CABINET
12 FEBRUARY 2019

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2018/19

Responsible Cabinet Member – Councillor Stephen Harker
Leader of the Council and Efficiency and Resources Portfolio

Responsible Director - Paul Wildsmith, Managing Director

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. Cabinet are requested to forward the revised Strategy and indicators to Council for their approval and note changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

Summary

2. This report and the prudential indicators contained in it were examined by the Audit Committee on 30 January 2019 and it was agreed at the meeting that the report be referred to Council via Cabinet to enable the updated indicators, revised Operational Boundary and Authorised Limit for borrowing be approved and that the Audit Committee is satisfied with the Council's borrowing and investment activities, the reported indicators and the revised borrowing limits.

3. 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 2018 of the 2018/19 Prudential Indicators and Treasury Management Strategy.

4. 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.

5. The key proposed revision to Prudential Indicators relates to the Operational Boundary which will reduce to £300.653m and the Authorised Limit to £315.686m to allow for any additional cash flow requirement.

6. Investments now include £30m in property funds which are expected to increase our net return on investments by around £0.600m in future years.

Recommendation

7. 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 £0.590m shown in Table 12 is noted.

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

Reasons

8. 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
Managing Director

Background Papers

(i) Capital Medium Term Financial Plan 2018/19
(ii) Accounting records
(iii) The Prudential Code for Capital Finance in Local Authorities

Peter Carrick: Extension 5401

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 is not an Executive decision
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.
Impact on Looked After Children and Care Leavers	This report does not impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

9. 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 22 February 2018.

10. This report concentrates on the revised positions for 2018/19. Future year's indicators will be revised when the impact of the MTFP 2019/20 onwards is known.

11. A summary of the revised headline indicators for 2018/19 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 movement in the Capital MTFP since its approval in February 2018 and the means by which it is financed.

Table 1 Headline Indicators

	2018/19 Original Estimate	2018/19 Revised Estimate
	£m	£m
Capital Expenditure (Tables 2 and 3)	38.972	35.877
Capital Financing Requirement (Table 4)	302.889	319.487
Operational Boundary for External Debt (Table 4)	301.653	300.653
Authorised Limit for External Debt (Table 6)	316.736	315.686
Ratio of Financing Costs to net revenue stream- General Fund (Table 15)	3.46%	3.03%
Ratio of Financing Costs to net revenue stream- Housing Revenue Account (HRA)(Table 15)	15.03%	15.04%

12. 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.

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

14. The underlying economic environment remains difficult for Councils and 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

15. 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 2018/19

Capital Expenditure PI

16. **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	2018/19 Original Estimate	2018/19 Revised Estimate
	£m	£m
General Fund	16.746	18.507
HRA	17.181	12.370
Total Estimated Capital Expenditure	**33.927**	**30.877**
Loans to Joint Ventures	5.000	5.000
Total	**38.927**	**35.877**

17. The changes to the 2018/19 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget monitoring process (Quarterly Project Position Statement Report).

18. The current capital programme now stands at £49.877m but this includes a number of schemes that will be spent over a number of years not just in 2018/19. A reduction of £14.000m has been allowed for schemes which are known will be finalised in future years, but it is likely that other schemes may also slip into future years.

Impact of Capital Expenditure Plans

Changes to the financing of the Capital Programme

19. **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 2018/19 due to scheme slippage in previous years now requiring funding. This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3

Capital Expenditure	2018/19 Original Estimate	2018/19 Revised Estimate
	£m	£m
General Fund	16.746	18.507
HRA	17.181	12.370
Loans to Joint Ventures	5.000	5.000
Total Capital expenditure	38.927	35.877
Financed By:		
Capital Receipts - Housing	0.198	0.198
Capital Receipts –General Fund	3.511	5.678
Capital grants	12.735	7.863
Revenue Contributions - GF	0.000	1.600
Revenue Contributions - Housing	16.983	12.172

Total Financing	33.427	27.511
Borrowing Need	**5.500**	**8.366**

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 £2.9m and currently actual borrowing for the Council is £188.261m, it is proposed to set an actual borrowing figure of £288.000m 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 2018/19.

Prudential Indicator- External Debt/ Operational Boundary

Table 4

	2018/19 Original Estimate	2018/19 Revised Estimate
	£m	£m
Prudential Indicator- Capital Financing Requirement		
Opening CFR- Post Audit of Accounts	299.190	316.288
Closing CFR	302.889	319.487
CFR General Fund	115.640	132.238
CFR General Fund PFI/Leasing IFRS	12.653	12.653
CFR – Housing	69.596	69.596
CFR – Loans to RSL's	100.000	100.00
CFR – Loans to Joint Ventures	5.000	5.000
Total Closing CFR	**302.889**	**319.487**
Net Movement in CFR	3.699	3.199
Borrowing	289.000	288.000
Other long Term Liabilities	12.653	12.653
Total Debt 31 March- Operational Boundary	**301.653**	**300.653**

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 2018/19 and the next two financial years. As shown in table 5 below.

