Report of the Director Governance and Partnerships **APPENDIX 1**

Meeting 24 September 2019

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

Treasury Management Annual Report 2018/19

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 This is a report on treasury performance during 2018/19. The benchmark for measuring performance is the treasury strategy which the council set at its meeting on 1 March 2018.

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1.2 The report covers

- The legal and regulatory framework
- How the council performed

1.3 The key points are that the council has

- Sought to minimise cash balances
- Undertaken borrowing throughout the period predominantly via the inter-Local Authority market which offers access to short-term funding at low rates, generating c£2m in-year savings against budget.
- Kept capital financing costs to below 10% of the revenue stream
- Generated an average return of 0.53% for the year

2. **BACKGROUND INFORMATION**

2.1 The annual treasury management and investment strategy was prepared in line with

- CIPFA Code of Practice in the Public Service Fully Revised 2017
- CIPFA The Prudential Code Fully Revised 2017
- MHCLG Guidance
- Local Government Act 2003

3. **OPTIONS FOR CONSIDERATION**

3.1 That Council receive the annual Treasury Management Report 2018/19.

How the council performed

3.2 The Treasury Strategy envisaged a need for additional borrowing in 2018/19. There were a number of transactions throughout the year as a result via the

short-term inter-local authority marketplace and, for longer-term loans, the Public Works Loan Board (PWLB). The total value of new loans transacted in the period was £51m.

Throughout the year efforts were made to keep investment balances at a level that didn't materially increase credit risk carry but also ensured that the Council's liquidity needs were comfortably met. Higher average balances and a further rate increase in August meant that interest received was up on the same period last year, £130k compared to £35k. The average borrowing rate increased slightly from 3.3% to 3.4%.

3.3 The key investment statistics follow:

- The level of cash flow balances meant that most investments had to be made short term to manage liquidity risk and use was made of UK Government Treasury Bills in order to take early advantage of rising rates where possible.

- During the period the Council continued its previous strategy of moving the majority its investments away from bank deposits into diversified Money Market Funds and UK Government Treasury Bills.

- The closing investment balance was £13m, a decrease of £3.9m on the starting balance of £16.9m after borrowings increased by £5.6m in the same period.

- Temporary borrowing was taken regularly during the period to meet cash flow need. However, as the Council's internal borrowing capacity had been full deployed as at 1.4.2018 this borrowing is expected to be replaced by long term borrowing in the future and 3 longer-term loans were taken during the period to lock-in historically low rates at an average rate of 2.42%. Whilst liquidity and rates available from the inter-Local Authority market still make it the most advantageous route to securing borrowing further long term borrowing will be considered in 2019-20 subject to market rate and need.

- The projected outturn for debt financing costs of for the year stood at £10.2m. The percentage of revenue stream represented by this cost remained below the council's guideline range of 10% - 12%.

- Total debt of £188m at 31st March 2018 was reduced by repayments of £45.4m in year, with new/replacement debt added to leave total debt outstanding of £193.6m at 31 March 2019.

- Total debt was within the authorised and operational boundaries set in the strategy and the maturity profile of debt also remained within the limits set.

4. ANALYSIS OF OPTIONS

4.1 This is a report on past performance and there are no options to consider. However 2018/19 has seen an extension of external borrowing to meet short and defer long-term needs as anticipated in the Treasury Strategy.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 The financial implications to this report are covered in section 3.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Not applicable

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 No impact assessment is required for the purpose of this report.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9. RECOMMENDATIONS

9.1 That the Council notes the Treasury Management performance for the 2018/19 financial year.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report
2018-19 Treasury Management Strategy
2017-22 Capital Programme
CIPFA Code of Practice in the Public Service Fully Revised 2017
CIPFA The Prudential Code Fully Revised 2017
MHCLG Guidance
Local Government Act 2003

Appendix 1

Annual Treasury Report 2018/19

North Lincolnshire Council

www.northlincs.gov.uk

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Key Messages:

All investment and borrowing transactions were in line with the Approved 2018-19 treasury Strategy.

