AUDIT COMMITTEE
20 DECEMBER 2017

ITEM NO. ....7.............

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2017/18

SUMMARY REPORT

Purpose of the Report

1. This report seeks approval of the revised Treasury Management Strategy, Prudential Indicators and provides a half–yearly review of the Council's borrowing and investment activities. Audit Committee are requested to forward the revised Strategy and indicators to Cabinet and Council for their approval and note changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

Summary

2. The mandatory Prudential Code, which governs Council's borrowing, requires Council approval of controls, called Prudential Indicators, relating to capital spending and borrowing. Prudential Indicators are set in three statutory annual reports, a forward looking annual treasury management strategy, a backward looking annual treasury management report and this mid year update. The mid year update follows Council's approval in February 2017 of the 2017/18 Prudential Indicators and Treasury Management Strategy.

3. The key objectives of the three annual reports are:

(a) to ensure the governance of the large amounts of public money under the Council's Treasury Management activities:

  (i) Complies with legislation
  (ii) Meets high standards set out in codes of practice

(b) To ensure that borrowing is affordable,
(c) To report performance of the key activities of borrowing and investments.

4. The key proposed revisions to Prudential Indicators relate to:

(a) Lower capital expenditure in 2017/18 due to slippage on some Capital Schemes into 2018/19 as shown in **Appendix 1**. However the revised estimate has also increased to include possible loans to Registered Social Landlords RSL's this in turn would increase borrowing need, if fulfilled, for 2017/18 to £105.825M**.**

(b) The Operational Boundary will increase to £295.825M and the Authorised Limit to £310.616M to allow for any additional cashflow requirement.

5. Investments now include £20M in property funds which may increase to £30m by the end of 2017/18. These investments will increase our net return on investments by around £0.750M in future years.

Recommendation

6. It is recommended that :

(a) The revised prudential indicators and limits within the report in Tables 1 to 6, 8 and 15 to 18 are examined.

(b) The reduction in the Treasury Management Budget (Financing Costs) of £0.418M shown in Table 12 is noted.

(c) That this report is forwarded to Council via Cabinet with comments from this committee, in order for the updated prudential indicators to be approved.

Reasons

7. The recommendations are supported by the following reasons :-

(a) In order to comply with the Prudential Code for Capital Finance in Local Authorities;
(b) To inform Members of the performance of the Treasury Management function;
(c) To comply with the Local Government Act 2003;
(d) To enable further improvements to be made in the Council's Treasury Management function.

Paul Wildsmith
Director of Neighbourhood Services and Resources

Background Papers

(i) Capital Medium Term Financial Plan 2017/18
(ii) Accounting records
(iii) The Prudential Code for Capital Finance in Local Authorities

Elaine Hufford: Extension 5404

S17 Crime and Disorder	This report has no implications for S17 Crime and Disorder.
Health and Well Being	This report has no implications for the Council's Health and Well Being agenda.
Carbon Impact	There are no carbon impact implications in this report.
Diversity	There are no specific implications for the Council's diversity agenda.
Wards Affected	All Wards.
Groups Affected	All Groups.
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision.
Urgent Decision	For the purposes of call in this report is not an urgent decision.
One Darlington: Perfectly Placed	This report has no particular implications for the sustainable Community Strategy.
Efficiency	The report refers to actions taken to reduce costs and manage risks.

MAIN REPORT

Information and Analysis

8. This mid-year review report meets the regulatory framework requirement of treasury management. It also incorporates the needs of the Prudential Code to ensure monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and the PIs were previously reported to Council on 23 February 2017.

9. This report concentrates on the revised positions for 2017/18. Future year's indicators will be revised when the impact of the MTFP 2018/19 onwards is known.

10. A summary of the revised headline indicators for 2017/18 is presented in **Table 1** below**.** More detailed explanations of each indicator and any proposed changes are contained in the report. The revised indicators reflect the approved movement in the Capital MTFP since its inception in March 2017 and the means by which it is financed.

