best use of financial resources and hence assist achievement of Corporate Priorities.

3. Background

- 3.1 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. During the 2017-18 financial year to date, in addition to the regular treasury management reports to Cabinet and Council, Audit Committee received the Annual Treasury Management Outturn Report 2016-17 in June 2017.
- 3.2 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.

- 3.3 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 2017-18 on 1 March 2017.
- 3.4 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.

4. Current Situation

- 4.1 The Council has complied with its legislative and regulatory requirements during the first half of 2017-18. The Treasury Management Strategy 2017-18 and the Half Year Outturn were reported to Council on 1 March 2017 and 1 November 2017 respectively. In addition, a quarterly monitoring report was presented to Cabinet in July 2017.
- 4.2 A summary of the Treasury Management Activities for the first half of 2017-18 is shown in **Appendix A**. The Council has not taken long term borrowing since March 2012 and it is not expected that there will be a requirement for any new long term borrowing in 2017-18, however for cash-flow purposes £2 million short term borrowing was taken 24 May 2017 and repaid 5 June 2017 as detailed in section 3 in **Appendix A**. Favourable cash flows have provided surplus funds for investment and the balance on investments at 30 September 2017 was £44 million with an average rate of interest of 0.48%. The first table in section 4 in **Appendix A** details the movement of the investments by counterparty types and shows the average balances, duration and rates for the first half of 2017-18.
- 4.3 The Council is diversifying into more secure and/or higher yielding asset classes during 2017-18 and in order to be able to use the majority of these different types of instruments, the Council is required to use a nominee account(s) with a third party for safe custody of such investments (a custody account) and on 5 September 2017, Cabinet approved the opening of a King & Shaxson custody account. The Council also opened an account with the CCLA Public Sector Deposit Fund in August 2017 which is a pooling of public sector deposits wholly aligned with the principles and values of the public sector. It is UK domiciled and regulated by the Financial Services Authority. There is also an advisory board representing the public sector depositors which ensures strong governance arrangements of the Fund and is an approved financial instrument in our Treasury Management Strategy 2017-18 and provides instant access to the funds. Investment in the fund complies with the conditions that current regulations set out as any investment is for the prudent management of the Council's financial affairs and complies with the Council's constitutional requirements and with the approval delegations in place. It is also a safer investment as the chance of bail in if a bank was in difficulty is reduced. There was no balance outstanding at 30 September 2017. Section 4 in **Appendix A** details these developments.

4.4 The Council defines high credit quality as organisations and securities having a credit rating of A- or higher and **Appendix B** shows the equivalence table for credit ratings for Fitch, Moody's and Standard & Poor's and explains the different investment grades.

4.5 The 2011 Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management and Prudential Indicators. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital programme. Details of the estimate for 2017-18 set out in the Council's Treasury Management Strategy and also the projected indicators for 2017-18 are shown in section 6 in **Appendix A**.

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 2017-18 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 the Committee:

- Note the Annual Treasury Management Activities for 2017-18 for the period 1 April 2017 to 30 September 2017 and the projected Treasury Management and Prudential Indicators for 2017-18 which were all reported to Council for approval on 1 November 2017.

Randal Hemingway
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1 November 2017

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Background documents:

Treasury Management Strategy 2017-18

SUMMARY OF TREASURY MANAGEMENT ACTIVITIES
01 APRIL TO 30 SEPTEMBER 2017

1. The treasury position for 1 April to 30 September 2017:

		Principal as at 01-04-17 £m	Average Rate %	Principal as at 30-09-17 £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 External Borrowing***		96.87	4.69	96.87	4.69
Other Long Term Liabilities*** (including PFI)		21.77		21.45	
TOTAL GROSS DEBT		118.64		118.32	
Fixed rate investments		28.50	0.56	41.00	0.48
Variable rate investments		5.25	0.45	3.00	0.52
TOTAL INVESTMENTS****		33.75	0.55	44.00	0.48
TOTAL NET DEBT		84.89		74.32	

* 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 and includes the short term element of the liability

**** 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 1 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 this period is shown in Section 4.4.

