EXECUTIVE **27 NOVEMBER 2017**

SUBJECT:	**TREASURY MANAGEMENT AND PRUDENTIAL CODE UPDATE REPORT – HALF YEAR ENDED 30 SEPTEMBER 2017**
REPORT BY:	**CHIEF EXECUTIVE**
LEAD OFFICER:	**SARAH HARDY, GROUP ACCOUNTANT**

1. Purpose of Report

1.1 This report covers the Council's treasury management activity and the actual prudential indicators for the period April 1st to September 30th 2017. This is in accordance with the requirements of the Prudential Code.

2. Executive Summary

2.1 Treasury Management position and performance results for the 6 months ended 30th September 2017.

2.1.1 Investment portfolio

The Council held £20.4 million of investments at 30th September 2017. The investment profile is shown in Appendix A.

Of this investment portfolio 95% was held in low risk specified investments, the requirement for the year being a minimum of 25% of the portfolio to be specified investments.

Liquidity – The Council seeks to maintain liquid short-term deposits of at least £3 million available with a week's notice. The weighted average life (WAL) of investments for the year was expected to be 0.19 years (69 days). At 30th September 2017 the Council held liquid short term deposits of £10.4 million and the WAL of the investment portfolio was 0.23 years (83 days). The increase in the WAL of the investment portfolio is due to a larger proportion of the portfolio being placed in longer term investments.

Security - The Council's maximum security risk benchmark for the portfolio as at 30th September 2017 is 0.007%, which equates to a potential loss of £0.0014m on an investment portfolio of £20.4m. This is slightly lower than the budgeted maximum risk of 0.008% in the Treasury Management Strategy (i.e. a potential loss of £0.002m). It represents a very low risk investment portfolio.

Yield – The Council achieved an average return of 0.31% on its investment portfolio for the 6 months ended 30th September 2017. This compares favourably with the target 7 day average LIBID at 30th September of 0.11% but it is significantly lower than the budgeted yield of 0.45% for 2017/18 in the MTFS 2017-22. The budgeted yield assumed an increase in the bank base rate. Since August 2016 the Bank of England base rate has remained at 0.25%, which has had an impact on investment rates.

2.1.2 **External borrowing**

At 30th September 2017 the Council held £75.354 million of external borrowing, of which 100% were fixed rate loans (Appendix A).

For the 6 months ended 30th September 2017, the Council achieved an average rate of 4.15% on its external borrowing. This is slightly lower than the budgeted rate set in the MTFS 2017-22; there has been no change to external borrowing during the first 6 months of the year.

3. Background

3.1 The prudential system for capital expenditure is now well established. One of the requirements of the Prudential Code is to ensure adequate monitoring of the capital expenditure plans, prudential indicators (PIs) and treasury management response to these plans. This report fulfils that requirement and includes a review of compliance with Treasury and Prudential Limits and the Prudential Indicators at 30th September 2017. The Treasury Management Strategy and Prudential Indicators were previously reported to and approved by Council on 1st March 2017.

3.2 This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.

3.3 This report highlights the changes to the key prudential indicators, to enable an overview of the current status of the capital expenditure plans. It incorporates any new or revised schemes previously reported to Members. Changes required to the residual prudential indicators and other related treasury management issues are also included.

4. Prudential Indicators

4.1 This part of the report is structured to provide an update on:

- 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.

4.2 Capital Expenditure

The table below summarises the changes to the capital programme that have been agreed by the Strategic Plan Implementation Team and approved by or subject to Executive approval since Council approved the original budget in March 2017.

Capital Expenditure	2017/18 Original Estimate £000	2017/18 Revised Estimate £000	2018/19 Original Estimate £000	2018/19 Revised Estimate £000	2019/20 Original Estimate £000	2019/20 Revised Estimate £000
General Fund	18,330	30,889	406	1,340	305	500
HRA	23,621	24,340	15,167	15,167	11,951	11,951
Total	**41,951**	**55,229**	**15,573**	**16,507**	**12,256**	**12,451**

There has been a significant increase in the estimates for the General Fund. This is largely due to the approval of the Lincoln Transport Hub scheme and the purchase of investment properties. Approval has also been given to refurbish Birchwood Leisure Centre. There have also been 2016/17 year-end re-profiles into 2017/18 for various schemes totalling £3.192m.

4.3 Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above) and the expected financing arrangements for this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council in the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt.

