FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
01 July 2019

Portfolio:	Policy and Resources
Subject:	**Capital and Treasury Management Outturn 2018-19**
Report of:	Deputy Chief Executive Officer
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:
This report provides the Executive with details of the capital and treasury management outturn for 2018/19 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 2018/19 was £3,544,468 compared with the revised capital programme of £10,085,700. The overall variance was £6,541,232 and a detailed analysis of the variations is given in Appendix A to this report.

Total savings of £46,675 were achieved, additional expenditure of £342,178 was incurred and a total of £6,836,735 will be carried forward into 2019/20. 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 2018/19 are also set out in this report. Treasury activity in 2018/19 is summarised below:

	31 March 2018 Actual £'000	2018/19 Movement £'000	31 March 2019 Actual £'000
Total borrowing	52,017	(6,507)	45,510
Total investments	(12,000)	(1,100)	(13,100)
Net borrowing	**40,017**	**(7,607)**	**32,410**

Net interest received in 2018/19 was £481,480 and net interest paid was £1,728,219.

During 2018/19, 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 2018/19 be approved and financed as set out in this report;

(b) agrees that the additional expenditure incurred, amounting to £342,178 be financed retrospectively from unallocated capital resources; and

(c) notes the treasury management activity for 2018/19.

Reason:
To provide the Executive with details of the capital and treasury management outturn in 2018/19 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 2018/19 including the additional expenditure of £342,178.

Appendices:
A: Capital Expenditure and Financing 2018/19
B: Economic Commentary by Treasury Advisors, Arlingclose
C: Prudential and Treasury Indicators 2018/19

Background papers: None

Reference papers:
Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2019/20, 4 February 2019

Treasury Management Strategy and Prudential Indicators 2018/19, Council, 23 February 2018

CIPFA Code of Practice for Treasury Management

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	01 July 2019
Subject:	Capital and Treasury Management Outturn 2018/19
Briefing by:	Deputy Chief Executive Officer
Portfolio:	Policy and Resources

INTRODUCTION

1. This report provides the Executive with details of the capital and treasury management outturn for 2018/19 to comply with the reporting requirements of the Code of Practice for Treasury Management.

CAPITAL OUTTURN REPORT 2018/19

2. The capital programme for 2018/19, approved in February this year for the General Fund was £10,085,700. The actual capital expenditure, detailed in Appendix A, was £3,544,468 giving an overall variation of £6,541,232. A summary, including savings and additional expenditure, is summarised in the table below.

	Revised Budget £	Actual £	Savings £	Additional Expenditure £	Carry forward £
Health & Public Protection	100,000	48,516	41,484	0	10,000
Streetscene	107,000	110,056	0	0	(3,056)
Planning & Development	63,300	71,966	0	27,580	18,914
Leisure & Community	348,000	315,356	114	15,942	48,472
Housing	1,097,600	854,646	0	6,934	249,888
Policy & Resources	8,369,800	2,143,928	5,077	291,722	6,512,517
Total	**10,085,700**	**3,544,468**	**46,675**	**342,178**	**6,836,735**

SAVINGS AND ADDITIONAL EXPENDITURE

3. Total savings of £46,675 were recognised. The main scheme saving was £41,484 for the Night Time Closure of Multi-Storey Car Parks as works to install shutters and barriers were lower than anticipated. It is proposed that a budget of £10,000 will be carried forward to fund works to deal with pigeon issues at Osborn Road Multi-Storey Car Park.

4. The main schemes where additional expenditure of £342,178 was incurred were:

- Hill Head Coastal Protection Phase 2 - increased spend of £27,580 for additional paving works funded by Community Infrastructure Levy contributions.
- Westbury Manor Museum Remodelling- £7,351 additional costs for refurbishment of the toilet area.
- Town Centre Christmas Lights - £8,575 installation costs which were budgeted in revenue and funded by town centre contributions.
- Fareham Innovation Centre Phase 2 - additional fit out costs contributed to an overspend of £284,262 on this scheme.

5. In addition, £13,811 of expenditure was incurred ahead of budget and will be carried forward to reduce next year's capital budget.