A strategy of delaying long-term borrowing through use of temporary borrowing from other local authorities, combined with lighter than anticipated capital spend, generated a single year saving of £2m in borrowing costs. This saving was used to alleviate budget pressures elsewhere in the organisation.

Outturn for Investment income for the year exceeded budget despite historically low rates for most of the financial year.

2018-19 also saw changes to key accounting frameworks and statutory guidance covering Treasury activity.

Chief Finance Officer Overview

The priority for Treasury Management at North Lincolnshire Council is to protect capital rather than to maximise return. It is important to maintain an effective balance of risk in the interest of the public purse. The Treasury Strategy provides the framework to ensure that this is achieved.

The 2018/19 Treasury environment is shaped by national government policy and wider economic factors. Domestic economic data was mixed but on occasion demonstrating an upside with consumer confidence, employment levels and inflation remaining relatively firm. The combination of these factors influenced the Bank of England to raise rates by one-quarter percent in August but the continuing national uncertainties served to stymie any further moves.

The projection of gradual rises in interest rates that formed the Bank of England Monetary Policy Committee's (MPC) guidance at the start of the period eased through the year and the market implied path began to separate from the Bank's published guidance. As the Council's borrowing rates are directly linked to market expectations this divergence of views potentially provides an opportunity to capture some of the value in prevailing rates that still remain close to all time lows. With the Council's Capital Programme and re-financing commitments requiring £130m of new borrowing over the next few years, our ability to secure good value in our borrowing has significant implications for future spending plans.

The Strategy of maintaining a simple, low-risk, portfolio of treasury investments provided a level of comfort throughout the unprecedented events – both here and abroad – whilst still delivering an above budget income.

Becky McIntyre, Director of Governance and Partnerships

September 2019

Key Messages:

No Treasury activity is without risk. These risks include, but are not limited to, Credit Risk, Liquidity Risk, Interest Rate Risk, Inflation Risk and Reputational Risk.

The Council uses in-house knowledge, advisors, treasury management software (Treasury Live) and the CIPFA Treasury Management Code to manage these risks.

Introduction and External Context

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to treasury management reports by the Audit Committee prior to reporting to full Council. Member training on treasury management issues was undertaken during 2018/19 in order to support members' scrutiny role.

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

Key Messages:

The UK Official Bank Rate was raised to 0.75% from 0.50% in August 2018. However our borrowing rates increased somewhat prior to this date as markets priced in the expectation of a rise.

As of 8 May 2019 our advisors, Link Asset Services are forecasting the next Bank Rate increase in March 2020, to be followed by further increases in September 2020, June 2021 and March 2022.

Introduction and External Context

Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth was reported as weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Exit from the EU due in March 2019.

Regulatory changes introduced in 2018-19

CIPFA Prudential Code - In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions focused on non-treasury investments and especially on the purchase of property with a view to generating income. CIPFA issued a statement that accepted the issue of revised codes in December 2017 will have made it very difficult for most authorities to implement both codes for the 2018/19 budget cycle. Full implementation was not expected until the 2019/20 budget cycle across all authorities.

The Ministry for Housing, Communities and Local Government (MHCLG) Guidance - The MHCLG investment guidance was issued on 2.2.18. This again focused particularly on non-financial asset investments. As our Treasury Reports deal solely with treasury type investments, non-financial assets have been excluded from this report.

Review of non-treasury and non-financial assets will be reported separately within the Capital Strategy governance framework.

Key Messages:

We have an increasing CFR over the next four years due to the capital programme, and with reduced investments will therefore need to borrow up to £30m over the next few years. An additional £100m will be required to replace maturing loans.

The overall level of investment balances held has remained low in recent years, as the Council used internal borrowing to both defer more expensive long-term borrowing and reduce it's credit risk exposure.

Since the 2008 financial crisis the Council has adopted a cautious approach whereby investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

Local Context

The level of cash balances held by the Council requires us to place shorter term deposits (less than six months) which attract lower rates of interest than longer term deposits. However, when the Base Rate went up in August, our investment returns did improve even with these shorter term deposits. Conversely, borrowing costs also increased.

