ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE 2016/17

1. The Council's Capital Activity During 2016/17

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 resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The Council did not borrow during 2016/17

2. Reporting of the Required Prudential and Treasury Indicators

During 2016/17, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:-

Actual Prudential and Treasury Indicators	2015/16 Actual £	2016/17 Actual £
Actual Capital Expenditure	7.749m	33.383m
Total Capital Financing Requirement:	2.557m	29.400m
External Debt	7.500m	7.500m
Investments – Under 1 Year	45.107m	25.017m

The external debt relates to Local Enterprise Partnership for the Health Campus (£ 6.0m) and Watford Business Park (£1.5m) Funding for the Health Campus was received in July 2013 and is due to be repaid in March 2020. The money is being paid over to the LABV (Local Asset Backed Vehicle). Funding for Watford Business Park was received in December 2015 and is also due to be repaid in March 2020.

The actual capital expenditure forms one of the required prudential indicators. The Statement of Accounts is yet to be audited, therefore, the figure used is from the Treasury Management Strategy Statement 2017-2020.

The table below shows the actual capital expenditure and how this was financed.

Actual Capital Expenditure and Financing	2015/16 Actual £m	2016/17 Original Budget £m	2016/17 Latest Budget £m	2016/17 Actual £m
Capital Expenditure	7.749	13.280	48.725	33.383
Total Capital Expenditure				
Resourced by:				
• Capital Receipts	4.022	10.144	16.263	12.410
• Capital Grants & Contributions	2.964	3.021	6.524	5.799
• Reserves	0.763	0.115	0.409	0.392
• Internal Borrowing	0	0	25.529	14.782
Unfinanced Capital Expenditure	**0**	**0**	**0**	**0**

3. Impact of This Activity on the Council's Underlying Indebtedness (the Capital Financing Requirement)

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2016/17 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources. The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Gross Borrowing Within Authorised Limit	2015/16	2016/17
Authorised Limit	£20m	£30m
Operational Boundary	£15m	£25m
Borrowing Position	£7.5m	£7.5m
Financing Costs as a Proportion of Net Revenue Stream (Interest over net cost of services)	-2.30%	-1.96%

4. Overall Treasury Position and the Impact on Investment Balances

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2016/17 the Council's treasury position was as follows:

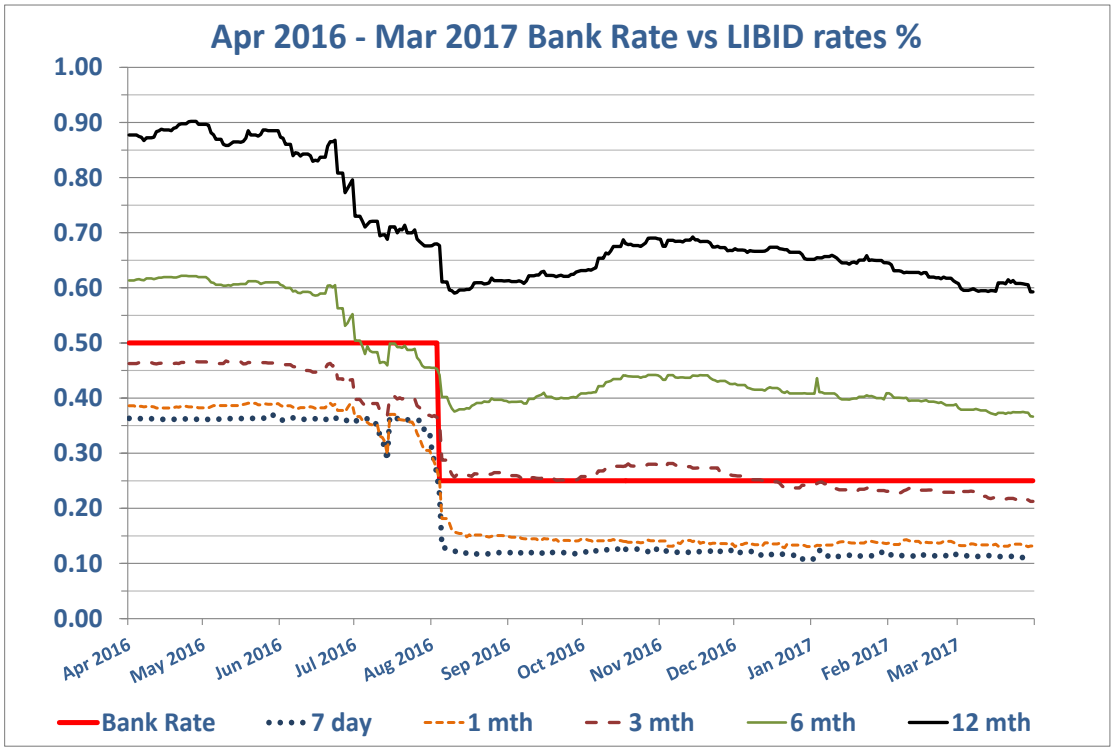
Treasury Position	31 March 2016 Principal £	Rate/ Return %	31 March 2017 Principal £	Rate/ Return %
Total Debt	7.500m		7.500m	
CFR	2.557m		29.400m	
Investments - in House	45.107m	0.75	25.017m	0.48
Total Investments	**55.164m**	**0.75**	**61.917m**	**0.48**

The maturity structure of the investment portfolio was all under one year. The exposure to fixed and variable rates was as follows:

Exposure to Fixed and Variable Rates	31 March 2016 Actual £	31 March 2017 Actual £
Fixed Rate (Principal or Interest)	35.1m	15.0m
Variable Rate (Principal or Interest)	10.0 m	10.0m

5. Investment Rates – Capita Asset Services Report

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



6. Investment Outturn for 2016/17

Investment Policy – the Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Cabinet on 18 January 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – the Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations.

The Council's core cash resources comprised as follows;-

Balance Sheet Resources	31 March 2016 £	31 March 2017 £
General Fund	1.350m	1.350m
Earmarked Reserves	23.783m	14.046m[1]
Usable Capital Receipts	17.486m	23.461m[2]
Capital Grants Unapplied	2.594m	4.377m[3]
Total	**45.213m**	**43.234m**

Investments Held by the Council - the Council maintained an average balance of £35,062m in 2016/17 of internally managed funds with an average rate of return of 0.62%.

[1] Draft figures for 2016-17.
[2] Draft figures for 2016-17.
[3] Draft figures for 2016-17