Indicators 1 & 2	2017/18 Original Estimate £000	2017/18 Revised Estimate £000	2018/19 Original Estimate £000	2018/19 Revised Estimate £000	2019/20 Original Estimate £000	2019/20 Revised Estimate £000
Capital Expenditure						
Total Spend	**41,951**	**55,229**	**15,573**	**16,507**	**12,256**	**12,451**
Financed by:						
Capital receipts	7,567	8,071	2,724	2,824	1,572	1,572
Capital grants & contributions	5,500	3,060	115	425	105	300
Major Repairs Reserve (Depreciation)	14,489	18,340	12,638	12,638	10,579	10,579
Revenue	3,126	519	0	0	0	0
Net borrowing need for the year	**11,269**	**25,239**	**96**	**620**	**0**	**0**

The principal changes in the financing, from the original estimates approved in March 2017, are as a result of the purchase of investment properties and the re-profiling of expenditure from 2016/17.

Appendix C to this report is a revised MRP policy which has been amended to reflect a change in practice relating to MRP provided for land purchases where the full cost of investments of this type are recovered upon the sale of the asset and the CFR reduced by the resulting capital receipt.

4.4 The Capital Financing Requirement and External Debt

The table below shows the Council's Capital Financing Requirement (CFR), which is the Council's underlying need to borrow for a capital purpose. It also shows the expected debt position over the period.

Indicators 3 & 4	**2017/18 Original Estimate £000**	**2017/18 Revised Estimate £000**	**2018/19 Original Estimate £000**	**2018/19 Revised Estimate £000**	**2019/20 Original Estimate £000**	**2019/20 Revised Estimate £000**
General Fund	43,798	52,628	42,638	50,569	41,563	49,244
HRA	58,503	58,503	58,503	58,503	58,503	58,503
Total CFR	102,301	**111,131**	101,141	**109,072**	100,066	**107,746**
Net movement in CFR	**8,622**	**22,455**	**(1,160)**	**(2,059)**	**(1,075)**	**(1,325)**
Indicator 5	**2017/18 Original Estimate £000**	**2017/18 Revised Estimate £000**	**2018/19 Original Estimate £000**	**2018/19 Revised Estimate £000**	**2019/20 Original Estimate £000**	**2019/20 Revised Estimate £000**
Borrowing	90,915	85,354	90,690	86,354	90,690	86,354
Other long term liabilities *	559	559	342	343	105	105
Total Debt 31 March	**91,473**	**85,913**	**91,032**	**86,697**	**90,795**	**86,459**

* Other long term liabilities includes Finance leases

The Council is currently under-borrowed against the CFR, as, whilst the Council has adequate cash balances, it is more advantageous to continue to employ internal resources until cash flow forecasts indicates the need for additional borrowing. PWLB borrowing rates are currently forecast to rise over the next year, but as investment rates are still very low, there is a cost of carry for external borrowing.. The borrowing requirement for the Transport Hub, the purchase of Broadgate car park and further investment properties are being considered by officers working with the Council's treasury management advisors (Capita) to develop the borrowing strategy for these specific schemes, alongside the general outstanding borrowing requirement to determine the preferred borrowing options and the extent to which internal borrowing can and should be continued. It is anticipated that borrowing will need to be taken in 2017/18 (£10m) and in 2018/19 (£1m) - further borrowing will be dependent upon any additional capital programme requirements not anticipated at this point.

The HRA borrowing requirement has been considered independently from that of the General Fund and whilst, at some point it may be advantageous for the HRA to take advantage of low borrowing rates rather than employ internal balances this borrowing has been deferred as rates are forecast to remain low and the 30 year HRA Business Plan does not currently anticipate borrowing.

4.5 Limits to Borrowing Activity

The first key control over the Council's borrowing activity is a prudential indicator to ensure that over the medium term, net borrowing will only be for a capital purpose. Net 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.

Indicator 6	**2017/18 Original Estimate £000**	**2017/18 Revised Estimate £000**	**2018/19 Original Estimate £000**	**2018/19 Revised Estimate £000**	**2019/20 Original Estimate £000**	**2019/20 Revised Estimate £000**
Gross Borrowing	90,915	85,354	90,690	86,354	90,690	86,354
Investments	21,100	10,640	12,900	13,584	11,900	13,537
Net Borrowing	**69,815**	**74,714**	**77,790**	**72,770**	**78,790**	**72,817**
CFR	102,301	**111,131**	101,141	**109,072**	100,066	**107,746**
Net borrowing is below CFR	32,486	36,417	23,351	36,302	21,276	34,929

The Chief Finance Officer reports that no difficulties are envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

A breakdown of the loans and investments profile is provided in Appendix A.

