

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 10 July 2017

<b>Portfolio:</b>	Policy and Resources
<b>Subject:</b>	<b>Capital and Treasury Management Outturn 2016/17</b>
<b>Report of:</b>	Director of Finance and Resources
<b>Strategy/Policy:</b>	Finance Strategy
<b>Corporate Objective:</b>	A dynamic, prudent and progressive Council

#### **Purpose:**

This report provides the Executive with details of the capital and treasury management outturn for 2016/17 to comply with the reporting requirements of the Code of Practice for Treasury Management. The report also seeks approval for the proposed methods of financing the General Fund capital programme.

#### **Executive summary:**

Actual capital expenditure on General Fund schemes in 2016/17 was £21,116,334 compared with the revised capital programme of £29,132,600. The overall variance was £8,016,266 and a detailed analysis of the variations is given in Appendix A to this report.

Total savings of £106,008 were achieved, additional expenditure of £89,622 was incurred and a total of £7,999,880 will be carried forward into 2017/18.

Details of the various methods used to finance this expenditure are set out in this report.

Full details of Treasury Management investment and borrowing activity in 2016/17 are also set out in this report. Investment activity in 2016/17 is summarised below:

	£m
<b>Investments as at 1 April 2016</b>	<b>32.8</b>
Investments made	115.1
Investments repaid	132.9
<b>Investments as at 31 March 2017</b>	<b>15.0</b>

Total external investment interest received for the year was £272,084. The total of external interest paid on borrowing and other amounts invested with the Council was £1,405,260.

The net total of £1,133,176 has been allocated to the Council's funds as shown in the following table:

	£
General Fund	551,389
Housing Revenue Account	-1,684,565
<b>Total External Interest</b>	<b>-1,133,176</b>

During 2016/17, the Council complied with its legislative and regulatory requirements of the Prudential Code.

**Recommendation:**

It is recommended that the Executive:

- (a) approves that the General Fund capital programme for 2016/17 be approved and financed as set out in this report;
- (b) agrees that the additional expenditure incurred, amounting to £89,622 be financed retrospectively from surplus capital resources;
- (c) notes the update on the provision of a hotel at Fareham Shopping Centre, and agrees the revised estimated cost of the hotel development is funded by prudential borrowing; and
- (d) notes the treasury management activity for 2016/17.

**Reason:**

To provide the Executive with details of the capital and treasury management outturn in 2016/17 and to comply with the reporting requirements of the Code of Practice for Treasury Management.

**Cost of proposals:**

The necessary resources are available to finance the General Fund capital programme for 2016/17 including the additional expenditure of £89,622.

**Appendices:**

- A:** Capital Expenditure 2016/17
- B:** Economic Commentary by Treasury Advisors, Arlingclose
- C:** Total Investment Activity 2016/17
- D:** Prudential and Treasury Indicators 2016/17

**Background papers:** None

**Reference papers:** CIPFA Code of Practice for Treasury Management

# FAREHAM

## BOROUGH COUNCIL

### Executive Briefing Paper

<b>Date:</b>	10 July 2017
<b>Subject:</b>	Capital and Treasury Management Outturn 2016-17
<b>Briefing by:</b>	Director of Finance and Resources
<b>Portfolio:</b>	Policy and Resources

#### INTRODUCTION

1. This report provides the Executive with details of the capital and treasury management outturn for 2016/17 to comply with the reporting requirements of the Code of Practice for Treasury Management.

#### CAPITAL

2. The capital programme for 2016/17, approved in February this year for the General Fund was £29,132,600. The actual capital expenditure, detailed in Appendix A, was £21,116,334 giving an overall variation of £8,016,266. A summary, including savings and additional expenditure, is summarised in the table below.