CARRY FORWARDS TO 2019/20

6. There are a number of schemes still in progress and a total budget of £6,826,735 will be carried forward to 2019/20.

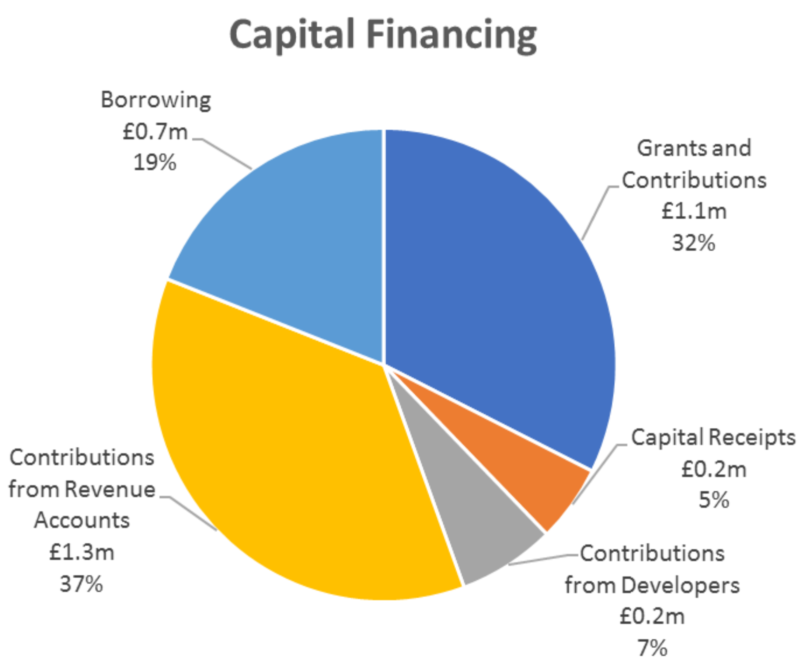
7. The largest carry forward is for the Commercial Property Acquisition of £5,110,000 which was purchased in April 2019 along with £1,095,196 carry forwards for schemes at Solent Airport.

CAPITAL PROGRAMME 2019/20 TO 2023/24

8. 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 2019/20 to 2023/24 will be presented to the Executive as part of the Finance Strategy for 2020/21.

CAPITAL FINANCING

9. The various methods used to finance the capital expenditure in 2018/19 are set out in the chart below.



10. The capital programme was predominantly funded by external contributions (39%) and revenue backed capital reserves (37%). £665,000 of internal borrowing (using surplus cash rather than external borrowing) was incurred for schemes at Daedalus.

SIGNIFICANT SCHEMES

11. Further progress has been made in 2018/19 at Daedalus with developments starting to reach break-even point. Achievements included:

- Opening of the £7 million extension to the Fareham Innovation Centre to provide move-on space for current Centre tenants together with more diverse facilities for new tenants.

- A further £335,000 was spent to complete the £500,000 refurbishment of the Air Traffic control tower, bringing back parts of the building for public and business use, including an indoor café and outdoor and indoor viewing areas.

- The six new business hangars opened and rent paying tenants started to take up occupancy.

12. A £500,000 five-year play area refurbishment programme was approved during 2018/19 on top of works to the value of £77,000 carried out across two major play areas in Fareham and Warsash and a further £75,000 spent on the Play Area Safety surface replacement programme.

13. The £300,000 extension to Holly Hill cemetery progressed at a cost of £24,000 in 2018/19. This will provide an extra 350 burial spaces.

TREASURY MANAGEMENT OUTTURN REPORT 2018/19

14. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (the CIPFA Code) requires the Council to approve a treasury management annual report after the end of each financial year. This report fulfils the Council's legal obligation to have regard to the CIPFA Code.

15. The Council's Treasury Management Strategy 2018/19 was approved by full Council on 23 February 2018. The Council has borrowed and 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. The identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

16. An economic commentary by the Council's Treasury Advisor, Arlingclose, can be found in Appendix B.

LOCAL CONTEXT

17. On 31 March 2019, the Council had net borrowing of £39 million arising from its revenue and capital income and expenditure, a decrease on 2018 of £1 million. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in the table below.

	31 March 2018 Actual £'000	2018/19 Movement £'000	31 March 2019 Actual £'000
General Fund CFR	39,415	(33)	39,382
HRA CFR	51,141	-	51,141
Total CFR	**90,556**	**(33)**	**90,523**
Less: Usable reserves	(33,924)	(8,039)	(41,963)
Less: Working capital	(16,615)	7,062	(9,553)
Net Borrowing (Balance Sheet)	**40,017**	**(1,010)**	**39,007**

18. Net borrowing has decreased due to a reduction in the CFR as new capital expenditure was lower than the financing applied including minimum revenue provision. Also there was an increase in usable reserves and a decrease in working capital due to the timing of receipts and payments.

