Appendix 2

Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by the Council on 19th January 2017, (Governance and Audit Committee 9th December 2016 recommendation to Full Council).

The details in this report update the position in light of the updated economic position and budgetary changes already approved.

Prudential Indicator 2017/18	Original £m	Revised Prudential Indicator £m
Authorised Limit	£8.758m	£8.758m
Operational Boundary	£8.508m	£8.508m
Capital Financing Requirement	-	-

The difference between the Authorised limit and the operational boundary is the overdraft which is £0.250m

The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	2017/18 Original Estimate £m	2017/18 Revised Estimate £m	Current Spend @ 31.10.17 £m	2017/18 Forecast Out-turn £m
Commercialisation	5.161	5.181	0.344	3.734
Strategy and Governance	0.622	0.622	0.381	0.500
Place	3.059	3.070	0.985	1.991
Capital Loans	0.636	1.074	0.372	0.610
Total	9.478	9.947	2.082	6.835

The revised estimate includes any approved changes since the 17-18 budgets were set. The forecast position and current year estimate reflect the latest figures which are being put forward for approval as part of the budget setting process.

Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision or MRP). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2017/18 Original Estimate £m**	**Current Spend @ 31.10.17 £m**	**2017/18 Revised Estimate £m**
Supported	9.478	2.082	9.947
Unsupported	-	-	-
Total spend	9.478	2.082	9.947
Financed by:			
Revenue	0.008		0.008
Capital grants	3.997		3.666
Capital reserves	4.837		5.199
Capital Loans repaid	0.636		1.074
Total financing	9.478		9.947
Borrowing need	**Nil**		**Nil**

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement
We are on target to achieve the original forecast Capital Financing Requirement.
Prudential Indicator – External Debt / the Operational Boundary

	2017/18 Original Estimate £m	**Current Position £m**	**2017/18 Revised Estimate £m**
Prudential Indicator – Capital Financing Requirement			
Total CFR	-	-	-
Net movement in CFR	**-**	**-**	**-**
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	-	-	-
Other long term liabilities*	8.508	8.508	8.508
Total debt 31 March	**8.508**	**8.508**	**8.508**

* On balance sheet PFI scheme.

Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2017/18 Original Estimate £m	Current Position £m	2016/17 Revised Estimate £m
Plus other long term liabilities*	8.508	8.508	8.508
Gross borrowing	-	-	-
CFR* (year end position)	-	-	-

* The leisure PFI scheme is on balance sheet and increases the CFR. This does not affect the Council's debt position (which remains nil) as the debt facility embedded in the PFI will be repaid over the life of the scheme.

The Executive Director Commercialisation reports that no difficulties are envisaged for the current year in complying with this prudential indicator and future year's pressures will be managed through the budget process.

A further prudential indicator 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 desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2017/18 Original Indicator £m	Current Position £m	2017/18 Revised Indicator £m
Borrowing (Bank overdraft)	0.250	-	0.250
Other long term liabilities*	8.508	8.508	8.508
Total	8.758	8.758	8.758

* On balance sheet PFI scheme.

<u>Investment Portfolio 2017/18</u>
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 Appendix 1, it is a very difficult investment market in terms of earning interest. Rates remain low with the bank rate at 0.50% (as of 2/11/2017). Given the risk environment, investment returns are likely to remain low.
The Council held £28.023m of investments as at 31 October 2017 (£23.581m at 31 March 2017) and the investment portfolio yield for the first six months of the year is 0.968% (including capital loans) against a benchmark (3 month LIBID – London Inter-bank Bid rate) of 0.179 %.

The Executive Director Commercialisation confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.

The Council's budgeted investment return for 2017/18 is forecast to be £203,184 which is in line with the revised budget.

Investment Counterparty criteria
The Council continues to use Link Asset Services colour coding methodology to select suitable counterparties.

Borrowing
The Council does not currently have any external borrowing, details on the PFI and the CFR are detailed earlier in this appendix.