Table 1 Headline Indicators

	2017/18 Original Estimate	2017/18 Revised Estimate
	£M	£M
Capital Expenditure (Tables 2 and 3)	51.779	139.404
Capital Financing Requirement (Table 4)	198.348	288.190
Operational Boundary for External Debt (Table 4)	195.825	295.825
Authorised Limit for External Debt (Table 6)	205.616	310.616
Ratio of Financing Costs to net revenue stream-General Fund (Table 15)	4.65%	4.01%
Ratio of Financing Costs to net revenue stream-Housing Revenue Account (HRA)(Table 15)	15.55%	15.12%

11. The capital expenditure plans and prudential indicators for capital expenditure are set out initially, as these provide the framework for the subsequent treasury management activity. The actual treasury management activity follows the capital framework and the position against the treasury management indicators is shown at the end.

12. The purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Communities and Local Government Investment Guidance which state that Members receive and adequately scrutinise the treasury service.

13. The underlying economic environment remains difficult for Councils; concerns over counterparty risk are still around. This background encourages the Council to continue investing over the shorter term and with high quality counterparties, the downside is that investment returns remain low.

Key Prudential Indicators

14. This part of the report is structured to update:

(a) The Council's capital expenditure plans
(b) How these plans are financed
(c) The impact of the changes in the capital expenditure plans on the PI's and the underlying need to borrow
(d) Compliance and limits in place for borrowing activity
(e) Changes to the Annual Investment Strategy
(f) The revised financing costs budget for 2017/18

Capital Expenditure PI

15. **Table 2** shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget.

Table 2

Capital Expenditure by Service	2017/18 Original Estimate	2017/18 Revised Estimate
	£M	£M
General Fund	26.506	22.240
HRA	25.273	17.164
Total Estimated Capital Expenditure	**51.779**	**39.404**
Loan Facility to RSL's		**100.000**
		139.404

16. The changes to the 2017/18 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget monitoring process.

17. The current capital programme now stands at £48.404M but this includes a number of schemes that will be spent over a number of years not just in 2017/18. A reduction of £9.000M has been allowed for schemes which are known will be finalised in future years, but it is likely that other schemes will slip into future years. A full reconciliation of the expected capital expenditure for 2017/18 is attached at **Appendix 1.**

Impact of Capital Expenditure Plans

Changes to the financing of the Capital Programme

18. Table 3 draws together the main strategy elements of the capital expenditure plans shown above, highlighting the original elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element (Borrowing Need) increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR). Borrowing need has increased for 2017/18 due to borrowing not required in previous years for slipped schemes but expected to be needed this year. This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3

Capital Expenditure	2017/18 Original Estimate	2017/18 Revised Estimate
	£M	£M
General Fund	26.506	22.240
HRA	25.273	17.164
Total Capital expenditure	51.779	39.404
Loan Facility to RSL's	0.000	100.000
	51.779	139.404
Financed By		
Capital Receipts- Housing	0.196	0.000
Capital Receipts –General Fund	1.759	3.093
Capital grants	18.989	10.194
Capital Contributions	0.000	1.829
Revenue Contributions Housing	24.077	15.988
Revenue Contributions General Fund	1.068	2.475
Total Financing	46.089	33.579
Borrowing Need	**5.690**	**105.825**

19. Members will recall that in the past a loan facility to Registered Social Landlords (RSLs) was included in the Capital Programme but taken out as it was thought that it would not come to fruition, however this has become a possibility again. £100m for these loans has now been included as possible capital expenditure, however it is still unclear if and when this will take place. It is included in the revised figure for 2017/18 to enable the Operational Boundary and Authorised limits to be increased but any decision to actually go ahead with these loans will be subject to a further report to Council for approval. Loans of this nature will not be granted without further due diligence regarding the RSL's involved.