	<b>Revised Budget £</b>	<b>Actual £</b>	<b>Savings £</b>	<b>Additional Expend £</b>	<b>Carry forward £</b>
Streetscene	542,100	467,632	0	13,350	87,818
Planning & Development	478,500	345,248	104,025	0	29,227
Leisure & Community	5,407,100	4,878,021	168	4,236	533,147
Health & Housing	1,117,600	669,580	1,815	0	446,205
Policy & Resources	21,587,300	14,755,853	0	72,036	6,903,483
<b>Total</b>	<b>29,132,600</b>	<b>21,116,334</b>	<b>106,008</b>	<b>89,622</b>	<b>7,999,880</b>

#### CARRY FORWARDS TO 2017/18

3. There are a number of schemes still in progress and a total budget of £7,999,880 will be carried forward to 2017/18. An explanation for the larger carry forwards are set out in the following paragraphs.

#### STREETSCENE

4. The Bus Shelter Improvements underspend of £62,599 will be carried forward to 2017/18 to fund the ongoing improvements scheme.

## **LEISURE AND COMMUNITY**

5. Westbury Manor Museum underspend of £122,563 will be carried forward to 2017/18 where the majority of the works will take place. An earlier start on site was not possible due to the wait for listed building consent to be obtained.
6. The budgets for Holly Hill Play Area (£150,000), MUGA and Outdoor Gym (£130,000) will be carried forward to 2017/18. Contracts were awarded in March and works will begin in June 2017 due to the lead time for ordering materials and equipment required for the project.

## **HEALTH AND HOUSING**

7. The unspent budget for land acquisitions for enabling schemes relates to land at Gosport Road. The unspent budget of £360,000 will be carried forward into 2017/18.

## **POLICY AND RESOURCES**

8. The under-spends on the Vehicles and Plant and ICT rolling programmes totalling £196,780 will be carried forward to fund the proposed spending plans in 2017/18.
9. The carry forward of £112,051 for the Civic Offices will be used to fund improvement works in 2017/18.
10. In 2016/17 the Council acquired two properties in the Welborne development area. The under-spend of £777,320 will be carried forward to purchase the final property in 2017/18.
11. The under-spend for the Daedalus Development of £5,802,341 was mainly due to a delay in the purchase of Plot 15/16 which subsequently completed in April 2017, and Phase 2 of the Innovation Centre.

## **FAREHAM HOTEL DEVELOPMENT**

12. The Executive on 5 December 2016 considered a report of an opportunity for the Council to work in partnership with Madone Ltd, owners of Fareham Shopping Centre to provide a hotel (Premier Inn) in the vacant office space on the north side of the shopping centre. After considering the report the Executive resolved to endorse the opportunity and:
  - a) Approved the Heads of Terms agreed for a conditional Development Agreement between Fareham Borough Council and Madone Ltd;
  - b) Agreed to delegate authority to the Director of Finance & Resources, following consultation with the Executive Leader to enter into the Development Agreement and to deal with any issues that may arise following the approval by the Executive and solicitors being instructed;
  - c) Supported the principle of acquiring the full interest in the development scheme if it was deemed appropriate.
13. Negotiations have been undertaken with Madone Ltd to acquire the full interest in the hotel scheme and this has culminated in heads of terms being agreed with an increased financial commitment.