Gross borrowing and the Capital Financing Requirement (CFR) - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council must ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator does still allow the Council some flexibility to borrow in advance of its immediate capital needs in 2019/20 should it desire.

The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2018 Principal	Rate/ Return	Average Life yrs		31 March 2019 Principal	Rate/ Return	Average Life yrs
Total debt	*£188.0m*	*3.18%*	*9.0*		*£193.6m*	*3.24%*	*9.3*
Capital Financing Requirement (CFR)	*£211.6m*				*£235.1m*		
Over / (under) borrowing	*(£23.6m)*				*(£41.5m)*		
Total investments	*£16.9m*	*0.40%*	*0.00*		*£13.0m*	*0.59%*	*0.02*
Net debt	£171.1m				£180.6m		

At 31/03/2019, the Authority had £194m of borrowing (up £5.6m from previous year) as a result of funding previous years' capital programme and £13m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying (CFR) levels, referred to as internal borrowing, subject to holding a minimum investment balance of £10m.

Key Messages:

When undertaking new borrowing the Council will review both the source and tenure of loans it seeks to take.

At 31/03/2019 the Council held £194m of loans, (up £6m from previous year) as a result of funding previous years' capital programmes.

The Council's current borrowing portfolio is contains a significant proportion of short-term maturity debt. Whilst this provides some flexibility to restructure debts, should plans and finances change, it does represent real interest rate risk as rate forecast suggest an upward path in the medium term. Regular transactions to 'lock-in' current low rates for the long term were undertaken to manage this risk.

Borrowing Strategy

During 2018-19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Council determined it remained cost effective in the short-term to use internal resources instead.

The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt. These considerations formed part of our regular discussions with our Treasury Advisors, Link Asset Services and resulted in the Council 'locking in' historically low rates on a portion of borrowing taking during the year – shown in the 3 PWLB transactions in the Table overleaf. It is likely that this approach to managing interest rate risk will be extended in 2019-20, subject to market developments.

Key Messages:

Borrowing short-term from other local authorities provides a useful balance alternative below current fixed rates and with the ability to exit loans within a reasonable timeframe.

Borrowing Strategy

Borrowing – the following loans were taken during the year: -

Counterparty	Update Date	Start Date	Maturity Date	Principal	Effective Rate
Swansea City and Borough Council	06/04/2018	03/04/2018	25/09/2018	£3,000,000.00	0.7500%
Swansea City and Borough Council	06/04/2018	05/04/2018	05/10/2018	£5,000,000.00	0.7500%
Swansea City and Borough Council	06/04/2018	12/04/2018	22/08/2018	£2,000,000.00	0.5600%
Blaby District Council	12/04/2018	20/04/2018	19/07/2018	£2,000,000.00	0.6000%
Blaby District Council	23/04/2018	30/04/2018	29/04/2019	£2,000,000.00	0.8500%
Vale of Glamorgan Council	19/07/2018	28/08/2018	28/02/2019	£2,000,000.00	0.6500%
North East Combined Authority	15/10/2018	30/04/2018	29/04/2019	£5,000,000.00	0.8500%
Teesside Pension Fund	17/10/2018	19/10/2018	18/04/2019	£3,000,000.00	0.8500%
PWLB	12/12/2018	13/12/2018	13/12/2054	£3,000,000.00	2.5000%
PWLB	08/02/2019	12/02/2019	12/08/2053	£5,000,000.00	2.4500%
Vale of Glamorgan Council	05/03/2019	14/03/2019	21/06/2019	£3,000,000.00	0.9800%
Broxbourne Borough Council	06/03/2019	20/03/2019	21/06/2019	£1,000,000.00	0.9800%
Swindon Borough Council	25/03/2019	27/03/2019	28/05/2019	£4,000,000.00	0.8500%
PWLB	25/03/2019	25/03/2019	25/09/2052	£5,000,000.00	2.3400%
Bridgend County Borough Council	27/03/2019	29/03/2019	27/09/2019	£2,000,000.00	1.0000%
Swansea City and Borough Council	27/03/2019	28/03/2019	25/09/2019	£4,000,000.00	0.9500%
				£51,000,000.00	1.2292%

Borrowing short-term from other local authorities provides a useful balance alternative below current fixed rates and with the ability to exit loans within a reasonable timeframe.