The Capital Financing Requirement (PI), External Debt (PI) and the Operational Boundary

20. **Table 4** shows the Capital Financing Requirement (CFR), which is the underlying external need to borrow for capital purposes. It shows the expected actual debt position over the period. This is called the Operational Boundary. The increase in Borrowing Need (Table 3) is around £105.825M and currently actual borrowing for the Council is £154.161M, it is proposed to set an actual borrowing figure of £282.000M this will accommodate the additional borrowing need and any debt requirements for cash flow purposes. Other Long term liabilities (the PFI scheme) will be added to give the revised operational boundary for 2017/18.

Prudential Indicator- External Debt/ Operational Boundary
Table 4

	2017/18 Original Estimate	2017/18 Revised Estimate
	£M	£M
Prudential Indicator- Capital Financing Requirement		
Opening CFR- Post Audit of Accounts	194.479	195.186
Closing CFR	198.348	299.190
CFR General Fund	114.298	215.140
CFR General Fund PFI/Leasing IFRS	13.825	13.825
CFR - Housing	70.225	70.225
Total Closing CFR	**198.348**	**299.190**
Net Movement in CFR	3.869	104.004
Borrowing	182.000	282.000
Other long Term Liabilities	13.825	13.825
Total Debt 31 March- Operational Boundary	**195.825**	**295.825**

Limits to Borrowing Activity

21. The first key control over the treasury activity is a PI to ensure that over the medium term gross borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the next two financial years. As shown in table 5 below.

Table 5

	2017/18 Original Estimate £M	2017/18 Revised Estimate £M	2018/19 Revised Estimate £M	2019/20 Original Estimate £M
Gross borrowing	182.000	182.000	182.000	182.000
Loan Facility to RSL's		100.000	100.000	100.000
Plus Other Long Term Liabilities	13.825	13.825	12.653	11.498
Total Gross borrowing	195.825	295.825	294.653	293.498
CFR* (year end position)	198.348	299.190	297.047	296.263

* includes on balance sheet PFI schemes and finance leases and Loan Facility to RSLs

22. The Director of Neighbourhood Services and Resources reports that no difficulties are envisaged for the current and future years in complying with this PI.

23. A further PI controls the overall level of borrowing, this is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit is currently set 5% above the Operational

Boundary to allow for any additional cashflow needs, the revised figure for 2017/18 has been raised by 5% of the new Operational Boundary total. Whilst it is not expected that borrowing would be at these levels this would allow additional borrowing to take place should market conditions change suddenly and swift action was required. This is a Statutory limit determined under section 3 (1) of the Local Government Act 2003.

24. It is proposed to move the Authorised Limit in **Table 6** in line with the movement in the overall Capital Financing Requirement.

Table 6

Authorised Limit for External Debt	2017/18 Original Indicator £M	2018/19 Revised Indicator £M
Operational Boundary	195.825	295.825
Additional headroom to Capital Financing Requirement	9.791	14.791
Total Authorised Limit for External Debt	205.616	310.616

Medium Term Interest Rate Forecasts Provided by Capita Asset Services

Table 7

	Bank Rate	**PWLB rates for borrowing purposes***			
		5 year	10 year	25 year	50 year
	%	%	%	%	%
2017/18					
Dec 2017	0.50	1.50	2.10	2.80	2.50
March 2018	0.50	1.60	2.20	2.90	2.60
2018/19					
June 2018	0.50	1.70	2.30	3.00	2.70
Sept 2018	0.50	1.70	2.40	3.00	2.80
Dec 2018	0.75	1.80	2.40	3.10	2.90
March 2019	0.75	1.80	2.50	3.10	2.90
2019/20					
June 2019	0.75	1.90	2.60	3.20	3.00
Sept 2019	0.75	1.90	2.60	3.20	3.00
Dec 2019	1.00	2.00	2.70	3.30	3.10
March 2020	1.00	2.00	2.70	3.30	3.20

*****PWLB rates above are for certainty rates (which are provided for those authorities that have disclosed their borrowing/capital plans to the government. Darlington Borough Council will be able to access these certainty rates which are 0.2% below PWLB's normal borrowing rates.