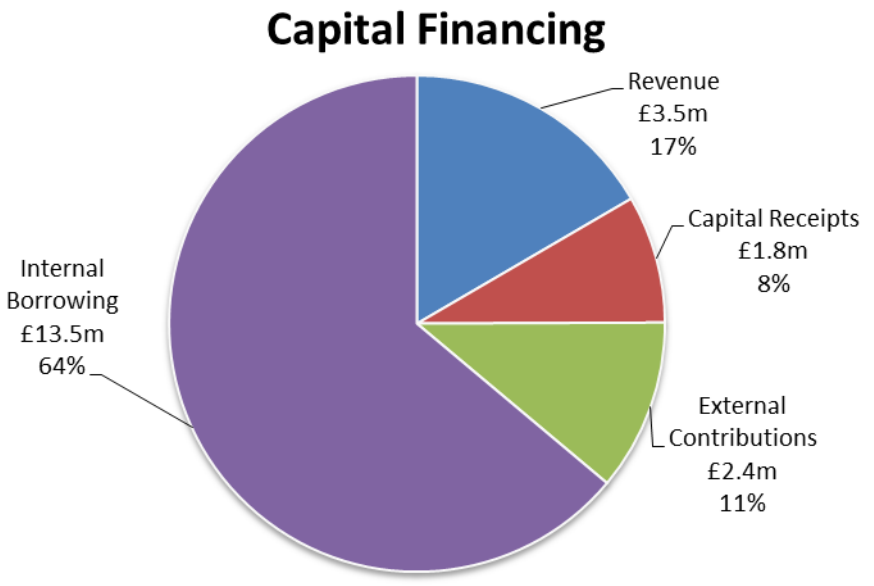
- 14. The Council will fund 15% of the costs of the proposed development and acquire the remaining 85% interest, which will provide the Council with 100% ownership of the completed development. This will increase the scheme cost in the capital programme to £8.09m, and be funded using prudential borrowing.
- 15. The hotel development is pre-let to Premier Inn for a 25 year period, and rent terms have been agreed between Madone and Premier Inn. These terms are deemed to be both competitive and in line with the expectations in the Council's Commercial Property Investment and Acquisition Strategy. The design has been developed in discussion with the Council and Premier Inn, and was successful in achieving planning consent on 21<sup>st</sup> June 2017.
- 16. The funding agreement is conditional on the grant of an implementable planning consent, the agreement for lease with Premier Inn becoming unconditional, and a viability assessment. No development costs will be incurred until the agreement is unconditional.
- 17. The Council will be working closely alongside Madone Ltd during the construction period, and protections will be in place to allow the Council to step in the event of a default by the developer.
- 18. Detailed legal agreements are in the process of being put in place based on these terms.

**CAPITAL PROGRAMME 2017/18 TO 2021/22**

- 19. The General Fund capital programme will be reviewed by officers in light of the slippage and re-phasing of works and an updated programme for 2017/18 to 2021/22 will be presented to the Executive as part of the Finance Strategy for 2018/19.

**CAPITAL FINANCING**

- 20. The various methods used to finance the capital expenditure in 2016/17 are set out in the chart below. External funding contributed to 11% of the Council's capital programme.



## TREASURY MANAGEMENT

21. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires the Council to report on the performance of the treasury management function at least twice a year (mid-year and at year end).
22. The Council's Treasury Management Strategy 2016/17 was approved by full Council on 11 April 2016.
23. The Council has invested large 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 section of the report covers treasury activity and the associated monitoring and control of risk.
24. An economic commentary by the Council's Treasury Advisor, Arlingclose, can be found in Appendix B.

## BORROWING ACTIVITY

25. At 31 March 2017 the Council held £41.8 million of loans, (a decrease of £3 million on 31 March 2016).
26. The Council's main objective when borrowing is to strike a low risk balance between securing low interest rates and achieving cost certainty over the period for which the funds are required.
27. Affordability and the 'cost of carry' remain important influences on the Council's borrowing strategy alongside the consideration that, any borrowing undertaken ahead of need, would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained and are likely to remain at least over the forthcoming two years, lower than long-term interest rates, the Council determined it was more cost effective in the short term to use internal resources (internal borrowing) instead.
28. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Council's treasury advisors assist with this 'cost of carry' and breakeven analysis.
29. Borrowing activity during the year was:

	<b>Balance on 31 March 2016 £'000</b>	<b>Balance on 31 March 2017 £'000</b>	<b>Average Rate</b>
Long Term Borrowing	40,000	40,000	3.50%
Temporary Borrowing	3,000	0	0.50%
Hampshire County Council	200	0	0.00%
Portchester Crematorium	1,333	1,541	0.25%
Charity of Winifred Nellie Cocks	286	287	0.50%
<b>Total Borrowing</b>	<b>44,819</b>	<b>41,828</b>	

30. The Council holds investments from Portchester Crematorium Joint Committee and the Charity of Miss Winifred Nellie Cocks which are treated as temporary loans.

## MINIMUM REVENUE PROVISION

31. The Council made a Minimum Revenue Provision (MRP) for the first time in 2016/17. MRP is the repayment of debt where the Council has funded capital schemes from borrowing. A charge of £159,000 was made in relation to the commercial property investment purchase of 136-138 Southampton Road in 2015/16.

