Report To:	**EXECUTIVE CABINET**
Date:	12 December 2018
Executive Member /Reporting Officer:	Councillor Fairfoull – Deputy Executive Leader Kathy Roe – Director of Finance Tom Wilkinson – Assistant Director of Finance
Subject:	**TREASURY MANAGEMENT ACTIVITIES**
Report Summary:	This report provides a mid-year review of the Council's Treasury Management activities for 2018/19, including the borrowing strategy and the investment strategy.
Recommendations:	That the reported treasury activity and performance be noted.
Links to Community Strategy:	The Treasury Management function of the Council underpins the ability to deliver the Council's priorities.
Policy Implications:	In line with Council Policies.
Financial Implications: **(Authorised by the Section 151 Officer)**	The achievement of savings on the cost of financing the Council's debt through repayment, conversion and rescheduling, together with interest earned by investing short term cash surpluses, is a crucial part of the Council's medium term financial strategy. This has to be carefully balanced against the level of risk incurred. The Council held £95.860m of investments as at 30 September 2018 and the investment portfolio yield to date is 0.77% against the London Interbank Bid Rate (LIBID) benchmark of 0.43%. This represents an actual cash increase of £0.187m against benchmark. The Council keeps an average of around 76% of funds in fixed term investments, and the average length of these fixed term investments in 2018/19 to date has been 356 days, compared to 229 days in 2017/18. This has included a small number of investments placed with other Local Authorities for periods in excess of one year in order to achieve an enhanced return.
Legal Implications: **(Authorised by the Borough Solicitor)**	As there is a statutory duty for the Council to set, monitor and comply with its requirements to ensure a balanced budget, sound treasury management is a key tool in managing this process. Demonstration of sound treasury management will in turn provide confidence to the Council that it is complying with its fiduciary duty to the public purse, and in turn allows the Council to better plan and fulfil its key priorities for the coming year. Members should ensure they understand the meaning of Appendix 1 and the outturn of prudential indicators they are being asked to approve, and the reasons for the same, before making their decision.

Risk Management:	Failure to properly manage and monitor the Council's loans and investments could lead to service failure and loss of public confidence.
Access to Information:	The background papers relating to this report can be inspected by contacting Heather Green, Finance Business Partner by:

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1. BACKGROUND

1.1 Cash-flow management is a core element of the Council's financial management activities. The Council operates a balanced budget, which broadly means cash raised during the year will meet cash expenditure. Treasury Management operations firstly ensure that cash flow is adequately planned, with short term surplus funds being invested. The investment strategy priorities are security (i.e. there is a low risk that the counterparty will default on the Council's investment), then liquidity (cash flow needs), and lastly, yield – providing adequate liquidity initially before considering maximising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital investment plans, agreed as part of the annual budget setting process and updated throughout the financial year. These capital plans provide a guide to the borrowing need of the Council, essentially this is the long term cash flow planning to ensure the Council can meet its capital spending requirements. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk management or cost reduction objectives.

1.3 Accordingly, treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

2. INTRODUCTION

2.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) was adopted by this Council on 8 February 2012. The primary requirements of the Code are as follows:

i. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

ii. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

iii. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, **a Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.

iv. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

v. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Overview (Audit) Panel.

2.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2018/19;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;

- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19;

3. ECONOMIC UPDATE

3.1 The following economic update is provided by the Council's treasury management advisors, Link Asset Services (formally known as Capita Asset Services):

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2 August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

In the USA, President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the *recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.*

Eurozone growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

Economic growth in China has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

3.2 Link Asset Service's view on the outlook for the remainder of 2018/19 is as follows:-

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.

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

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- *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.*
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- *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.*

- *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.*
- *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.*
- *Weak capitalisation of some European banks.*
- *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.*
- *Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.*

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

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

3.3 Link Asset Service's view on the anticipated future movement in interest rates is shown below.

Link Asset Services Interest Rate View	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

4. TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY UPDATE

4.1 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Council on 7 February 2018.

4.2 There are no required policy changes to the TMSS; the details in this report update the position in the light of the current economic position and budgetary changes already approved.

4.3 The Council has moved to a more diverse portfolio involving more foreign banks and more longer-duration investments in order to achieve an enhanced return in the current low interest rate environment. All counterparties used have been selected on the basis that they are highly rated and meet the criteria set out in the Council's Treasury Management Strategy.

5. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

5.1 The Prudential Indicators are reported on a quarterly basis as part of the Capital Monitoring process. The Prudential Indicators show the current position against the Prudential Indicator limits initially set as part of the 2018/19 Budget Report.

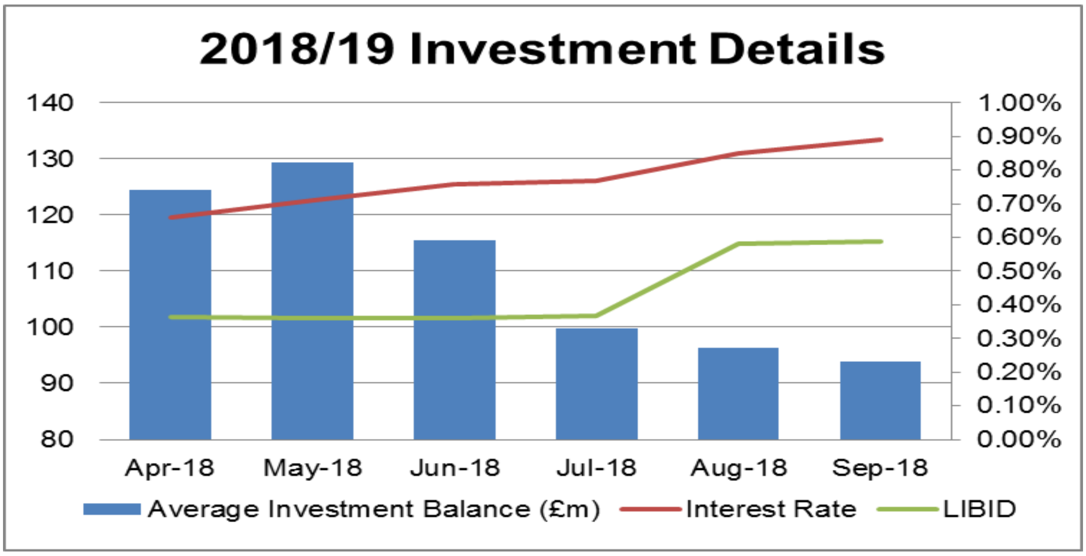
5.2 The indicators are updated from the Capital Programme as at 30 September 2018, showing the Council's capital expenditure plans and how these plans are being financed. Any changes in the capital expenditure plans will impact of the on the prudential indicators and the underlying need to borrow.

5.3 The current prudential indicator position is shown as **Appendix 1** of this report. All the indicators are within the set limits showing that the Council's borrowing strategy remains a prudent one.

6. INVESTMENT PORTFOLIO 2018/19

6.1 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. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the Bank of England Base Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

6.2 The Council held £95.860m of investments as at 30 September 2018, with an investment portfolio yield to date of 0.77% against LIBID of 0.43%. At 31 March 2018 the portfolio consisted of £127.075m of investments. The reduction is largely driven by capital investment (£18m as at 30 September) and a reduction in the balances held on behalf of GMMDAF. The below graph illustrates the change in investment balances over time along with the change in actual interest and LIBID:



6.3 The portfolio as at 30 September 2018 was as follows:

Investment Type	Total Invested	Weighted Average Duration	Weighted Average Interest Rate
	(£m)	(days)	(%)
Money Market Funds	11.360	n/a (overnight)	0.73
Banks (fixed)	20.000	275	0.75
Banks (notice)	10.000	95	0.95
Local Authorities	54.500	368	0.96
Total	**95.860**		

6.4 As outlined in paragraph 4.3, above, this return has largely been earned due to an increased number of longer-duration investments. This has included a small number of investments placed with other Local Authorities for periods in excess of one year in order to achieve an enhanced return. The average fixed term investment placed by the Council in 2018/19 to date has been 356 days, compared to 229 days in 2017/18. In the first six months of the year an average of £83m (or 76% of total available funds) has been in fixed investments, with the remainder placed on notice or in instant access funds.

6.5 The Assistant Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2018/19.

6.6 The Council's 2018/19 budget shows that external loans will incur interest charges of £5.963 and £0.130m will be paid to various Council funds such as the Insurance Fund. Investment income to be earned during the year is estimated to be £1.360m, which will reduce these costs to give a net interest charge budget of £4.732m.

