ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE 2017/18 (INCORPORATING OUTTURN PRUDENTIAL INDICATORS)

1. The Council's Capital Activity During 2017/18

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 external borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to an external borrowing need.

The Council did not borrow new funds externally during 2017/18.

2. Reporting of the Required Prudential and Treasury Indicators

- During 2017/18 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:

Table 1

Actual Prudential and Treasury Indicators	2016/17 Actual £m	2017/18 Actual £m
Actual Capital Expenditure	33.383	46.232
Total Capital Financing Requirement:	17.340	29.746
External Debt	7.500	7.500
Investments – Under 1 Year	25.017	6.001

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed

Table 2

Capital Expenditure and Financing	**2016/17 Actual £m**	**2017/18 Original Budget £m**	**2017/18 Latest Budget £m**	**2017/18 Actual £m**
Total Capital Expenditure	33.383	24.666	53.902	46.433
Resourced by:				
• Capital Receipts	12.410	18.208	15.300	20.467
• Capital Grants	5.799	0.400	1.500	2.374
• Internal borrowing	14.782	5.993	32.302	19.635
• Reserves plus S106+CIL	0.392	0.065	4.800	3.957
Unfinanced Capital Expenditure	**0**	**0**	**0**	**0**

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

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 2017/18 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 Council's CFR for the year was £29.746m, an increase of c£10m from 2016/17. As this was funded from internal borrowing, capital receipts grants and reserves, there is no requirement to provide for mrp (minimum revenue provision). If the investments had all been funded by external borrowing there would have been a requirement to include mrp of £0.250m (reflecting a 40 year assumption). Mrp will be included as a cost in any future business cases when external borrowing is needed.

The borrowing activity is constrained by prudential indicators for 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. Table 3 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.

Table 3

Gross Borrowing Within Authorised Limit	2016/17	2017/18
Authorised Limit	£30m	£30m
Operational Boundary	£25m	£25m
Average Gross Borrowing Position	£7.5m	£7.5m
Financing Costs as a Proportion of Net Revenue Stream (Interest over Revised Total Net Expenditure 2017/18)	-1.96%	-0.96%

4. Overall Treasury Position and the Impact on Investment Balances

The Council's treasury management strategy provides that adequate security, liquidity and then yield are the prime objectives of its treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting and officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2017/18 the Council's Treasury position was as follows:

Table 4

Treasury Position	31 March 2017 Principal £m	Rate/ Return %	31 March 2018 Principal £m	Rate/ Return %
Total Debt	7.500		7.500	
CFR	17.340		29.746	
Short Term Investments - in House	25.017	0.62	6.001	0.45
Total Investments	**25.017**	**0.62**	**6.001**	**0.45**

Note: This report only covers treasury management. Property investment income is related to leases and is therefore within the Net Cost of District Services, outside the scope of this report.

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

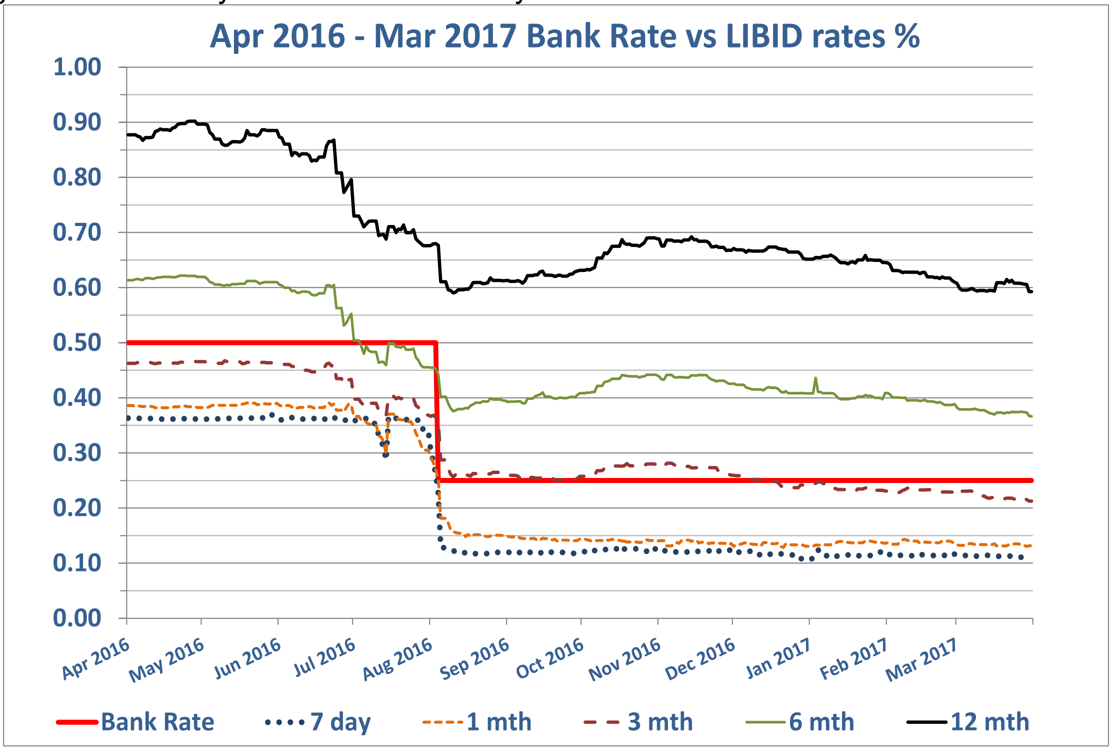
Table 5

Exposure to Fixed and Variable Rates	31 March 2017 Actual £m	31 March 2018 Actual £m
Fixed Rate (Principal or Interest)	15.017	6.001
Variable Rate (Principal or Interest)	10.000	0

5. Investment Rates 2017/18 – Link Asset Services Report

Investment rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March.

Bank Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England. This facility ended on 28 February 2018.



6. Investment Outturn for 2017/18

Investment Policy – the Council's investment policy for treasury management is governed by HMCLG guidance, which was implemented in the annual investment strategy approved by the Council on 24 January 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies.

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 2017 £m	31 March 2018 £m
General Fund	1.412	1.414
Earmarked Reserves	15.221	16.353
Usable Capital Receipts	11.966	1.499
Capital Grants Unapplied	1.670	2.159
Total	**30.269**	**21.423**

Investments Held by the Council - the Council maintained an average balance of £25.251m in 2017/18 (£45.806m in 2016/17) of internally managed funds with an average rate of return of 0.45% (0.62%). End.