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

The £19.25 million in the above table relates to Lender's Option Borrower's Option (LOBO) loans due to mature in 2054, and 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 dates and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The trigger dates are July and January however the Council understands that the lender is unlikely to exercise their option in January 2018. The current average interest rate for these LOBO's is 4.65% compared to the PWLB Loans average interest rate of 4.70%.

The long term liabilities figure of £21.45 million at 30 September 2017 includes £17.94 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg– 16.5 years remaining term) and £2.40 million relating to a loan from the WG Central Capital Retained Fund for regeneration works within the Llynfi Valley which has not yet commenced.

It should be noted that the accounting practice required 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 above table 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.

The Council's Treasury Management advisors are Arlingclose. 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
- Training courses (training was provided to Members 26 June 2017)

2. External Context

The interest rate views incorporated in the Council's Treasury Management Strategy for 2017-18, were based upon officers' views supported by a selection of City forecasts provided by Arlingclose. When the Treasury Management Strategy for 2017-18 was prepared in January 2017 it was forecast that the Bank Rate would remain at 0.25% during 2017-18 with a low possibility of a drop close to zero, with a very small chance of a reduction below zero.

The Bank Rate started the financial year at 0.25% and the Bank of England implied a rise in Bank Rate in "the coming months" at their September meeting. Arlingclose however is not convinced that the UK's economic outlook justifies such a move at this stage and are forecasting that it will remain at 0.25% for the remainder of 2017-18.

3. Borrowing Strategy and Outturn for 1 April to 30 September 2017

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.

With short-term interest rates lower than long term rates, it is likely to be more cost effective in the short term to either borrow short term loans 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 in section 6 below. 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 assist the Council with this 'cost of carry' and breakeven analysis.

The last time the Council took long term borrowing was £5m from the PWLB in March 2012 and it is not expected that there will be a requirement for any new long term borrowing in 2017-18, however for cash-flow purposes £2 million short term borrowing was taken 24 May 2017 and repaid 5 June 2017. Following advice from Arlingclose, the Council approached the LOBO's lender for potential repayment options however the premium was deemed too excessive to action. Market conditions have meant that there has been no loan rescheduling so far this year however, in conjunction with Arlingclose, the loan portfolio will continue to be reviewed for any potential savings as a result of any loan rescheduling.

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. Investment Strategy and Outturn for 1 April to 30 September 2017

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 major objectives to be followed in 2017-18 are:-

- To maintain capital security
- To maintain liquidity so funds are available when expenditure is needed
- To achieve the yield on investments commensurate with the proper levels of security and liquidity

The Annual Investment Strategy incorporated in the Council's Treasury Management Strategy 2017-18 includes the credit ratings defined for each category of investments and the liquidity of investments. The Council's investments have historically been placed in short term 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 diversifying into more secure and/or higher yielding asset classes during 2017-18 any new instruments used will be in full consultation with the Council's Treasury Management advisors. In order to be able to use the majority of these different types of instruments, the Council is required to use a nominee account(s) with a third party for safe custody of such investments (a custody account) as we are unable to deal direct. On 5 September 2017, Cabinet approved the opening of a King & Shaxson custody account. It also delegated authority to the Section 151 Officer, in consultation with the Monitoring Officer, to open additional custody accounts to support delivery of Treasury Management responsibilities if required. The custody account was not used prior to 30 September 2017.

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 is therefore 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.

On a day to day basis, the Council typically has surplus 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.

The Council's primary objective for the management of its investment portfolio is to give priority to the security and liquidity of its funds before seeking the best rate of return. As shown in the tables below, the majority of surplus cash has been held as short term investments with UK Local Authorities, banks and building societies of high credit quality. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity.