Table 5

	2018/19 Original Estimate £m	2018/19 Revised Estimate £m	2019/20 Revised Estimate £m	2020/21 Original Estimate £m
Gross borrowing	189.000	188.000	199.000	199.000
Loan Facility to RSL's	100.000	100.000	100.000	100.000
Plus Other Long Term Liabilities	12.653	12.653	11.498	10.358
Total Gross Borrowing	301.653	300.653	310.498	309.358
CFR* (year-end position)	302.889	319.487	326.703	324.934

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

22. The Assistant Director 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 2018/19 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	2018/19 Original Indicator £m	2018/19 Revised Indicator £m
Operational Boundary	301.653	300.653
Additional headroom to Capital Financing Requirement	15.083	15.033
Total Authorised Limit for External Debt	316.736	315.686

Interest Rate Forecasts Provided by Link Asset Services

Table 7

	Bank Rate	PWLB rates for borrowing purposes*			
		5 year	10 year	25 year	50 year
	%	%	%	%	%
2018/19					
Dec 2018	0.75	1.80	2.30	2.70	2.50
March 2019	0.75	1.90	2.30	2.70	2.50
2019/20					
June 2019	1.00	2.00	2.40	2.80	2.60
Sept 2019	1.00	2.00	2.40	2.90	2.70
Dec 2019	1.00	2.10	2.50	2.90	2.70
March 2020	1.25	2.10	2.60	3.00	2.80
2020/21					
June 2020	1.25	2.20	2.70	3.10	2.90
Sept 2020	1.25	2.30	2.70	3.10	2.90
Dec 2020	1.50	2.30	2.80	3.20	3.00
March 2021	1.50	2.40	2.80	3.20	3.00

*****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. The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

26. The overall balance of risks to economic growth in the UK is probably neutral.

27. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

28. The downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

    (a) Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

(b) A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.

(c) Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.

(d) The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.

(e) Weak capitalisation of some European banks.

(f) Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.

(g) Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

29. The upside risks to current forecasts for UK gilts and PWLB rates are:

(a) President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.

(b) The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

(c) The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

(d) UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Strategy 2018/19 and Annual Investment Strategy Update

30. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

    (a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

    (b) an overview of how the associated risk is managed

    (c) the implications for future financial sustainability

31. A report setting out our Capital Strategy will be taken to Council via Cabinet before 31st March 2019.

Debt Activity during 2018/19

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

Table 8

	2018/19 Original Estimate £M	**2018/19 Revised Estimate £M**
CFR (year-end position) from Table 4	302.889	319.487
Less other long term liabilities PFI and finance leases	12.653	12.653
Net adjusted CFR (net year end position)	290.236	306.834
Expected Borrowing	289.000	288.000
(Under)/ Over borrowing	(1.236)	(18.834)
Expected Net movement in CFR	3.699	6.565
Expected Net Movement in CFR represented by		
Net financing need for the year from table 3	5.500	8.366
Less MRP General Fund		
Less MRP Housing	0.629	0.629
Less MRP relating to finance leases including PFI	1.172	1.172
Movement in CFR (Net Borrowing Need)	3.699	6.565

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

Table 9

Date Taken	Term	Amount £m	Interest Rate	Purpose	Lender
25th July 2018	2 Year	£5.000	0.80%	Property Funds	Other Local Authority
8th August 2018	9 months	£5.000	0.70%	General	Other Local Authority
31st August 2018	1 Year	£3.500	1.00%	Property Funds	Other Local Authority
31st August 2018	5 Year	£5.000	1.82%	Joint Ventures	PWLB
18th October 2018	1 Year	£5.000	1.05%	General	Other Local Authority
20th December 2018	1 year	£4.000	1.00%	Rescheduling	Other Local Authority
20th December 2018	2 years	£5.000	1.45%	Rescheduling	Other Local Authority
20th December 2018	1 year	£5.000	1.10%	Rescheduling	Other Local Authority
21st December 2018	42 Years	£5.000	2.47%	Rescheduling	PWLB
21st December 2018	43 years	£5.000	2.46%	Rescheduling	PWLB
21st December 2018	44 years	£5.000	2.46%	Rescheduling	PWLB
21st December	45 years	£6.000	2.46%	Rescheduling	PWLB
21st December 2018	46 years	£6.250	2.45%	Rescheduling	PWLB
Total		64.750			

34. The amount borrowed by the Council now stands at £188.261M, this excludes any loans to RSL’s or additional cashflow loans which may be required.