No rescheduling was undertaken during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Key Messages:

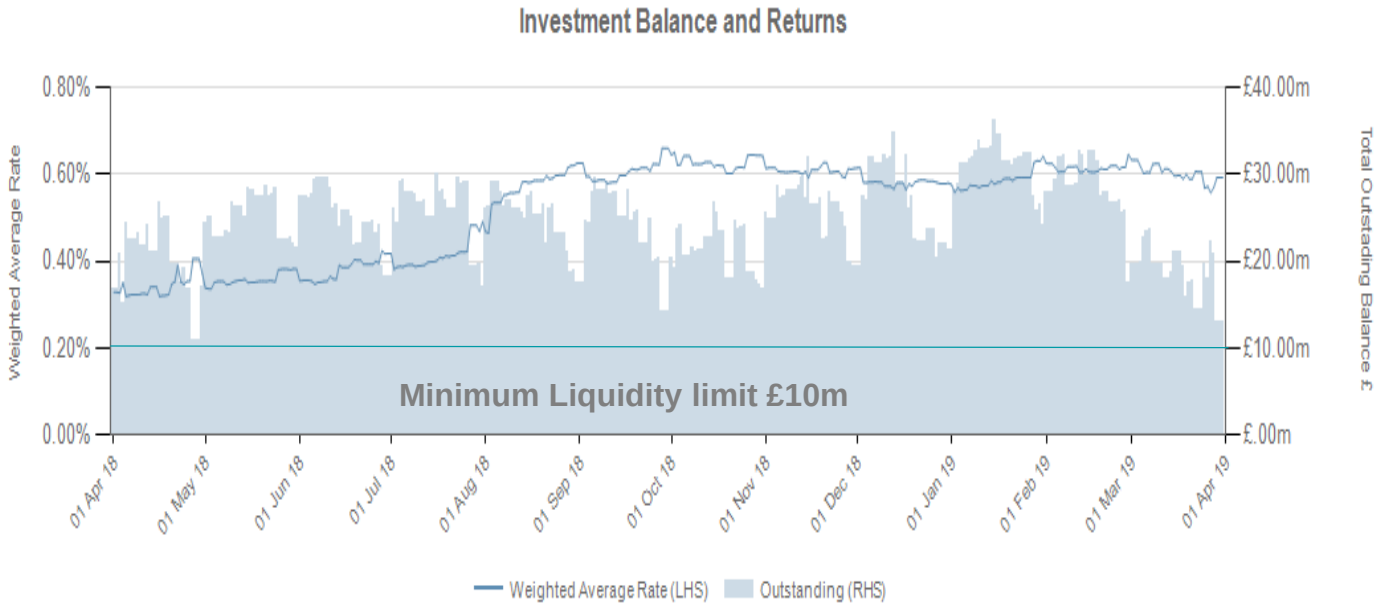
The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

All other things being equal we would expect to see balances fall each year by the amount of corporately funded capital expenditure less any new borrowing.

In 2018-19 a minimum cash level of £10m was targeted, recognising the large payments expected by the approved capital programme.

Investment Activity

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19 investment balances ranged between £10.9m and £36.4 million.



Investment Policy – the Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council in February 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

Investment activity during the year conformed to the Investment Strategy for 2018/19 which aimed to reduce risk by;

- Setting value and term limits for counterparties based on Credit rating, available collateral and sector.
- Utilising data tools available via Treasury Live and Link Asset Services to monitor risk.
- Ensuring a minimum level of liquidity was maintained to allow payments to be made as they fell due

Key Messages:

Counterparty credit quality is assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A-; credit default swap prices, financial statements, information on potential government support and reports from quality financial news feeds.