There are three long term investments (original duration of 12 months or more) outstanding as at 30 September 2017 totalling £6 million with Local Authorities - £2 million maturing in November 2017, £3 million maturing in November 2020 and £1 million maturing in December 2020. All other investments at 30 September 2017 are short term (deposit or notice accounts or fixed term deposits). The table below details these investments by counterparty type:

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Investment Counterparty Category	Balance 01 April 2017	Investments Raised	Investments Repaid	Balance 30 Sept 2017	Average Duration Investments in force during Apr - Sept 2017	Average Original Duration of the Investment	Weighted Average Investment Balance Apr - Sept 2017	Weighted Average Interest Rate Apr-Sept 2017
	(A)	(B)	(C)	(A+B-C)				
	£m	£m	£m	£m	Days	Days	£m	%
Govt DMO	-	38.80	38.80	-	8	8	1.49	0.10
Local Authorities	19.50	88.10	80.60	27.00	50	142	32.14	0.46
Building Societies	6.00	8.00	8.00	6.00	57	123	4.83	0.34
Banks (Fixed Maturity)	3.00	8.00	3.00	8.00	120	209	6.83	0.61
Money Market Fund (Instant Access)*	-	3.40	3.40	-	n/a	n/a	0.46	0.18
Banks Instant Access/Notice Period *	5.25	53.65	55.90	3.00	n/a	n/a	5.39	0.37
Total/Average	33.75	199.95	189.70	44.00	59	120	51.14	0.45

* An average duration is not shown as there is no original duration as instant access or notice period and money is added and withdrawn to/from these accounts as required by cash-flow

The Council also opened an account with the CCLA Public Sector Deposit Fund in August 2017 which is a pooling of public sector deposits wholly aligned with the principles and values of the public sector. It is UK domiciled and regulated by the Financial Services Authority. There is also an advisory board representing the public sector depositors which ensures strong governance arrangements of the Fund and is an approved financial instrument in our Treasury Management Strategy 2017-18 and provides instant access to the funds. Investment in the fund complies with the conditions that current regulations set out as any investment is for the prudent management of the Council's financial affairs and complies with the Council's constitutional requirements and with the approval delegations in place. It is also a safer investment as the chance of bail in if a bank was in difficulty is reduced. There was no balance outstanding at 30 September 2017.

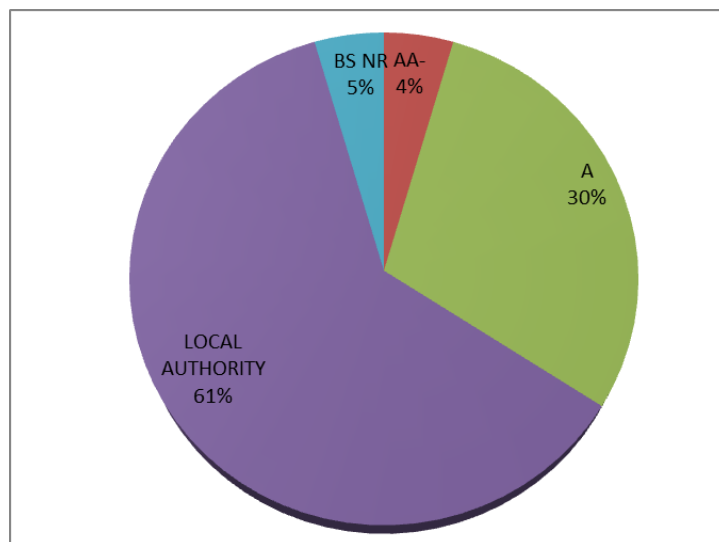
Occasionally, investments are placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits and after all other options have been explored. The interest rates offered by this facility are lower than most other counterparties but this is commensurate 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 at 30 September 2017.