A further two prudential indicators control the overall level of borrowing. These are:

1. **The Authorised Limit** – This 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.

2. **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. CIPFA anticipate that this should act as an indicator to ensure the authorised limit is not breached.

Indicator 7	2017/18 Original Limit £000	2017/18 Revised Estimate £000	2018/19 Original Limit £000	2018/19 Revised Estimate £000	2019/20 Original Estimate £000	2019/20 Revised Estimate £000
Authorised limit for external debt*						
Borrowing	106,400	114,500	102,700	112,500	101,200	111,500
Other long term liabilities**	1,800	2,000	1,300	1,400	800	1,000
Total Authorised limit	**108,200**	**116,500**	**104,000**	**113,900**	**102,000**	**112,500**
Indicator 8	**2017/18 Original Limit £000**	**2017/18 Revised Estimate £000**	**2018/19 Original Limit £000**	**2018/19 Revised Estimate £000**	**2019/20 Original Estimate £000**	**2019/20 Revised Estimate £000**
Operational boundary for external debt*						
Borrowing	**102,300**	**112,000**	**101,200**	**111,000**	**100,100**	110,000
Other long term liabilities**	**1,600**	**560**	**1,100**	**340**	**700**	105
Total Operational Boundary	**103,900**	**112,560**	**102,300**	**111,340**	**100,800**	**110,105**

* The highest level of external debt during the first half of 2017/18 was £75.354m.

** Other long term liabilities include Finance leases.

There have been significant revisions to the capital programme since the Medium Term Financial Strategy was set in March 2017 (summarised in para's 4.2 and 4.4) which have impacted on authority's capital financing requirement and as a result, to the figures calculated for the operational boundary for borrowing. The revised limits for the Operational Limit take into account the additional borrowing that may be taken for the Lincoln Transport Hub and Broadgate Car Park and purchases of investment properties based on current profiles and also allow for previous use of internal borrowing to be replaced by external borrowing should the Chief Finance Officer decide that it is appropriate and prudent to do so.

Other Prudential Indicators

4.6 Appendix B details the updated position on the remaining prudential indicators and the local indicators.

5. Treasury Management Strategy 2017/18 to 2019/20 Update

5.1 Economic Update

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **The following paragraphs and the table in paragraph 5.1.6 give *Capita's views* on economic prospects and interest rates.**

5.1.1 **UK** - UK GDP growth rates in 2016, were surprising, however growth in 2017 has been disappointingly weak with quarters 1 and 2 both at +0.3% indicating growth is the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation (CPI is expected to peak at around 3% in 2017) caused by the devaluation of sterling following the referendum vote for Brexit in

June 2016 impacting on consumer spending. Unemployment stands at 4.3% which is the lowest level since 1975 however improvements in productivity are weak and wage inflation is low. Indications are that the Bank of England could increase the base rate at the November meeting of the Monetary Policy Committee. Should this be the case further slow but steady increases are predicted and will depend upon future growth, inflation levels driven by consumer spending and confidence and export performance.

5.1.2 **USA** -The American economy had a slow start in 2017 with growth in quarter 1 at 1.2%. Quarter 2 showed a rebound in growth at 3.1%. The Fed has begun increasing interest rates with three increases since December 2016 and a further rise in 2017 is expected lifting the central rate to 1.25-1.5%. It is expected that the Fed will begin to unwind its $4.5trillion of bonds and mortgage backed securities.

5.1.3 **Eurozone** - The ECB's massive €1.1 trillion stimulus package and cutting of its deposit facility rate to -0.4% began boosting economic growth with GDP growth in 2016 with growth in quarter 1 2017 at 0.5% and quarter 2 rising by 0.6%. Inflation is lower than the target of 2% which indicates it is unlikely that rates will increase in the Eurozone until 2019.