6.7 As outlined in the Treasury Management Strategy, the Council uses the Link Asset Services creditworthiness service to inform counterparty selection.

6.8 The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

6.9 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

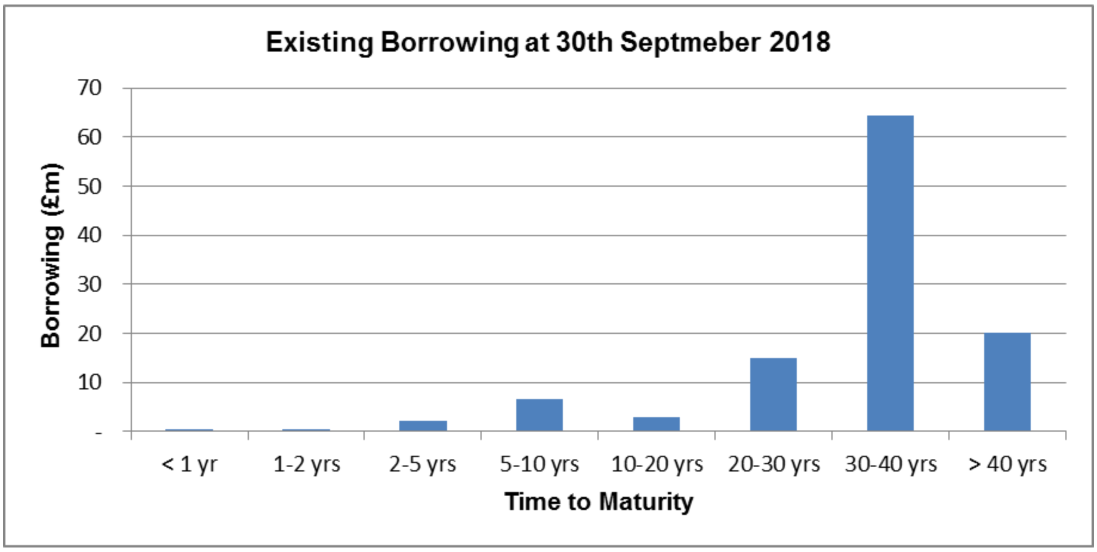
6.10 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

6.11 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, and information on any external support for banks to help support its decision making process.