Favourable cash flows have provided positive cash balances for investment and as shown above the balance on investments at 30 September 2017 was £44.00 million. The table below shows a breakdown by counterparty type based on the remaining maturity period as at 30 September 2017:

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Counterparty Category	Instant Access Deposit Accounts £m	Notice Period Deposit Accounts £m	Deposits Maturing Within 1 Month £m	Deposits Maturing Within 1-3 Months £m	Deposits Maturing Within 4-6 Months £m	Deposits Maturing Within 6-12 Months £m	Deposits Maturing Within 1-2 Years £m	Total £m
Local Authorities	-	-	11.00	2.00	4.00	6.00	4.00	27.00
Building Societies	-	-	4.00	2.00	-	-	-	6.00
Banks	-	3.00	3.00	1.00	2.00	2.00	-	11.00
Total	0.00	3.00	18.00	5.00	6.00	8.00	4.00	44.00

The Council defines high credit quality as organisations and securities having a credit rating of A- or higher and **Appendix B** shows the equivalence table for credit ratings for Fitch, Moody's and Standard & Poor's and explains the different investment grades. The pie chart below summarises the above table by credit ratings and shows the £44.00 million investments at 30 September 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 whilst the remainder of our investments all had a credit rating of A or above.



The Council participates in a benchmarking exercise with Arlingclose but the benchmarking data from them is not available as at 30 September 2017, however, as shown below, the Council's average rate of return at 30 June 2017 on investments was more favourable compared to the average of Arlingclose Welsh Local Authority clients:

2017-18	Bridgend CBC Average Rate of Return on Investments	Arlingclose Welsh Local Authorities Clients Average Rate of Return on Investments
30-06-17	0.45%	0.40%

5. Review of the Treasury Management Strategy 2017-18

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 changes to the Treasury Management Strategy 2017-18.

6. Treasury Management and Prudential Indicators 2017-18

Details of the estimate for 2017-18 set out in the Council's Treasury Management Strategy and also the projected indicators for 2017-18 are shown below.

Treasury Management Indicators 2017-18

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 that relate 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.

No.		Treasury Management Strategy 2017-18 £m	Projection 31-03-2018 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2017	96.87	96.87
	Total Projected Principal Outstanding on Investments 31 March 2017	24.00	24.00
	Net Principal Outstanding	72.87	72.87
1.	Upper Limit on fixed interest rates (net principal) exposure	130.00	68.62
2.	Upper Limit on variable interest rates (net principal) exposure	50.00	4.25

The Section 151 Officer will manage interest rate exposures between these limits in 2017-18.

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.

The 19.87% shown in the table below 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 paragraph 4.1.2 of the main report. 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 which is January 2018, however, the lender is not expected to exercise this option due to current low interest rates, so the maturity date is actually uncertain but is shown in the "Under 12 months" category as per the Code.

No	Maturity structure of fixed rate borrowing during 2017-18	Upper limit	lower limit	Projection 31-03-18
3.	Under 12 months	50%	0%	19.87%
	12 months and within 24 months	25%	0%	-
	24 months and within 5 years	25%	0%	-
	5 years and within 10 years	50%	0%	13.91%
	10 years and within 20 years	60%	0%	23.49%
	20 years and above	100%	40%	42.73%

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.		Treasury Management Strategy 2017-18 (Limit) £m	Projection Principal Outstanding Over 364 days 31-03-18 £m
4.	Upper Limit for Total Principal Sums Invested for more than 364 days	15	6

Prudential Indicators 2017-18

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 version of the 2011 code was adopted by Council on 22 February 2012.

Prudential Indicators for Prudence

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 is 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	Estimate Treasury Management Strategy	Projection 31-03-18
		2017-18 £m	£m
1	Estimates of Capital Expenditure Non – HRA	63.85	46.23
	Total Capital Expenditure	63.85	46.23
	Financed by :-		
	Capital Grants and Contributions	24.37	13.85
	Capital Receipts	20.04	14.82
	Revenue Contribution to Capital	9.92	6.54
	Net Financing Need for Year	9.52	11.02

The capital expenditure figures have changed from the Treasury Management Strategy 2017-18 as further information on the capital spend has become available and this has resulted in an increase in the Net Financing Need for 2017-18 which will be an increase in Unsupported Borrowing.