5.1.4 Current medium term interest rate forecasts (not anticipating an increase in BoE rates in November) are shown below:

	Bank Rate	LIBID	PWLB Rates		
		3 month	5 year	25 year	50 year
Dec 2017	0.25%	0.25%	1.5%	2.9%	2.7%
Mar 2018	0.25%	0.25%	1.6%	2.9%	2.7%
Jun 2018	0.25%	0.25%	1.7%	3.0%	2.8%
Dec 2018	0.25%	0.25%	1.8%	3.1%	2.9%
Jun 2019	0.50%	0.50%	1.9%	3.2%	3.0%

5.2 <u>Borrowing activity</u>

5.2.1 The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

5.2.2 Long-term fixed interest rates are currently low but expected to rise over the three-year treasury management planning period. The Chief Finance Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. The approved funding of the current capital programme does require borrowing to be taken during 2017/18 and 2018/19. In addition to this there has been internal borrowing (i.e. using cash balances), to fund previous years' capital expenditure, which may need to be replaced at some point in the future with external borrowing. The current key challenge is anticipating the optimum point at which any future borrowing should be taken. Any future borrowing will increase cash holding at a time when counterparty risk remains high and investment returns are low. In this scenario, borrowing is likely to be postponed until cash flow need is more apparent. **Since 30*th* September the Bank of England has increased the base rate of borrowing and attached at Appendix D is the most recent interest rate forecast received from the council's advisors (who, from 6*th* November 2017, are* *called Link Asset Services).*

5.2.3 Opportunities for debt restructuring will be continually monitored. Action will be taken when the Chief Finance Officer feels it is most advantageous.

5.3 Investment Strategy 2017/18 to 2019/20

5.3.1 The objectives of the Council's investment strategy are the safeguarding of the re-payment of the principal and interest of its investments on time first, and ensuring adequate liquidity second – the investment return being a third objective. Following on from the economic background above, the current investment climate is one of over-riding risk consideration i.e. that of counterparty security risk. As a result of these underlying concerns, officers continue to implement an operational investment strategy, which tightens the controls already in place in the approved investment strategy.

5.3.2 The Council held £20.4 million of investments at 30th September 2017 and the investment profile is shown in Appendix A.

5.4 Risk Benchmarking

The Investment Strategy for 2017/18 includes the following benchmarks for liquidity and security. Yield benchmarks are contained within section 6.

5.4.1 *Liquidity* – The Council has no formal overdraft facility and seeks to maintain liquid short-term deposits of at least £3 million available with a weeks notice.

The weighted average life (WAL) of investments for the year was expected to be 0.19 years (69 days). At 30th September 2017 the Council held liquid short term deposits of £10.4 million and the WAL of the investment portfolio was 0.23 years (83 days). The increase in the WAL of the investment portfolio is due to some of the investments over 1 year in duration with local authorities maturing and being replaced with shorter term investments to service internal borrowing requirements in a lower return environment.

The Chief Finance Officer can report that liquidity arrangements were adequate during the year to date

5.4.2 *Security* – The Council's maximum security risk benchmark for the portfolio as at 30th September 2017 0.007%, which equates to a potential loss of £0.0014m on an investment portfolio of £20.4m. This is slightly lower than the budgeted maximum risk of 0.008% in the Treasury Management Strategy (i.e. a potential loss of £0.002m). It represents a very low risk investment portfolio which carries a very much lower level of risk than Capita's model portfolio and other local authorities within our benchmarking group.

The target set within the 2016/17 Strategy is that a minimum of 25% of the portfolio must be held in low risk specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this overall benchmark during the year to date. At 30th September 2017, 95% of the investment portfolio was held in low risk specified investments.

6. Strategic Priorities

6.1 Develop a fit for purpose Council –Through its Treasury Management Strategy the Council seeks to reduce the amount of interest it pays on its external borrowing and maximise the interest it achieves on its investments.

7. Organisational Impacts

7.1 Finance – The financial implications are covered in the main body of the report.

8. Recommendations

8.1 It is recommended that Executive note the Prudential and Local Indicators and the actual performance against the Treasury Management Strategy 2017/18 for the half-year ended 30th September 2017 and approve the change to the MRP policy at Appendix C.