25. Capita Asset Services undertook its last review of interest rate forecast on 9th August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However the MPC meeting in September revealed a sharp change in sentiment whereby a majority of MPC

members said they would be voting for an increase in Bank Rate ‘over the coming months’. This came to fruition in November when the MPC voted to increase the Bank Rate to 0.5%, it is uncertain whether this was just a withdrawal of the emergency rate cut of August 2016 or whether they will embark on a series of further rate increases during 2018, but given the recent future economic indicators this is unlikely.

26. The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU and when.
(a) UK economic growth and increases in inflation are weaker than we currently anticipate.
(b) Weak growth or recession in the UK’s main trading partners - the EU and US.
(c) Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
(d) A resurgence of the Eurozone sovereign debt crisis.
(e) Weak capitalisation of some European banks
(f) Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

27. The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
(a) The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
(b) UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Strategy 2017/18 and Annual Investment Strategy Update

Revised CIPFA Codes

28. The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

29. A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in property purchase in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a high level summary of the overall capital strategy which would be reported to Members, this would allow Members to see how the cash resources of the authority have been apportioned between treasury and non- treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

MIFID II

30. The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from for cash deposits with banks and building societies.

Debt Activity during 2016/17

31. The expected net borrowing need is set out in table 8

Table 8

	2017/18 Original Estimate £M	**2017/18 Revised Estimate £M**
CFR (year end position)from Table 4	198.348	299.190
Less other long term liabilities PFI and finance leases	13.825	13.825
Net adjusted CFR (net year end position)	184.523	285.365
Expected Borrowing	180.000	282.000
(Under)/ Over borrowing	(4.523)	(3.365)
Expected Net movement in CFR	3.869	104.004
Expected Net Movement in CFR represented by		
Net financing need for the year from table 3	5.690	105.825
Less MRP General Fund		
Less MRP Housing	0.629	0.629
Less MRP relating to finance leases including PFI	1.192	1.192
Movement in CFR (Net Borrowing Need)	3.869	104.004

32. The following new borrowing has been taken to date.

Table 9

Date Taken	Term	Amount £M	Interest Rate	Purpose	Lender
8th May 2017	1 Year	£5.000	0.53%	General	Other Local Authority
28th July 2017	1 Year	£5.000	0.42%	Property Funds	Other Local Authority
28th July 2017	5 Years	£8.500	1.38%	Property Funds	PWLB
1st Sept 2017	1 Year	£3.500	0.46%	Property Funds	Other Local Authority
29th Sept 2017	2 Years	£5.000	0.80%	General	Other Local Authority
19th Oct 2017	1 Year	£5.000	0.50%	Replacement	Other Local Authority
Total		£32.000			

33. In order to complete the purchase of a further £10m Property Fund Units it is intended that another PWLB loan of £8m is taken for a period of 10 years. That will bring the amount borrowed by the Council to £163.261M, this excludes any loans to RSL's or additional cashflow loans which may be required..

34. There will still be an element of underborrowing by the Council at the end of March 2018.

Annual Investment Strategy 2017/18

Investment Portfolio

35. In accordance with the Code, it is the Council's priority to ensure security of Capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous years as rates are very low and in line with the current 0.50% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks prompts a low risk strategy. Given this risk environment investment returns are likely to remain low.

36. Towards the end of 2016/17 Officers engaged our treasury management advisors in an exercise to explore investing in pooled property funds. As a result of that exercise and further due diligence the Council has now invested in two pooled Property funds CCLA and Lothbury Property Trust , £10m in each fund. A third investment of £10m in another fund is expected by the end of 2017/18. Financing of these investments is through reducing our levels underborrowing, to date £8.500m has been taken from PWLB and 2 further loans totalling £8.500m have been taken through the money market this has been supplemented with a reduction in our other investments by £3.000m. A further loan of £8.000m and a reduction of investments of £2.000m will cover the next property fund investment

taken in the coming months. These investments should increase investment income by £0.250M in 2017/18 and by £0.750M in following years a net return of around 2.5%.