## INVESTMENT ACTIVITY

32. The Council holds large invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17 the Council's investment balances ranged between £15 million and £36 million.
33. Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.
34. 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 2016/17.
35. A summary of investment activity during the year is shown in the table below.

	Externally Managed £m	Internally Managed £m	Call Accounts £m	Money Market Funds £m	Total £m
<b>Investments at 1 April 2016</b>	<b>10.0</b>	<b>20.0</b>	<b>2.8</b>	<b>0.0</b>	<b>32.8</b>
New investments	0	14.0	70.9	30.2	115.1
Investments repaid	7.0	28.0	73.7	24.2	132.9
<b>Investments at 31 March 2017</b>	<b>3.0</b>	<b>6.0</b>	<b>0.0</b>	<b>6.0</b>	<b>15.0</b>

36. The level of investment activity with each authorised institution is set out in Appendix C.
37. The bank base rate reduced to 0.25% in August 2016. The continuing low base rate environment has had a major impact on the rate of return on the Council's investments. The Council maintained an average balance of £29.5m of investments earning an average rate of return of 0.86% compared to the average 7-day LIBID rate of 0.20%.
38. The following table shows the range of interest rates for the investment portfolio at the end of the year compared with the position in the previous year:

	At 31 March 2016		At 31 March 2017	
	£m	%	£m	%
Interest Rate between 0.00% and 0.50%	2.8	9	6.0	40
Interest Rate between 0.51% and 1.00%	22.0	67	4.0	27
Interest Rate between 1.01% and 1.50%	6.0	18	3.0	20
Interest Rate between 1.51% and 2.00%	2.0	6	2.0	13
<b>Total</b>	<b>32.8</b>	<b>100</b>	<b>15.0</b>	<b>100</b>

## INTEREST RECEIVED AND PAID

39. External interest received during the year was £272,084 which was allocated between the General Fund and the Housing Revenue Account (HRA).
40. The allocation of interest to the HRA is based on the average balance for the year on the HRA, the Housing Repairs Account and the Major Repairs Reserve, using the average interest rate earned on external investments.
41. External interest paid during the year was £1,405,260 and was also allocated between the General Fund and the HRA. The amount payable by the HRA is made up of the interest payable on external PWLB loans, internal General Fund loan and the HRA capital financing requirement.
42. This calculation means that the amount payable by the HRA to the General Fund is actually greater than the external amount payable by the General Fund.
43. The overall net total of £1,133,176 has been allocated to the Council's funds as shown in the following table

	<b>Interest Received £</b>	<b>Interest Paid £</b>	<b>Net Interest £</b>
General Fund	161,775	389,614	551,389
Housing Revenue Account	110,309	-1,794,874	-1,684,565
<b>Total External Interest</b>	<b>272,084</b>	<b>-1,405,260</b>	<b>-1,133,176</b>

44. The net balance credited to the General Fund was £551,389 against a revised budget of £569,900. The net balance debited to the HRA was £1,684,565 against a revised budget of £1,725,600.

## COMMERCIAL PROPERTY INVESTMENT ACQUISITIONS

45. In October 2016, the Executive agreed to purchase properties at Southampton Road Retail Park. The total of commercial property investment acquisitions are as follows:

	<b>Date of Purchase</b>	<b>Premises Type</b>	<b>Purchase Price £m</b>
Clifton House, Segensworth	1 Aug 2013	Industrial	1,700
122-134 Seaside, Eastbourne	20 Dec 2013	Convenience Store	825
86-88 Mitcham Lane, Streatham	10 Mar 2014	Convenience Store	1,300
83 St Thomas St, Weymouth	29 Sept 2014	Retail	810
470 Ringwood Road, Poole	24 Nov 2014	Convenience Store	1,260
2 Armstrong Road, Oxford	20 Oct 2015	Nursery	1,890
136-138 Southampton Road, Park Gate	29 Feb 2016	Retail	7,628
Southampton Road Retail Park	16 Nov 2016	Retail	11,150
<b>Total</b>			<b>26,563</b>

46. The eight premises will generate additional rental income of £1.88 million per annum at a weighted average return of 7%.