19. The Council's strategy was to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

20. The treasury management position as at 31st March 2019 and the year-on-year change in shown in the table below.

	31 March 2018 Actual £'000	2018/19 Movement £'000	31 March 2019 Actual £'000
Long-term borrowing	40,000	-	40,000
Short-term borrowing	12,017	(6,507)	5,510
Total borrowing	**52,017**	**(6,507)**	**45,510**
Long-term investments	(2,000)	-	(2,000)
Short-term investments	(7,000)	(2,000)	(9,000)
Cash and cash equivalents	(3,000)	900	(2,100)
Total investments	**(12,000)**	**(1,100)**	**(13,100)**
Net borrowing	**40,017**	**(7,607)**	**32,410**

Note: the figures in the table are from the Balance Sheet in the Council's statement of accounts, but are adjusted to exclude operational cash, accrued interest and other accounting adjustments.

21. The decrease in net borrowing is a result of a fall in short-term borrowing due to the Council's internal borrowing policy.

BORROWING ACTIVITY

22. At 31 March 2019, the Council held £45.5 million of loans, a decrease of £6.5 million on the previous year. The year-end borrowing position is shown in the table below.

	Balance on 31 March 2018 £'000	Balance on 31 March 2019 £'000	Average Rate
Long-term borrowing	40,000	40,000	3.50%
Short-term borrowing	10,000	3,000	1.00%
Portchester Crematorium	2,017	2,510	0.25%
Total Borrowing	**52,017**	**45,510**	

23. The Council holds investments from Portchester Crematorium Joint Committee which are treated as temporary loans.

24. The Council's main objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

INVESTMENT ACTIVITY

25. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19 the Council's investment balances ranged between £14 million and £21 million due to timing differences between income and expenditure. The year-end position is shown in the table below.

	Balance on 31 March 2018 £'000	**Balance on 31 March 2019 £'000**	**Average Rate**
Banks and Building Societies	5,000	6,000	0.97%
Local Authorities	2,000	3,000	0.89%
Money Market Funds	3,000	2,100	0.75%
Pooled Funds	2,000	2,000	4.17%
Total Investments	**12,000**	**13,100**	

26. Both the CIPFA Code and government 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, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

27. In furtherance of these objectives and given the increasing risk and low returns from short-term unsecured bank investments, the Council has diversified into a more secure and higher yielding asset class. £2 million that is available for longer-term investment was moved from bank and building society deposits into a pooled Local Authority Property Fund.

28. 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.

29. 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 2018/19.

INTEREST RECEIVED AND PAID

30. The net interest received in 2018/19 was £481,480 against a revised budget £463,900 million for the General Fund. Net interest paid for the Housing Revenue Account was £1,728,219 against a revised budget of £1,669,300.

COMMERCIAL PROPERTY INVESTMENT ACQUISITIONS

31. The definition of investments in CIPFA's revised Treasury Management Code now covers all the Council's financial assets as well as other non-financial assets which the Council holds primarily for financial return.

32. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased 8 commercial investment properties, as summarised below, averaging a return of 7.06%.

Property Type	Purchase Cost £'000	Value at 31 March 2019 £'000
Retail	23,705	22,040
Commercial	1,721	2,250
Other	1,890	2,050
Total	**27,316**	**26,340**

33. The Council's total investment property portfolio is shown below and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Value at 31 March 2018 £'000	Value at 31 March 2019 £'000	Movement £'000
Retail	39,741	37,352	**(2,389)**
Commercial	9,775	10,011	**236**
Other	3,666	4,373	**707**
Office	4,652	3,759	**(893)**
Leisure	1,138	1,167	**29**
Total	**58,972**	**56,662**	**(2,310)**

34. The overall investment property portfolio has decreased in value by £2.3 million mainly in the retail and office sector, offset by increases in the commercial and other sector.

35. Property valuations are undertaken annually, to ensure that the Council's balance sheet reflects the current opinion of the value of the Council's assets. Fluctuations in value do not represent actual gains or losses, but do indicate market sentiment, which is often linked to rental income levels and lease terms and conditions.