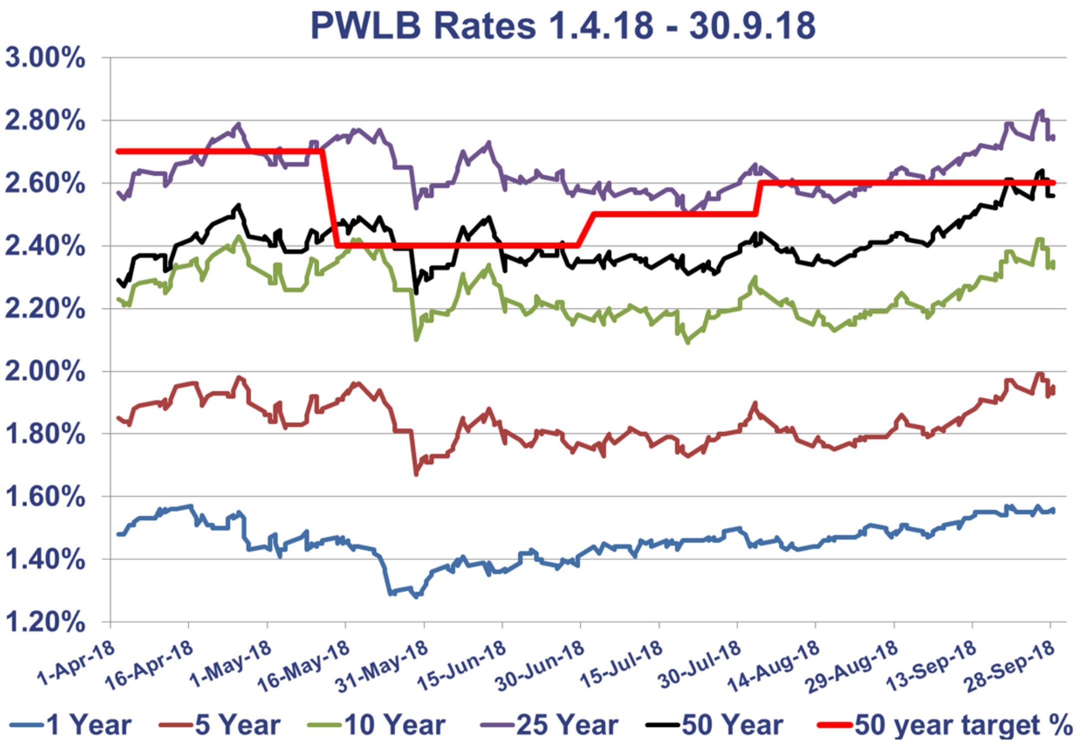
7. BORROWING

7.1 As at 30 September 2018 the Council's total borrowing is £111.852m. The maturity profile is as follows:



7.2 The Council's capital financing requirement (CFR) at 31 March 2018 is £191.071m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the Public Works Loan Board or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

7.3 The Council had an outstanding borrowing requirement of £68.709m at 31 March 2018 which is estimated to increase to £69.464m at 31 March 2019. This outstanding borrowing requirement has been funded from internal balances on a temporary basis and has the impact of reducing the level of the Council's investment balances. This continues to be a prudent and cost effective approach in the current economic climate.



7.4 The table above shows the movement in Public Works Loan Board borrowing rates for the first half of 2018/19. No borrowing has been taken up in year from the Public Works Loan Board or financial institutions, although rates continue to be closely monitored.

7.5 The Council may take up some of the outstanding borrowing requirement in the second half of the year, should an opportune moment occur. All borrowing decisions will be taken in consultation with the Council's treasury management advisors.

8. MINIMUM REVENUE PROVISION

8.1 The amount of long-term debt that the Council may have is governed by the Prudential Limits set by the Council at the start of the financial year. This is based on the amount of borrowing which the Council has deemed to be prudent. It also allows for advance borrowing for future years' capital expenditure.

8.2 The Council must also allow for repayment of the debt, by way of the Minimum Revenue Provision (MRP). This is the minimum amount that the Council must set aside annually. The Local Authority (Capital Finance and Accounting) Regulations 2008 revised the previous detailed regulations and introduced a duty that an authority calculates an amount of MRP which it considered prudent, although the 2008 Regulations do not define "prudent provision", they provide guidance to authorities on how they should interpret this.

8.3 In 2015/16 the Council's MRP policy was revised from the previous practice (4% of the capital finance requirement on a reducing balance basis) to a straight line method of 2% of the 2015/16 capital financing requirement over a period of 50 years.

8.4 Any new prudential borrowing taken up will be provided for within the MRP calculation based upon the expected useful life of the asset or by an alternative approach deemed appropriate to the expenditure in question. This will continue to be reviewed on an ongoing basis.

8.5 For any finance leases and any on-balance sheet public finance initiative (PFI) schemes, the MRP charge will be equal to the principal repayment during the year, calculated in accordance with proper practices.

8.6 There will be no MRP charge for any cash backed Local Authority Mortgage Scheme (LAMS) that the Council operates. As for this type of scheme, any future debt liability would be met from the capital receipt arising from the deposit maturing after a 5 year period. Any repossession losses for this type of scheme would be charged to a LAMS reserve.

8.7 The MRP policy was updated as part of the 2018/19 Treasury Management Strategy to clarify the Council's position on loans to third parties. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor; typically long term depending on the life of the loan. The only expenditure consequence of a loan for an authority is the interest on its cash shortfall whilst the loan is outstanding, so provision for the principal amount would be over-prudent until such time as the assumption has to be made that the loan will not be repaid.

9. DEBT RESCHEDULING

9.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2018/19.

10. REVISED CODES AND GUIDANCE

10.1 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 high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial stability

10.2 A report setting out the Council's Capital Strategy will be taken to Cabinet before 31 March 2019.

11. MONEY MARKET FUND REFORM

11.1 The EU legislation on Money Market Funds passed in July 2017 comes into force in January 2019. The new rules will remove the existing Constant Net Asset Value (CNAV) Money Market Funds (MMFs) and replaces them with a new class of Low Volatility Net Asset Value (LVNAV) MMFs. In theory the capital invested in these new LVNAV funds is susceptible to changes in value; however, in practice it is highly unlikely that any such changes will occur and these funds are expected to perform in a near identical fashion to the CNAV ones currently in use.