## **PRUDENTIAL AND TREASURY INDICATORS**

47. During 2016/17, the Council complied with its legislative and regulatory requirements. Appendix D shows the actual prudential and treasury indicators for 2016/17.

## **SUMMARY**

This report gives details of General Fund capital and treasury management outturn in 2016/17 in accordance with the reporting requirements set out in the CIPFA Code of Practice for Treasury Management.

## **RISK ASSESSMENT**

48. There are no significant risk considerations in relation to this report.

### **Enquiries:**

For further information on this report please contact Caroline Hancock. (Ext 4589)

## APPENDIX A

### CAPITAL EXPENDITURE 2016/17

	Budget £	Actual £	Savings £	Additional Expenditure £	Carry over to 2017/18 £
<b>STREETSCENE</b>					
Health and Safety in Cemeteries	240,500	228,150			12,350
Street Lighting Maintenance	39,600	35,096			4,504
Bus Shelter Improvements	175,000	112,401			62,599
Play Area Safety Equipment and Surface Replacement	50,000	63,350		13,350	0
Hook Recreation Ground Change of Use	37,000	28,635			8,365
<b>STREETSCENE TOTAL</b>	<b>542,100</b>	<b>467,632</b>	<b>0</b>	<b>13,350</b>	<b>87,818</b>
<b>PLANNING &amp; DEVELOPMENT</b>					
Osborn Road 5 Year Programme	13,000	6,400	6,600		0
Car Park Surface Improvements	110,000	80,773			29,227
Hill Head Coastal Protection Phase 1	355,500	258,075	97,425		0
<b>PLANNING &amp; DEVELOPMENT - TOTAL</b>	<b>478,500</b>	<b>345,248</b>	<b>104,025</b>	<b>0</b>	<b>29,227</b>
<b>LEISURE &amp; COMMUNITY</b>					
<b>Buildings</b>					
Ferneham Hall Major Repairs Programme	14,000	0			14,000
Community Buildings Review	120,000	103,992			16,008
Holly Hill Leisure Centre	3,784,100	3,744,093			40,007
Holly Hill Leisure Centre - Fixtures and Fittings	585,000	551,531			33,469
Westbury Manor Museum Remodelling	193,000	70,437			122,563
	4,696,100	4,470,053	0	0	226,047
<b>Play and Parks Schemes</b>					
Play Area Upgrades	80,000	83,820		3,820	0
Drake Close Play Area	40,000	40,416		416	0
Fareham North West Play Area	70,000	70,000			0
Priory Park Play Area	65,000	65,000			0
Blackbrook Park Play Area	45,000	44,979	21		0
Howerts Close Play Area	0	6,470			(6,470)
Holly Hill Play Area	150,000	0			150,000
	450,000	310,685	21	4,236	143,530
<b>Outdoor Recreation Schemes</b>					
Holly Hill MUGA and Outdoor Gym	130,000	0			130,000
Bath Lane Cricket Pavilion	13,000	12,860	140		0
Leigh Road Tennis Courts Conversion to Car Park	70,000	66,430			3,570
Locks Heath Recreation Ground Changing Room Improvements	18,000	17,993	7		0
	231,000	97,283	147	0	133,570
<b>Grants to Community Groups</b>					
Fareham School of Gymnastics	30,000	0			30,000
	30,000	0	0	0	30,000
<b>LEISURE &amp; COMMUNITY - TOTAL</b>	<b>5,407,100</b>	<b>4,878,021</b>	<b>168</b>	<b>4,236</b>	<b>533,147</b>