List of Background Papers:	Treasury Management Strategy 2017/18 (Approved by Council 1st March 2017)

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Appendix A

Borrowing Profile at 30th September 2017

	Long term borrowing	
	Fixed rate	**Variable rate**
	£ 000	**£ 000**
PWLB loans	58,793	0
Other Market loans	16,000	0
3% stock	561	0
TOTAL	**75,354**	**0**

Investment Profile at 30th September 2017

	Total Principal invested	Short term		Long term	
		Fixed rate	**Variable rate**	**Fixed rate**	**Variable rate**
	£ 000	**£ 000**	**£ 000**	**£ 000**	**£ 000**
UK Banks & Building societies (including Call accounts)	**9,000**	9,000	0	0	0
Local Authorities	**1,000**	0	0	1,000	0
UK Money Market Funds	**10,400**	0	10,400	0	0
TOTAL	**20,400**	**9,000**	**10,400**	**1,000**	**0**

Appendix B

Updated Position on the Remaining Prudential and Local Indicators

Affordability Prudential Indicators

Actual and estimates of the ratio of financing costs to net revenue stream – This indicator identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the net revenue stream.

Table 5. Ratio of Financing Costs to Net Revenue Stream

Indicators 9 & 10	2017/18 Original Estimate %	2017/18 Revised Estimate %	2018/19 Original Estimate %	2018/19 Revised Estimate %	2019/20 Original Estimate %	2019/20 Revised Estimate %
General Fund	28%	18.0%	22.7%	19.4%	20.6%	20.2%
HRA	44.8%	46.2%	45.4%	44.9%	45.5%	44.9%

The General Fund ratio has decreased in 2017/18 and is expected to increase in 2018/19 and 2019/20 as a result of the additional interest and MRP payments on the borrowing that is taken to finance the Lincoln Transport Hub scheme, the purchase of Broadgate Car Park and investment properties. The HRA ratios have increased in 2017/18 and are expected to remain fairly constant year on year. The increase is due to a higher level of depreciation being charged to the HRA, which is a financing cost to this area.

Table 6. Estimate of the incremental impact of capital investment decisions on Council Tax

Indicator 11	2017/18 Original Estimate £	2017/18 Revised Estimate £	2018/19 Original Estimate £	2018/19 Revised Estimate £	2019/20 Original Estimate £	2019/20 Revised Estimate £
Impact on Tax Base	£0.62	-£1.41	£6.24	£10.09	£15.75	£10.35

The 2017/18 figures are lower than anticipated due to lower than expected borrowing in 2016/17 and the increases in 2018/19 reflect additional borrowing required to fund additions to the GIP.

Indicator 12	2017/18 Original Estimate £	2017/18 Revised Estimate £	2018/19 Original Estimate £	2018/19 Revised Estimate £	2019/20 Original Estimate £	2019/20 Revised Estimate £
Weekly Housing Rent	+£0.05	£0.00	-£0.19	£0.00	£0.00	£0.00

The figures reflect that no additional borrowing is anticipated within the HIP.

Treasury Management Prudential Indicators

The first treasury indicator requires the adoption of the CIPFA Code of practice on Treasury Management. This Council adopted the Revised Code of Practice on Treasury Management on 1st March 2011, and as a result adopted a Treasury Management Policy & Practices statement (1st March 2011).
There are four further indicators:

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

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

These indicators are complemented by four local indicators:

- Limit on fixed interest rate investments
- Limit on fixed interest rate debt
- Limit on variable rate investments
- Limit on variable rate debt

During the first half of the year the highest and lowest exposure to fixed and variable rates were as follows:

Indicators 13 & 14	**2017/18 Limit (Upper) £million**	**2017/18 Max Q1 & Q2 £million**
Upper limits on interest rate exposures		
Upper limits on fixed interest rates	87.6	70.3
Upper limits on variable interest rates	37.2	30.1

	2017/18 Limit %	**2017/18 Max Q1 & Q2 %**
Local indicator limits based on debt only		
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	0%
Local indicator limits based on investments only		
Limits on fixed interest rates	100%	41%
Limits on variable interest rates	75%	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 rate for the duration of the instrument) falling due for refinancing.