35. There will still be an element of under-borrowing by the Council at the end of March 2019.

Debt Rescheduling

36. Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.

37. During the current financial year, however, the following debt rescheduling opportunity arose and was undertaken.

38. As Members are aware the Council has held a number of Lender Option Borrower Option (LOBO's) since 2006, 2 of which were classified as 'Inverse LOBO's' whereby the interest rate paid was linked to the prevailing '10 year swap rate' which meant that the higher the interest rate (linked to base rate) the less the Council paid in interest payments and vice versa.

39. An opportunity to redeem the 2 inverse LOBO's arose in December 2018 whereby even with the associated cost of the premium for early settlement the savings to the Council in cash terms are £26.740m over the remaining 42 years of the loans and £12.658m at NPV discounted rates.

Annual Investment Strategy 2018/19

Investment Portfolio

40. 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 0.75% 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.

Treasury Management Activity from 1st April 2018 to 30th November 2018

41. Current investment position – The Council held £49.824m of investments at 30/11/2018 and this is made up of the following types of investment.

Table 10

Sector	Country	Up to 1 year
		£m
Banks	UK	2.000
Building Societies	UK	0.000
AAA Money Market Funds	Sterling Funds	17.890
Property Funds - CCLA	UK	10.000
Hermes	UK	9.934
Lothbury	UK	10.000
Total		**49.824**

Short Term Cashflow Investments

42. 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 31 investments were made in the period 1st April 2018 to 30th September 2018 totalling c£60m these were for short periods of up to 100 days and earned interest of £30,657 on an average balance of £13.841m which equated to an annual average interest rate of 0.46%

Longer Term Capital Investments Excluding Property Funds

43. 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 £2.681m to date. Some individual loans have matured and been renewed during this period. The longer term investments have earned interest of £37,943 for the first six months of 2018/19 at an average rate of 0.74%.

Investment returns measured against the Service Performance Indicators

44. 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.

Table 11

	Cashflow Investments %
Darlington Borough Council - Actual	**0.75**
External Comparators	
London Interbank Bid Rate 7 day	0.43
London Interbank Bid Rate 3 months	0.61
London Interbank Bid Rate one year	0.87

Treasury Management Budget

45. 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 Financing Costs Budget 2018/19

	£m	£m
Original Financing Costs Budget 2018/19		**0.915**
Less reduced Repayment of Principal	(0.064)	
Less reduced Interest payments paid on debt	(0.337)	
Add reduced interest earned on Investments	0.045	
Less increased returns on Property Funds and Commercial Ventures	(0.123)	
Less saving on rescheduling LOBO's	(0.111)	
Revised Treasury Management Budget 2018/19		**0.325**

46. The majority of the savings in Financing Costs relate to the reduced interest payments on debt than originally budgeted for. A further £0.123m of income will be received as interest from loans from commercial ventures. Additionally savings of £0.064m have been due to debt principal (MRP) and interest payments on debt being lower than expected. There is also a current year saving of £0.111m on the rescheduling of the previously mentioned LOBO's.

47. This statement concludes that the Treasury Management budget is forecast to achieve an improvement of £0.590m in 2018/19, these savings in finance costs will be returned to Council balances.

Risk Benchmarking

48. 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.

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

50. **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

Table 13

Maximum	**Benchmark 2018/19**	**Actual July**	**Actual November**
Year 1	0.077%	0.008%	0.004%

N.B. this excludes Property Funds

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

52. **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

53. The Assistant Director Resources can report that liquidity arrangements have been adequate for the year to date as shown in Table 13

Table 14

	Benchmark 2018/19	Actual June	Actual October
Weighted Average Life	0.4 – 1 year	0.18 years	0.16 years

54. 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).

Treasury Management Indicators

55. **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

	2018/19 Original Indicator	2018/19 Revised Indicator
General Fund	**3.46%**	**3.03%**
HRA	**15.03%**	**15.04%**

Treasury Management Prudential indicators

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

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

58. 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.

Table 16

	2018/19 Original Indicator	2018/19 Revised Indicator
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	40%

59. **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

	2018/19 Original indicator	2018/19 Actual to Date	2018/19 Revised Indicator
Under 12 months	25%	5.7%	30%
12 months to 2 years	40%	3.1%	40%
2 years to 5 years	60%	10.9%	60%
5 years to 10 years	80%	5.7%	80%
10 years and above	100%	77.6%	100%

60. **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

	2018/19 Original Indicator	2018/19 Revised Indicator
Maximum principal sums invested greater than 1 year	£50m	£30m

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 £300.653m 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 2018/19 the Council's borrowing and investments is forecast to achieve an improvement of £0.590m on the approved 2018/19 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.