	Budget £	Actual £	Savings £	Additional Expenditure £	Carry over to 2017/18 £
<b>HEALTH &amp; HOUSING</b>					
<b>Home Improvement Schemes</b>					
Disabled Facilities Grants	591,000	567,516			23,484
Home Improvement Loans	86,600	50,480			36,120
	677,600	617,996	0	0	59,604
<b>Enabling</b>					
Land/House Purchase	360,000	0			360,000
Empty Homes Strategy	30,000	3,399			26,601
Feasibility Studies	50,000	48,185	1,815		0
	440,000	51,584	1,815	0	386,601
<b>HEALTH &amp; HOUSING - TOTAL</b>	<b>1,117,600</b>	<b>669,580</b>	<b>1,815</b>	<b>0</b>	<b>446,205</b>
<b>POLICY &amp; RESOURCES</b>					
<b>Replacement Programmes</b>					
Vehicles and Plant Replacement Programme	360,000	302,660			57,340
ICT Development Programme	319,000	179,560			139,440
	679,000	482,220	0	0	196,780
<b>Operational Buildings</b>					
Depot Refurbishment Works	23,400	8,409			14,991
Civic Offices Improvement Programme	550,200	438,149			112,051
	573,600	446,558	0	0	127,042
<b>Other Schemes</b>					
Commercial Property Investment Acquisitions	11,755,000	11,825,264		70,264	0
Acquisition of Welborne Properties	1,800,000	1,022,680			777,320
Daedalus Development	6,762,100	959,759			5,802,341
Vannes Twinning 50th Anniversary Sculpture	17,600	19,372		1,772	0
	20,334,700	13,827,075	0	72,036	6,579,661
<b>POLICY &amp; RESOURCES - TOTAL</b>	<b>21,587,300</b>	<b>14,755,853</b>	<b>0</b>	<b>72,036</b>	<b>6,903,483</b>
<b>GENERAL FUND - TOTAL</b>	<b>29,132,600</b>	<b>21,116,334</b>	<b>106,008</b>	<b>89,622</b>	<b>7,999,880</b>

**ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE**

**Economic background:** 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<sup>th</sup> 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. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29<sup>th</sup> March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However, the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

**Financial markets:** Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September, there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23<sup>rd</sup> June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31<sup>st</sup> March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

**Credit background:** Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Authority's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" or "minimum requirement for eligible liabilities" - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

## TOTAL INVESTMENT ACTIVITY 2016/17

	Externally Managed £	Internally Managed £	Call/Notice Accounts £	Money Market Funds £	Total £
<b>Clearing Banks</b>					
NatWest			70,850,000		70,850,000
Royal Bank of Scotland	5,000,000	1,000,000			6,000,000
Barclays Bank		6,000,000			6,000,000
Lloyds Bank		12,000,000			12,000,000
<b>Other Banks</b>					
Santander			12,000,000		12,000,000
Svenska Handelsbanken			4,000,000		4,000,000
Close Brothers	1,000,000				1,000,000
<b>Building Societies</b>					
Nationwide		9,000,000			9,000,000
Coventry		2,000,000			2,000,000
Skipton	2,000,000	2,000,000			4,000,000
Principality		2,000,000			2,000,000
West Bromwich	2,000,000				2,000,000
<b>Money Market Funds</b>					
LGIM Sterling Liquidity Fund				3,000,000	3,000,000
Standard Life Sterling Liquidity Fund				27,200,000	27,200,000
<b>Total</b>	<b>10,000,000</b>	<b>34,000,000</b>	<b>86,850,000</b>	<b>30,200,000</b>	<b>161,050,000</b>

Investment activity relates to the value of investments placed during the year. The duration of investments typically range from a few days; for call accounts and money market funds to manage short term cash flows; to 6 to 12 months for externally and internally managed investments.

## PRUDENTIAL AND TREASURY INDICATORS 2016/17

## PRUDENTIAL INDICATORS

## 1) Capital Expenditure

The Council's capital expenditure and financing is summarised as follows:

Capital Expenditure and Financing	2016/17 Revised £'000	2016/17 Actual £'000	Difference £'000
Public Protection	0	0	0
Streetscene	543	468	75
Leisure & Community	5,407	4,878	529
Health & Housing	1,118	669	449
Planning & Development	478	345	133
Policy & Resources	21,587	14,756	6,831
<b>Total General Fund</b>	<b>29,133</b>	<b>21,116</b>	<b>8,017</b>
<b>HRA</b>	<b>7,472</b>	<b>7,367</b>	<b>105</b>
<b>Total Expenditure</b>	<b>36,605</b>	<b>28,483</b>	<b>8,122</b>
Capital Receipts	2,365	1,936	429
Capital Grants	4,972	2,800	2,172
Capital Reserves	8,677	7,921	756
Revenue	2,484	2,334	150
Borrowing	18,107	13,492	4,615
<b>Total Financing</b>	<b>36,605</b>	<b>28,483</b>	<b>8,122</b>