11.2 The LVNAV funds will maintain the AAA credit rating held by the existing funds, and should in fact be more secure due to the increased restrictions placed upon the underlying investments held by the funds.

12. GREATER MANCHESTER METROPOLITAN DEBT ADMINISTRATION FUND (GMMDAF)

12.1 Tameside Council is the lead council responsible for the administration of the debt of the former Greater Manchester County Council, on behalf of all ten Greater Manchester Metropolitan Authorities. All expenditure of the fund is shared by the authorities on a population basis.

12.2 Unlike Tameside the GMMDAF incurs no capital expenditure, and therefore the total debt outstanding reduces annually by the amount of debt repaid by the constituent authorities. However, loans are raised to replace those maturing during the year, and for cashflow purposes.

12.3 At 31 March 2018 the fund had the following outstanding debt.

	£m
Public Works Loan Board	64.963
Pre 1974 Transferred Debt	0.161
Temporary Loans / (Investments)	9.116
Other Balances	2.303
Total Debt	76.543

12.4 The fund's borrowing requirement for 2018/19 is estimated to be:-

	£m
Long term debt maturing	
Public Works loan Board	16.000
Other	0.036
	16.036
Less principal repayments	(17.021)
Deficit/ (Surplus) in year	(0.985)

12.5 The surplus in year is a result in timing differences between PWLB repayments and the principal repayments from the districts. It will be used to offset an existing deficit from prior years.

12.6 During 2018/19 it is estimated that the total interest payments will be £4.039m at an average interest rate of 5.28%. This compares with 4.74% in 2017/18.

12.7 No long term borrowing has been taken up in the first six months of 2018/19. However, loans may be taken up for either re-scheduling or borrowing early for future years, if prevailing rates are considered attractive. This is now highly unlikely given the limited remaining life of the Fund.

13. RECOMMENDATIONS

13.1 As set out on the front of the report.

APPENDIX 1

Prudential Indicators

Actuals v limits as at 30 September 2018

	Limit	Actual	Amount within limit
	£000s	**£000s**	**£000s**
Operational Boundary for External Debt	205,276	111,998	(93,278)
Authorised Limit for External Debt	225,276	111,998	(113,278)

These limits include provision for borrowing in advance of the Council's requirement for future capital expenditure. This may be carried out if it is thought to be financially advantageous to the Council.

	Limit	Actual	Amount within limit
	£000s	**£000s**	**£000s**
Upper Limit for fixed	191,071	12,502	(178,569)
Upper Limit for variable	63,690	(61,505)	(125,195)

These limits are in respect of the Council's exposure to the effects of changes in interest rates.

The limits reflect the net amounts of fixed/variable rate debt (i.e. fixed/variable loans less fixed/variable investments).

	Limit	Actual	Amount within limit
	£000s	**£000s**	**£000s**
Capital Financing Requirement	191,071	191,071	-

The Capital Financing Requirement (CFR) is aimed to represent the underlying need to borrow for a capital purpose and is calculated from the aggregate of specified items on the balance sheet. The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment.

	Limit	Actual	Amount within limit
	£000s	**£000s**	**£000s**
Capital expenditure	153,711	18,539	(135,172)

This is the estimate of the total capital expenditure to be incurred.

Gross borrowing and the capital financing requirement	CFR @ 31/03/18 + increase years 1,2,3	Gross borrowing	Amount within limit
	£000s	**£000s**	**£000s**
	191,071	111,998	(79,073)

To ensure that medium term debt will only be for capital purposes, the Council will ensure that the gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement (CFR).

Maturity structure for borrowing 2017/18 Fixed rate		
Duration	**Limit**	**Actual**
Under 12 months	0% to 15%	0.29%
12 months and within 24 months	0% to 15%	0.31%
24 months and within 5 years	0% to 30%	1.93%
5 years and within 10 years	0% to 40%	5.86%
10 years and above	50% to 100%	91.62%

These limits set out the amount of fixed rate borrowing maturing in each period expressed as a percentage of total fixed rate borrowing. Future borrowing will normally be for periods in excess of 10 years, although if longer term interest rates become excessive, shorter term borrowing may be used. Given the low current long term interest rates, it’s felt it is acceptable to have a long maturity debt profile.