PRUDENTIAL AND TREASURY INDICATORS

36. During 2018/19, all treasury management activities complied fully with the CIPFA Code and the Council's approved Treasury Management Strategy. Appendix D shows the actual prudential and treasury indicators for 2018/19.

SUMMARY

37. This report gives details of General Fund capital and treasury management outturn in 2018/19 in accordance with the reporting requirements set out in the CIPFA Code of Practice for Treasury Management.

RISK ASSESSMENT

38. 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 AND FINANCING 2018/19

	Budget £	Actual £	Savings £	Additional Expenditure £	Carry over to 2019/20 £
PUBLIC PROTECTION					
Night Time Closure of Multi-Storey Car Parks	100,000	48,516	41,484		10,000
PUBLIC PROTECTION - TOTAL	**100,000**	**48,516**	**41,484**	**0**	**10,000**
STREETSCENE					
Bus Shelter Improvements	12,000	11,547			453
Holly Hill Cemetery Extension	20,000	23,830			(3,830)
Play Area Safety Equipment and Surface Replacement	75,000	74,679			321
STREETSCENE - TOTAL	**107,000**	**110,056**	**0**	**0**	**(3,056)**
PLANNING AND DEVELOPMENT					
Car Park Surface Improvements	23,900	4,986			18,914
Hill Head Coastal Protection Phase 2	39,400	66,980		27,580	0
PLANNING AND DEVELOPMENT - TOTAL	**63,300**	**71,966**	**0**	**27,580**	**18,914**
LEISURE AND COMMUNITY					
Buildings					
Ferneham Hall Major Repairs Programme	27,000	21,805			5,195
Community Buildings Review	130,200	91,756			38,444
Westbury Manor Museum Remodelling	27,800	35,151		7,351	0
Burridge Village Hall Overflow Parking	12,000	11,985	15		0
	197,000	160,697	15	7,351	43,639
Play and Parks Schemes					
Funtley Recreation Ground Play Area	52,000	52,016		16	0
Warsash Recreation Ground Play Area	25,000	24,901	99		0
	77,000	76,917	99	16	0
Other					
Town Centre Christmas Lights	50,000	58,575		8,575	0
Footpath Improvements	24,000	19,167			4,833
	74,000	77,742	0	8,575	4,833
LEISURE AND COMMUNITY - TOTAL	**348,000**	**315,356**	**114**	**15,942**	**48,472**
HOUSING					
Disabled Facilities Grants	932,600	682,712			249,888
Home Improvement Loans	165,000	171,934		6,934	0
HOUSING - TOTAL	**1,097,600**	**854,646**	**0**	**6,934**	**249,888**
POLICY AND RESOURCES					
Replacement Programmes					
Vehicles and Plant Replacement Programme	1,025,300	898,918			126,382
ICT Development Programme	202,600	106,391	1,980		94,229
	1,227,900	1,005,309	1,980	0	220,611
Operational Buildings					
Depot Refurbishment Works	0	9,981			(9,981)
Civic Offices Improvement Programme	70,000	36,241			33,759
	70,000	46,222	0	0	23,778

	Budget	Actual	Savings	Additional Expenditure	Carry over to 2019/20
	£	£	£	£	£
Property Developments					
Commercial Property Acquisition	5,110,000				5,110,000
Solent Airport Schemes	1,924,400	770,635	3,097	7,460	1,158,128
Fareham Innovation Centre Phase 2	37,500	321,762		284,262	0
	7,071,900	1,092,397	3,097	291,722	6,268,128
POLICY AND RESOURCES - TOTAL	**8,369,800**	**2,143,928**	**5,077**	**291,722**	**6,512,517**
GENERAL FUND - TOTAL	**10,085,700**	**3,544,468**	**46,675**	**342,178**	**6,836,735**

APPENDIX B

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE - APRIL 2019

Economic Background

After spiking at over $85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over $50 in late December before steadily climbing toward $70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial Markets