## 2) Capital Financing Requirement

The Council's Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

£'000	2016/17 Revised	2016/17 Actual	Difference
<b>General Fund</b>	8,928	24,070	15,142
<b>HRA</b>	52,950	51,141	-1,809
<b>Total CFR</b>	<b>61,878</b>	<b>75,211</b>	<b>13,333</b>

The CFR rose by £13.3m as capital expenditure financed by debt outweighed resources put aside for debt repayment.

## 3) Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement. This is a key indicator of prudence.

£'000	2016/17 Revised	2016/17 Actual	Difference
Gross Debt	45,626	41,835	3,791
Capital Financing Requirement (CFR)	61,878	75,211	13,333
<b>Under/(Over) Borrowing</b>	<b>16,252</b>	<b>33,376</b>	<b>17,124</b>

Total debt remained below the CFR during the forecast period.

#### 4) Operational Boundary and Authorised Limit for External Debt

The **operational boundary** is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

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.

£'000	2016/17 Revised	2016/17 Actual	Complied
<b>Operational Boundary</b>			
<b>Borrowing</b>	50,000	41,835	✓
<b>Other long term liabilities</b>	5,000	3,200	✓
<b>Total</b>	<b>55,000</b>	<b>45,035</b>	✓
<b>Authorised Limit</b>			
<b>Borrowing</b>	70,000	41,835	✓
<b>Other long term liabilities</b>	7,000	3,200	✓
<b>Total</b>	<b>77,000</b>	<b>45,035</b>	✓

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

£'000	2016/17 Revised	2016/17 Actual	Difference
<b>HRA Debt Cap</b>	56,851	56,851	0
<b>HRA CFR</b>	52,950	51,141	-1,809
<b>HRA Headroom</b>	<b>3,901</b>	<b>5,710</b>	<b>-1,809</b>

#### 5) Financing Costs as % of Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

The positive percentage for the Housing Revenue Account (HRA) reflects the net borrowing costs for the HRA settlement.



	2016/17 Revised	2016/17 Actual	Difference
<b>General Fund</b>	-5%	-5%	0%
<b>HRA</b>	14%	15%	1%
<b>Total</b>	<b>6%</b>	<b>7%</b>	<b>1%</b>

## 6) Housing Revenue Account (HRA) Ratios

As a result of the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on £49.3 million of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	2016/17 Revised	2016/17 Actual	Difference
<b>HRA debt £'000</b>	49,268	49,268	0
<b>HRA revenues £'000</b>	11,100	11,233	133
<b>Number of HRA dwellings</b>	2,383	2,426	43
<b>Ratio of debt to revenues %</b>	4.43:1	4.39:1	-0.04:1
<b>Debt per dwelling £</b>	£20,675	£20,308	-£367

## TREASURY MANAGEMENT INDICATORS

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

### 1) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

Upper limits on interest rate exposures	2016/17 Revised	2016/17 Actual	Complied
	%	%	
- Upper limit on variable interest rate exposures	25	14	✓
- Upper limit on fixed interest rate exposures	100	86	✓

### 2) Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper limits on the maturity structure of fixed rate borrowing were:

<b>Maturity structure of borrowing</b>	<b>2016/17 Actual</b>	<b>Upper Limit</b>	<b>Complied</b>
	%	%	
- Loans maturing within 1 year	4	25	✓
- Loans maturing within 1 - 2 years	0	25	✓
- Loans maturing within 2 - 5 years	0	25	✓
- Loans maturing within 5 - 10 years	0	50	✓
- Loans maturing in over 10 years	<b>96</b>	<b>100</b>	✓

### 3) Principal Sums Invested for Periods Longer than 364 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 long-term principal sum insured to final maturities beyond the period end were:

<b>£M</b>	<b>2016/17 Revised</b>	<b>2016/17 Actual</b>	<b>Complied</b>
<b>Principal sums invested &gt; 364 days</b>	17	0	✓