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 2017-18. Directorates who receive Council approval for capital schemes via Unsupported Borrowing make annual contributions to the capital costs of their schemes known as Voluntary Revenue Provisions (VRP) or additional MRP. This type of borrowing is only approved when Directorates have the necessary revenue resources to make VRP to fund the capital costs though this will be deferred in some cases until the asset becomes operational in accordance with the Council's MRP Policy.

The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council. 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 in line with the Prudential Code.

The MRP requirement for the Maesteg School 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.

No.	Prudential indicators For Prudence	Est. Treasury Management Strategy 2017-18 £m	Projection 2017-18 £m
2	Capital Financing Requirement (CFR)		
	Opening CFR (1 April 2017) adjusted excluding PFI & other liabilities	150.65	149.80
	Opening PFI CFR	18.24	18.24
	Opening Innovation Centre	0.66	0.66
	Opening Coychurch Crematorium	0.08	0.08
	Total Opening CFR	169.63	168.78
	Movement in CFR excluding PFI & other liabilities	2.90	4.54
	Movement in PFI CFR	(0.60)	(0.60)
	Movement in Innovation Centre CFR	(0.06)	(0.06)
	Movement in CREM CFR	(0.08)	(0.08)
	Total Movement in CFR	2.16	3.80
	Closing CFR (estimated 31 March 2018)	171.79	172.58
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	9.52	11.02
	Minimum and Voluntary Revenue Provisions*	(7.36)	(7.22)
	Total Movement	2.16	3.80

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

Limits to Borrowing Activity

The Council's long term borrowing at the 30 September 2017 was £96.87 million as detailed in section 4.1.1 of the Treasury Position. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. As 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 4.3.4 in the main report.

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

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2017-18 Est. £m	Projection 31-03-18 £m
	Gross Debt 31 March		
3	External Borrowing	96.87	96.87
	Long Term Liabilities (including PFI)	21.07	21.07
	Total Gross Debt	117.94	117.94

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 external debt does not, except in the short term, exceed the Capital Financing Requirement for 2017-18. The table below shows that the Council is on target to comply with this requirement.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2017-18 £m	Projection 31-03-18 £m
4	Gross Debt & the CFR		
	Total Gross Debt	117.94	117.94
	Closing CFR (31 March 2018)	171.79	172.58

A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure. These are detailed below and confirms that the Council is 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 could 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	Treasury Management Strategy 2017-18 £m	Projection 31-03-18 £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		97
	Other long term liabilities		21
	Total		118

2.3 Prudential Indicators for Affordability

2.3.1 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 the Welsh Government in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on treasury

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management activities and the MRP charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers.

No.	Prudential Indicator for Affordability	Estimate Treasury Management Strategy 2017-18	Projection 2017-18
7.	Ratio of Financing Costs to Net Revenue Stream	4.84%	4.76%

APPENDIX B

Credit Rating Equivalence Table

	Description	Fitch		Moody's		Standard & Poor's		
		Long	Short	Long	Short	Long	Short	
INVESTMENT GRADE	Extremely strong	AAA		Aaa		AAA		
	Very strong	AA+	F1+	Aa1	P-1	AA+	A-1+	
		AA		Aa2		AA		
		AA-		Aa3		AA-		
	Strong	A+	F1	A1	P-2	A+	A-1	
		A		A2		A		
		A-		A3		A-		
	Adequate	BBB+	F2	Baa1	P-3	BBB+	A-2	
		BBB		Baa2		BBB		
		BBB-		Baa3		BBB-		
SPECULATIVE GRADE	Speculative	BB+	B	Ba1	Not Prime (NP)	BB+	B	
		BB		Ba2		BB		
		BB-		Ba3		BB-		
	Very speculative	B+	C	B1		Caa1	B+	C
		B		B2			B	
		B-		B3			B-	
	Vulnerable	CCC+	C	Caa2		Caa2	CCC+	C
		CCC		Caa3			CCC	
		CCC-		Ca			CCC-	
		CC					CC	
	C				C			
Defaulting	D	D	C		D	D		