Indicator 15	2017/18 Original %	2017/18 Revised %	2018/19 Original %	2018/19 Revised %	2019/20 Original %	2019/20 Revised %
Maturity Structure of fixed borrowing (Upper Limits)						
Under 12 months	40%	40%	40%	40%	40%	40%
12 months to 2 years	40%	40%	40%	40%	40%	40%
2 years to 5 years	60%	60%	60%	60%	60%	60%
5 years to 10 years	80%	80%	80%	80%	80%	80%
10 years and above	100%	100%	100%	100%	100%	100%
Maturity Structure of fixed borrowing (Lower Limits)						
Under 12 months	0%	0%	0%	0%	0%	0%
12 months to 2 years	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	0%	0%	0%	0%	0%
10 years and above*	10%	10%	10%	10%	10%	10%

As at 30th September 2017 the maturity structure of borrowing during the first half of the year was as follows:

Indicator 15 **Maturity Structure of fixed borrowing**	**2017/18 Half year Lower %**	**2017/18 Half year Upper %**
Under 12 months	1	1
12 months to 2 years	0	0
2 years to 5 years	6	6
5 years to 10 years	8	8
10 years and above	85	85

Total Principal Funds Invested – These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

Indicator 16	2017/18 Original Estimate £m	2017/18 Revised Estimate £m	2018/19 Original Estimate £m	2018/19 Revised Estimate £m	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Maximum principal sums invested > 1 year	£5m	£1m	£5m	£0m	£5m	£0m

As at 30th September 2017, principal funds invested over 1 year at the inception of the investment were £1m.

Local Prudential Indicators

In addition to the statutory and local indicators listed above the Director of Resources has set four additional local indicators aimed to add value and assist in the understanding of the main indicators. These are:

1. Debt – Borrowing rate achieved against average 7 day LIBOR

	2017/18 Target %	2017/18 Actual – 30th September %	2018/19 Target %	2019/20 Target %
Debt – borrowing rate achieved (i.e. temporary borrowing of loans less then 1 year)	Less than 7 day LIBOR	No loans taken	Less than 7 day LIBOR	Less than 7 day LIBOR

2. Investments – Investment rate achieved against the average 7 day LIBID

	2017/18 Target %	2017/18 Actual – 30th September %	2018/19 Target %	2019/20 Target %
Interest rate achieved	Greater than 7 day LIBID	Achieved 0.31% compared to 0.11% LIBID (+0.20%)	Greater than 7 day LIBID	Greater than 7 day LIBID

The interest rate achieved on investments compares favourably to the 7 day LIBID due to the use of fixed term, fixed rate investments, plus the greater use of semi-fixed rate call accounts and money market funds which pay a premium over the LIBID rate.

3. Average rate of interest paid on the Council's debt during the year (this will evaluate performance in managing the debt portfolio to release revenue savings)

	2017/18 Target %	2017/18 Actual – 30th September %	2018/19 Target %	2019/20 Target %
Average rate of interest on Council debt	Less than 4.75	4.15	Less than 4.75	Less than 4.75

4. The amount of interest on debt as a percentage of gross revenue expenditure. The results against this indicator will be reported at the year-end.

Appendix C

Minimum Revenue Provision (MRP) Policy

1.0 The Council is required to pay off an element of the accumulated General Fund borrowing each year through a revenue charge (the Minimum Revenue Provision), and is also allowed to undertake additional voluntary payments (VRP).

1.1 CLG Regulations have been issued which require full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided so long as there is a prudent provision.

1.2 Members are recommended to approve the following MRP Statement:

For capital expenditure incurred:

(A) Before 1st April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

Existing practice - MRP will follow the existing practice outline in former DCLG Regulations, but on a 2% straight-line basis, i.e. provision for the full repayment of debt over 50 years;

(B) From 1st April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

Asset Life Method – MRP will be based on the estimated life of the assets on either a straight line or annuity basis (as deemed most appropriate for capital expenditure being financed through borrowing). Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(C) The Council will set aside £750k of capital receipts to the Capital Adjustment Account instead of applying these receipts to new expenditure in order to reduce the total debt liability (this will be £150k per annum over the period 2017/18 to 2021/22). The Council will reduce the MRP provision for the year by the same amount.

(D) Expenditure in respect of the Local Authority Mortgage Scheme will not be subject to a minimum revenue provision as this is a temporary arrangement and the funds will be returned in full.

(E) Expenditure in respect of land purchases will increase the Capital Financing Requirement (CFR) by the borrowing required to fund the purchase which will be repaid by the future sale of the asset. Once the asset is sold and the funds are realised they will be classed as a capital receipt and will be off-set against the

CFR which will reduce accordingly. As the funds will be returned in full there is no need to set aside prudent provision to repay the debt liability so no MRP will be applied in respect of this type of purchase.

Appendix D

Updated Interest Rate Forecast