Budgeted income from Investments was over-achieved, indicating a more cautious approach and low market yields generally did not have an adverse impact of budgets.

Investment Activity

Investments	Balance on 01/04/2018 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2019 £m	Avg Rate/Yield (%) and Avg Life (years)
UK Government:					
- DMADF	2.5	270.8	(267.3)	6.0	0.43% 8 days
- Treasury Bills	-	65.8	(65.8)	-	0.57% 16 days
Direct Unsecured Investments (call accounts, deposits) with financial institutions					
- rated A- or higher	10.4	105.8	(111.8)	4.4	0.50% at Call
- rated below A-	-	-	-	-	
Tradable Investments with Financial institutions Corporates (CDs) rated A- or higher	-	-	-	-	-
Money Market Funds	4.0	38.7	(40.1)	2.6	0.61% at Call
TOTAL INVESTMENTS	**16.9**	**481.1**	**(485.0)**	**13.0**	**0.53% 6 days**
Increase/ (Decrease) in Investments £m				(3.9)	

Given the increasing risk and continued low returns from short-term unsecured bank investments, but not having funds available for longer-term investment, the Council is unable to simply diversify into more secure and/or higher yielding asset classes such as repurchase agreements or covered bonds which are secured on financial assets. Eliminating Credit Risk by running down balances whilst still maintaining adequate liquidity is therefore a key strand of operational activity.

The Council maintained an average balance of £25m (£17m) of internally managed funds during the year. These internally managed funds earned an average rate of return of 0.53% (0.20%). The comparable performance indicator is the 7-day LIBID rate, which averaged 0.51%. The rate increase in August and consistent performance meant income budgets were still exceeded for the year despite the small fall in average balances.

Key Messages:

Figuratively the Council's risk profile remained fairly steady during the year.

Compared to other Local Authorities NLC is taking less credit risk and investing it's funds for shorter durations. The trade-off however, is lower average return.

The short-dated nature of the Council's investments also allowed tweaks to be made in-year as the possibility of a 'no deal' exit from the EU rose in the run up to the original expiry date for Article 50 on 29th March.

Investment Activity (contd.)

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating
31/03/2018	4.52	A+
30/06/2018	2.51	AA
30/09/2018	2.82	AA
31/12/2018	3.46	AA
31/03/2019	3.89	AA-

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

In the run up to the anticipated expiry of Article 50 on 29 March we sought to mitigate any potential liquidity issues as a result of a loss of access to monies held within EU-domiciled Money Market Funds by steadily reducing our reliance on these vehicles from September onwards. As these funds are nominally designated AAA-rated, the impact of rotating funds into UK Government (AA-rated) can be seen clearly in the last 2 quarters of the year in the table above. The UK's formal exit did not occur at the end of March but, nonetheless, this approach evidences our intent to adopt a more proactive and holistic approach to portfolio management, and not just rely on a single group of credit indicators.

MHCLG have since confirmed that our Funds will be able to continue operation as normal post any future formal exit date as part of transition arrangements, this was enshrined into law on 28th March 2019.

Key Messages:

In an environment where direct unsecured bank deposits present increased risk but low return NLC has sought to avoid this imbalance by utilising UK Government based investments and diversified funds.

Ultimately we seek to minimise counterparty risk by limiting our cash levels whilst still maintaining adequate liquidity.

There were no operational breaches a TMSS limits during the period.

Investment Activity (contd.)

Benchmarking

- Comparisons are made to other Authorities using the Treasury Live database which looks at £6bn of local Authority investments. As at the outturn date this shows that other Authorities:-
  - Hold more cash than NLC. Average balance £84m (estimated) vs £13m at NLC
  - Invest for longer periods. 222 days on average vs only 5 days at NLC
  - Take more risk.
  - Deliver higher return than 0.92% vs 0.59%

- Whilst the above shows the greater return generated by term premiums the Council is of the view that, in a post Bail-in environment elimination of credit risk through lower balances is worth lower overall return. NLC also recognises that this strategy needs to ensure it does not replace credit risk with liquidity risk and so a liquid balance of £10m was maintained.

