

## Appendix B - Borrowing and Investment Activities

### 1. The Borrowing Requirement and Debt Management

1.1. The Council's capital expenditure is financed by external funding, revenue contributions or capital receipts. The Council is allowed to borrow to fund any shortfall in capital financing, provided the level of borrowing is prudent and sustainable. The Council increases its Capital Financing Requirement (CFR) when incurring any capital expenditure which is not financed by grants, contributions, capital receipts or revenue contributions. In addition to paying interest on debt, local authorities are required to set cash aside annually to repay the principal General Fund debt balance by means of a Minimum Revenue Provision (MRP). The borrowing requirement is reduced by the amount of any in-year MRP.

### 2. Borrowing Activity in 2017/18

	Balance on 01/04/2017 £M	Debt Maturing £M	New Borrowing £M	Balance on 31/03/2018 £M
<b>CFR</b>	<b>524.4</b>			<b>519.2</b>
Short Term Borrowing <sup>1</sup>	72.3	(441.3)	395.1	26.1
Long Term Borrowing	275.6			275.6
<b>TOTAL BORROWING</b>	<b>347.9</b>	<b>(441.3)</b>	<b>395.1</b>	<b>301.7</b>
Other Long Term Liabilities	17.2	(0.7)		16.5
<b>TOTAL EXTERNAL DEBT</b>	<b>365.1</b>	<b>(442.0)</b>	<b>395.1</b>	<b>318.2</b>

- 2.1. The Council's underlying need to borrow, as measured by its CFR as at 31 March 2018, was £519.2M – down by £5.2M from the previous year. This was due to new capital expenditure in 2017/18 being fully funded by a combination of external funding, revenue contributions and capital receipts. This led to a CFR reduction of £5.2M as a result of in-year MRP.
- 2.2. The Council did not repay any debt prematurely in the 2017/18 financial year, as discount rates made the costs involved unattractive.
- 2.3. The Council's strategy of borrowing from other local authorities on a short term rolling basis assumes that interest rates will continue to remain below longer term fixed interest rates, in line with advice from the Council's treasury advisers, Arlingclose Ltd. However, the Council will continue to monitor long term rates with a view to fixing a portion of its borrowing if rates are favourable.

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<sup>1</sup> Loans with maturities less than 1 year.

## 2.4. Internal Borrowing

2.5. Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer term stability of the portfolio. The differential between the cost of new longer term debt and the return generated on the Council's temporary investment returns was significant, at around 2%. The use of internal resources in lieu of borrowing was judged to be the most cost effective means of funding capital expenditure. This has lowered overall treasury risk by reducing temporary investments to minimal operational levels and has limited the extent of increase in external debt. Internal borrowing has been utilised to the full extent and there will be a need to borrow externally for capital purposes during 2018/19 and beyond.

## 2.6. Lender's Option Borrower's Option Loans (LOBOs)

2.7. The Council continues to hold £13.5M of LOBO loans where the lender, FMS Wertmanagement, has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The lender did not exercise its option during 2017/18.

## 3. Investment Activity

3.1. Both the CIPFA Code and MHCLG's Investment Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

### 3.2. Investment Activity in 2017/18

<b>Investments</b>	Balance on 01/04/2017 £M	Investments Made / Capital Appreciation £M	Investments Repaid £M	Balance on 31/03/2018 £M
Short Term Investments (call accounts, deposits)	3.2	93.8	91.0	<b>6.0</b>
Money Market Funds	5.9	395.4	397.3	<b>4.0</b>
Other Pooled Funds	5.3	0.2		<b>5.5</b>
<b>TOTAL INVESTMENTS</b>	<b>14.4</b>	<b>489.4</b>	<b>488.3</b>	<b>15.5</b>

3.3. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18.

3.4. Investments during the year included:

- Investments in AAA-rated Money Market Funds;
- BBB-rated UK banks and Building Societies.

- 3.5. **Credit Risk:** Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum counterparty rating of BBB+ or equivalent across rating agencies Fitch, Standard & Poor's and Moody's), share prices, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 3.6. **Liquidity:** In keeping with the MHCLG's Investment Guidance, the Council has maintained a sufficient level of liquidity through the use of Money Market Funds/overnight deposits/call accounts.
- 3.7. **Yield:** The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Base Rate was increased to 0.50% in November 2017, up from 0.25%, where it remained unchanged for the rest of the financial year to 31 March 2018.
- 3.8. Short term money market rates remained at very low levels which had a significant impact on investment income, as investments were placed overnight or for short periods.
- 3.9. The Council's investment income for the year was £0.3M, with the Council's long term investment in the Lime Fund providing some cushioning against the low interest rate environment.
- 3.10. The average cash balance representing the Council's reserves, contributions/grants in advance, and working balances, was £21.6M in 2017/18 (£22.4M in 2016/17).

#### **4. Financial Implications**

- 4.1. The outturn for General Fund debt interest paid in 2017/18 was £5.1M against a budgeted £5.5M. The reason for this £0.4M favourable variance was due to a higher amount of Capital Programme slippage and capital receipts exceeding those originally assumed in the interest payable budget, which both led to a lower level of overall borrowing than assumed in the 2017/18 budget. Lower than budgeted interest rates payable on short-term fixed rate borrowing also contributed to the favourable variance.
- 4.2. The outturn for HRA debt interest paid in 2017/18 of £3.9M was in line with budget.
- 4.3. The outturn for investment income received in 2017/18 of £0.3M was in line with budget.

## **5. Compliance**

- 5.1. To support financial strategic planning and decision making, the Council approves annually a series of Prudential Indicators which are regularly monitored. The Council did not exceed any of the various limits determined by the Treasury Management Strategy and specific Prudential Indicators. Full details of the Council's performance against its Prudential Indicators for 2017/18 are set out in Appendix C.
- 5.2. In compliance with the requirements of the CIPFA Code of Practice, this report provides Members with a summary report of the treasury management activity during 2017/18. The Council can confirm it has taken a prudent approach in relation to investment activity with priority being given to security and liquidity over yield.
- 5.3. The Council can confirm that during 2017/18 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

## **6. Other Items**

- 6.1. **Training:** The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 6.2. During 2017/18 staff attended training courses, seminars and conferences provided by Arlingclose Ltd and CIPFA.