Treasury Management Activity from 1st April 2017 to 31st October 2018

37. Current investment position – The Council held £41.972M of investments at 31/10/2017 and this is made up of the following types of investment.

Table 10

Sector	**Country**	**Up to 1 year**
		£M
Banks	UK	7.500
Building Societies	UK	0.000
AAA Money Market Funds	Sterling Funds	14.472
Property Funds CCLA	UK	10.000
Lothbury	UK	10.000
Total		**41.972**

Short Term Cashflow Investments

38. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. These include investments in Money Market Funds, the Government's Debt Management Office and bank short term notice accounts. A total of 42 investments were made in the period 1st April 2017 to 31st October 2017 totalling c£90M these were for short periods of up to 100 days and earned interest of £24,997 on an average balance of £17.451M which equated to an annual average interest rate of 0.26%

Longer Term Capital Investments Excluding Property Funds

39. The Council's reserves and capital receipts are invested for varying periods up to the maximum permitted time period which is currently 2 years for part Nationalised banks and 12 months for other counterparties. The investments have been at an average level of £3.443M to date. Some individual loans have matured and been renewed during this period The longer term investments have earned interest of £16,687 for the first seven months of 2017/18 at an average rate of 0.48%.

Investment returns measured against the Service Performance Indicators

40. The target for our investment returns is to better or at least match a number of external comparators, this performance indicator is also known as yield benchmarking. As can be seen from Table 11, the short and long term investment achievements are above market expectations.

41.

Table 11

	Cashflow Investments %	Longer term fixed Investments %
Darlington Borough Council - Actual	**0.25**	**0.48**
External Comparators		
London Interbank Bid Rate Overnight	0.09	
London Interbank Bid Rate 7 day	0.11	
London Interbank Bid Rate 1 Month	0.13	
London Interbank Bid Rate -3 months		0.19
London Interbank Bid Rate-6 month		0.33
London Interbank Bid Rate one year		0.54
Average External Comparators	**0.11**	**0.35**

Treasury Management Budget

42. There are three main elements within the Treasury Management Budget:-

(a) Longer term capital investments interest earned – a cash amount of which earns interest and represents the Councils revenue balances, unused capital receipts, reserves and provisions, this will now include Property Funds.
(b) Cash flow interest earned – since becoming a unitary council in 1997, the authority has consistently had a positive cash flow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipt of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.
(c) Debt serving costs – this is the principal and interest costs on the Council's long term debt to finance the capital programme.

Table 12-Changes to the Treasury Management Budget (Financing Costs) 2016/17

	£M	£M
Original Treasury Management Budget 2017/18		**1.618**
Less reduced Repayment of Principal	-0.037	
Less reduced Interest payments paid on debt	-0.031	
Add reduced interest earned on Investments	0.010	
Less increased returns on Property Funds and Commercial Ventures	-0.346	
Less reduced service charges and costs	-0.012	
Revised Treasury Management Budget 2017/18		**1.202**

43. The majority of the savings in Financing Costs relate to the investments in pooled property funds. The Treasury Management Strategy approved by Council in March 2017 approved the use of under borrowing for investment in pooled property funds. Following a tender exercise and appropriate due diligence the Council has invested £20.000m in total in two funds and a third investment of £10.000m is expected by the end of 2017/18 these should provide £0.283m of income (net of borrowing costs)this year . A further

£0.065m of income will be received as interest from loans from commercial ventures. Additionally savings of £0.068m have been due to debt principal (MRP) and interest payments on debt being lower than expected.

44. This statement concludes that the Treasury Management budget is forecast to achieve an improvement of £0.416M in 2017/18, these savings in finance costs will be returned to Council balances.

Risk Benchmarking

45. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance and these are shown in Table 10. Discrete security and liquidity benchmarks are also requirements of member reporting.