Operational Breaches

- There were no breaches of limits set within the TMSS during the year.

Key Messages:

The Council confirms compliance with its Prudential Indicators for 2018/19, which were set in February as part of the Council's Treasury Management Strategy Statement.

Compliance with Prudential Indicators

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual*	84%	79%	100%
Upper limit on variable interest rate exposure	40%	40%	40%
Actual*	23%	23%	-

*= Peak position for 2018/19

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	Upper	Lower	Actual
Under 12 months	40%	0%	23%
12 months and within 24 months	20%	0%	2%
24 months and within 5 years	50%	0%	9%
5 years and within 10 years	75%	0%	21%
Over 10 years	90%	25%	45%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Key Messages:

For 2018-19 a minimum cash level of £10m was targeted and there were no breaches of this or other indicators.

Compliance with Prudential Indicators (contd.)

Principal Sums Invested for Periods Longer than 364 days*: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£0m	£0m	£0m
Actual	£0m	£0m	£0m

*This indicator has been tweaked in recently issued Code of Practice/Guidance Notes. Going forward this indicator will be reported against 365 (rather than 364 days). This is not expected to make any material difference to limits or actuals.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	AA-

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 1 month	£10m	£13m

Key Messages:

Borrowing remains comfortably below control levels as a result of continued internal borrowing support for the Capital Programme.

Borrowing levels were projected to be £232.7m at the end of 2018/19 when the TMSS was set in March 2018. The actual position as at 31.3.2019 was £193.6m. The difference was due to Capital Spend being slower than anticipated during 2018/19.

Compliance with Prudential Indicators (contd.)

Other Prudential Indicators
The following prudential indicators are relevant to the treasury function as they concern limits on borrowing and the adoption of the CIPFA Treasury Management Code.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2018/19	2019/20	2020/21	2021/22
Borrowing	£272m	£255m	£266m	£268m
Other long-term liabilities	£3m	£2m	£3m	£4m
Total Debt	£275m	£257m	£269m	£272m

Authorised Limit for External Debt: The authorised limit is "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

Authorised Limit	2018/19	2019/20	2020/21	2021/22
Borrowing Limit	£310m	£283m	£296m	£298m
Other long-term liabilities	£5m	£5m	£7m	£10m
Total Debt Limit	£315m	£288m	£303m	£308m
Actual/projected Peak Debt levels	£194m (act)	£218m (est)	£217m (est)	£216m (est)

Adoption of the CIPFA Treasury Management Code: The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition in March 2018.

Key Messages:

The Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The Council confirms compliance with its Capital Finance Prudential Indicators for 2018/19, which were set in February as part of the its Treasury Management Strategy Statement.

Changes to the 2019/20 and later capital programme may occur as these are rolled forward in the coming months.

Compliance with Capital Finance Prudential Indicators

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Council's planned capital expenditure and financing as at 31 March 2019 may be summarised as follows.

Capital Expenditure and Financing	2018/19 Original £m	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Total Expenditure	66.7	60.7	61.5	24.0	21.0
Capital Receipts	5.2	5.1	7.1	3.5	3.0
External & Government Grants	28.4	27.2	30.7	11.8	9.3
Revenue Funding	0.1	0.1	0.1	0.0	0.0
Borrowing	33.0	28.3	20.6	8.7	8.7
Total Financing	60.7	60.7	61.5	24.0	21.0

Key Messages:

The percentage of the Council's income required to service it's debt came in below projections due to slippage in the capital programme and the effect of using short-term borrowing which came at lower interest rates.

Compliance with Capital Finance Prudential Indicators (contd.)

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2018/19 Revised Estimate %	2018/19 Actual %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
General Fund	9.29	8.6	9.66	11.16	11.28