December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit Background

Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

APPENDIX C

PRUDENTIAL, TREASURY AND COMMERCIAL INVESTMENT INDICATORS 2018/19

PRUDENTIAL INDICATORS

1) Capital Expenditure

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

Capital Expenditure and Financing	2018/19 Revised £'000	2018/19 Actual £'000	Difference £'000
Health & Public Protection	100	49	51
Streetscene	107	110	(3)
Leisure & Community	348	315	33
Housing	1,098	855	243
Planning & Development	63	72	(9)
Policy & Resources	8,370	2,144	6,226
Total General Fund	**10,086**	**3,545**	**6,541**
HRA	**4,441**	**3,642**	**799**
Total Expenditure	**14,527**	**7,187**	**7,340**
Capital Receipts	1,294	629	665
Capital Grants	1,771	1,449	322
Capital Reserves	3,134	2,083	1,051
Revenue	2,626	2,363	263
Borrowing	5,702	665	5,037
Total Financing	**14,527**	**7,187**	**7,340**

2) Capital Financing Requirement

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

£'000	2017/18 Actual	2018/19 Revised	2018/19 Actual	2018/19 Difference
General Fund	39,415	44,487	39,382	-5,105
HRA	51,141	51,141	51,141	0
Total CFR	**90,556**	**95,628**	**90,523**	**-5,105**

The CFR reduced by £33,000 year on year as capital expenditure financed by debt was lower than the in-year minimum revenue provision payment.

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	2018/19 Revised	2018/19 Actual	Difference
Capital Financing Requirement	95,628	90,523	-5,105
Less: Gross Debt	58,017	45,510	-12,507
Under/(Over) Borrowing	**37,611**	**45,013**	**-7,402**

Total debt remained below the Capital Financing Requirement 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	2018/19 Revised	2018/19 Actual	Complied
Operational Boundary			
Borrowing	62,000	45,510	✓
Other long term liabilities	4,000	2,711	✓
Total	**66,000**	**48,221**	✓
Authorised Limit			
Borrowing	102,000	45,510	✓
Other long term liabilities	6,000	2,711	✓
Total	**108,000**	**48,221**	✓

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.

	2018/19 Revised	2018/19 Actual	Difference
General Fund	3%	2%	-1%
HRA	15%	14%	-1%
Total	**10%**	**9%**	**-1%**

6) Housing Revenue Account (HRA) Rations

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.

	2018/19 Revised	2018/19 Actual	Difference
HRA debt £'000	49,268	49,268	-
HRA revenues £'000	12,238	12,575	337
Number of HRA dwellings	2,401	2,394	-7
Ratio of debt to revenues %	4.03	3.92	-0.11
Debt per dwelling £	£20,518	£20,582	£64

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	2018/19 Revised	2018/19 Actual	Complied
	%	%	
- **Upper limit on variable interest rate exposures**	25	11	✓
- **Upper limit on fixed interest rate exposures**	100	89	✓

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:

Maturity structure of borrowing	Upper Limit	2018/19 Actual	Complied
	%	%	
- **Loans maturing within 1 year**	25	12	✓
- **Loans maturing within 1 - 2 years**	25	0	✓
- **Loans maturing within 2 - 5 years**	25	0	✓
- **Loans maturing within 5 - 10 years**	50	0	✓
- **Loans maturing in over 10 years**	100	88	✓

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:

£M	2018/19 Revised	2018/19 Actual	Complied
Principal sums invested > 364 days	10	2	✓

COMMERCIAL INVESTMENT INDICATORS

The Council measures and manages its exposures to commerical investments using the following indicators.

1) Proportionality

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the proportion of expenditure funded by investment income.

£'000	2017/18 Actual	2018/19 Forecast	2018/19 Actual
Gross service expenditure	46,124	46,131	44,754
Investment income	3,807	4,246	3,988
Proportion	**8.3%**	**9.2%**	**8.9%**

2) Total Risk Exposure

This indicator shows the Council's total exposure to potential investment losses.

Total Investment Exposure	2017/18 Actual £'000	2018/19 Forecast £'000	2018/19 Actual £'000
Treasury Management Investments	12,000	14,000	13,100
Commercial Investments	58,972	64,082	56,662
Total	**70,972**	**78,082**	**69,762**

The variation in the forecast to actual for the commercial investments is partly due to the delay in the purchase of new commercial property acquisition in the capital programme.

3) How Investments are Funded

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments Funded by Borrowing	2017/18 Actual £'000	2018/19 Forecast £'000	2018/19 Actual £'000
Treasury Management Investments	0	0	0
Commercial Investments	18,840	18,412	18,412
Total	**18,840**	**18,412**	**18,412**