46. The following reports the current position against the benchmarks originally approved.

47. **Security** – The Council's maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables were set as follows;

0.077% historic risk of default when compared to the whole portfolio

Table13

Maximum	**Benchmark 2017/18**	**Actual June**	**Actual October**
Year 1	0.077%	0.004%	0.021%

48. The counterparties that we use are all high rated therefore our actual risk of default based on ratings attached to counterparties is very low.

49. **Liquidity** – In respect of this area the Council set liquidity facilities/ benchmark to maintain

(a) Bank overdraft - £0.100M
(b) Liquid short term deposits of a least £3.000M available within a weeks notice
(c) Weighted Average Life benchmark is expected to be 0.4 years with a maximum of 1 year

50. The Director of Neighbourhood Services and Resources can report that liquidity arrangements have been adequate for the year to date as shown in Table 13

Table 14

	Benchmark 2017/18	**Actual June**	**Actual October**
Weighted Average Life	0.4 – 1 year	0.18years	0.16years

51. The figures are for the whole portfolio so include both longer term fixed investments currently up to 2 years as well as cash flow investments deposited with Money Market funds on a call basis (i.e. can be drawn on without notice).

52. Revised Security and Liquidity benchmarks to include Property funds will be submitted for review for 2018/19.

Treasury Management Indicators

53. **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream. The reduction in % relates to reduced financing costs for General Fund of £0.443M.

Table 15

	2017/18 Original Indicator	2017/18 Revised Indicator
General Fund	**4.65%**	**4.01%**
HRA	**15.55%**	**15.12%**

Treasury Management Prudential indicators

54. **Upper Limits on Variable Rate Exposure –** This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

55. **Upper Limits on Fixed Rate Exposure –** Similar to the previous indicator this cover a maximum limit on fixed interest rates

56. Historically for a number of years this Council has used these percentages; together they give flexibility to the treasury management strategy allowing the Council to take advantage of both fixed and variable rates in its portfolio whilst ensuring that its exposure to variable rates is limited. At the end of 2017/18 the Council will have 2 variable rate loans amounting to £27.250M which represents 22% of the Councils debt portfolio.

Table 16

	2017/18 Original Indicator	2017/18 Revised Indicator
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	40%

57. **Maturity Structures of Borrowing -** These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest for the duration of the instrument) falling due for refinancing. The higher limits for longer periods reflect the fact that longer maturity periods give more stability to the debt portfolio.

Table 17
Maturity Structures of Borrowing

	2017/18 Original indicator	2017/18 Actual to Date	2017/18 Revised Indicator
Under 12 months	25%	3.9%	25%
12 months to 2 years	40%	3.1%	40%
2 years to 5 years	60%	6.3%	60%
5 years to 10 years	80%	5.3%	80%
10 years and above	100%	81.4%	100%

58. **Total Principal Funds Invested –** These limits are set having regard to the amount of reserves available for longer term investment and show the limits to be placed on investments with final maturities beyond 1 year. This limit allows the authority to invest for longer periods if they give better rates than shorter periods. It also allows some stability in the interest returned to the Authority.

Table 18
Principal Funds Invested

	2017/18 Original Indicator	2017/18 Revised Indicator
Maximum principal sums invested greater than 1 year	£50M	£30M

Treasury Management Advisors

59. The Council continues to receive Treasury Management advice from Capita Asset Services; the contract is currently being tendered for a further 4 years.

Revised CIPFA Codes

60. The Chartered Institute of Public Finance and Accountancy (CIPFA), is currently conducting an exercise to revise the Treasury Management Code and Cross Sector.

Conclusion

61. The prudential indicators have been produced to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) is increased to £295.825M to include any possible loans to RSL's. The Councils return on investments has been good, exceeding both of the targets. Based on the first seven months of 2017/18 the Council's borrowing and investments is forecast to achieve an improvement of £0.418m on the approved 2017/18 budget.

62. The Council’s treasury management activities comply with the required legislation and meet the high standards set out in the relevant codes of practice.

Outcome of Consultation

63. No consultation was undertaken in the production of this report.