monmouthshire COUNTY COUNCIL sir fynwy

REPORT

SUBJECT:	TREASURY OUTTURN 2016/17
MEETING:	Audit Committee
DATE:	6th July 2017
DIVISION/WARDS AFFECTED:	Countywide

1. PURPOSE:

1.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to annually produce Prudential Indicators and a Treasury Management Strategy Statement on their likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Head of Finance, as S151 Officer, reports twice a year (mid-year and after the year-end) on Treasury activity to the Audit Committee who provide scrutiny of treasury policy, strategy and activity on behalf of the Council.

2. RECOMMENDATIONS:

2.1 That Members note the results of treasury management activities and the performance achieved in 2016/17 below and in the two Appendices.

3. KEY ISSUES:

3.1 External Context

The Welsh Government's Guidance on Investments, effective from 1st April 2010, reiterated security and liquidity as the primary objectives of a prudent investment policy before yield. The Authority's strategy has always adopted a risk averse approach which compliments this guidance.

Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

The UK Bank Rate fell from 0.5% which it had been at since 2009 to 0.25% in August 2016 so money market rates have fallen still further. This has had a significant impact on investment income, but low bank base rates also

serves to keep short term borrowing costs depressed, to the extent that our cost of carry is negligible concerning short term cashflows.

3.2 Prudential Indicators and Treasury Management Indicators

All investments made during the year complied with the Council's agreed Treasury Management Strategy. Maturing investments were repaid to the Council in full and in a timely manner. Counterparty credit quality has been maintained through the period, despite declining credit ratings, and the need to mitigate the risks associated with potential bank "bail ins".

The Authority has operated within the set prudential indicators, as outlined in the Treasury Management Strategy approved by Council for the year.

The detailed Prudential Indicator Outturn Report for 2016/17 is attached as Appendix 2.

3.3 **Borrowing and Investment Activity**

External borrowing

	£m	£m	
	April 16	**Mar 17**	**Average Rate**
Short Term	26.6	19.5	0.6%
Long Term	68.2	69.8	4.5%
Total Borrowing	94.8	89.3	
Investments			
Short Term & Cash & Cash Equivalents	11.4	4.5	0.35% Avg investment period 3 days @ 31/3/17
Net Borrowing	83.4	84.8	

The detailed Annual Treasury Management Outturn report for 2016/17 is attached as Appendix 1.

3.4 Capital Financing Requirement (CFR)

The total capital financing requirement is the underlying need to borrow as a result of all past capital expenditure financed by borrowing. So if the expenditure is financed by capital grant or receipts it has no effect on the calculation. The CFR is reduced when the Council makes repayments, these repayments are termed "minimum revenue provision" in the Accounts.

Since 2015-16 the CFR has increased by £20.5m due to the £23.8m of borrowing funded capital expenditure incurred within 2016-17, offset by the £3.3m of minimum revenue provision made in year.

Capital Financing Requirement	£m
31 March 2017	134.6
1 April 2016	114.1
Movement	20.5

The difference between the capital financing requirement at 31st March 17 of £134.6m and the borrowing of £89.3m at the end of that financial year reflects the level of "internal borrowing" utilised. Internal borrowing reflects the fact that as part of treasury activities, anticipated cashflows and cash balances are temporarily used to avoid formal borrowing where possible.

The CFR at 31 March 2017 was £9.8m higher than estimated due to an increase in borrowing funded capital of £1.8m and a £7.3m budgeted set aside of capital receipts designed to reduce the capital financing requirement that was not undertaken at the end of 2016-17, due to reflections on the level of capital receipts likely to crystalise in 2017-18 being collectively insufficient to meet expenditure demands (predominantly Future schools).

3.5 **Interest payable and receivable**

Net external borrowing has remained level during the year. Although the CFR has increased due to borrowing funded spend on the 21st Century schools project (£13.5m), the solar farm (£4.5m) and new vehicles (£1.6m), these have been offset by an increase in internal borrowing due to an increase in the capital receipts reserve (£13.6m) and other working capital allowing net borrowing to remain at a similar level.

Interest on external debt was £2.9m against a budget of £3.4m.

This does result in lower investment balances of more of a short term nature but is a very cost effective treasury strategy given cost of borrowing that is avoided.

£5m of 5 year PWLB debt was taken out in 2016/17, the first long term loans taken out since June 2010. This replaced £6m of debt which matured in the year and took advantage of the Project rate which the Authority was eligible to due to carrying out the 21st Century schools program.

4. REASONS:

4.1 The Authority's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011.

4.2 The code includes the requirement for determining a treasury strategy on the likely financing and investment activity for each financial year.

4.3 The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

4.4 As part of the Council's compliance with that Code, it is important that the members involved in Treasury Strategy matters remain suitably proficient. Appreciating new faces and skills with Audit Committee environment, a copy of self-assessment has been added to the report as Appendix 3, to gauge any apparent training needs. I would be grateful if Members reflect upon

detail with a view to agreeing collectively any additional training needs at next meeting.

5. RESOURCE IMPLICATIONS:

The outturn position is explained in the report, there are no other resource implications arising directly from this report.

6. EQUALITY AND SUSTAINABLE DEVELOPMENT IMPLICATIONS: None

7. CONSULTEES: Technical performance report on matters of fact. No consultation necessary

8. BACKGROUND PAPERS:

Appendix 1 – 2016/17 Treasury Management Outturn report;
Appendix 2 - The Prudential Indicator Outturn Report for 2016/17
Appendix 3 – Self Assessment Return

9. AUTHOR:

Lesley Russell Treasury Accountant
Mark Howcroft Assistant Head of Finance

10. CONTACT DETAILS:

Tel. 01633 644740
e-mail: markhowcroft@monmouthshire.gov.uk

APPENDIX 1

Treasury Management Outturn Report 2016/17

Introduction

The Authority's treasury management strategy for 2016/17 was approved at a meeting of the Authority on 10th March 2016. In this strategy the Authority confirmed its continued adoption of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

The Authority 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. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

Economic background: Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets: Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

Credit background: Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios,

although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Authority's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

On the advice of Arlingclose, new investments with Deutsche Bank and Standard Chartered Bank were suspended in March 2016 due to the banks' relatively higher credit default swap (CDS) levels and disappointing 2015 financial results. The Authority's did not have any deposits with these banks at that time. Standard Chartered was reintroduced to the counterparty list in March 2017 following its strengthening financial position, but Deutsche Bank was removed altogether from the list.

In July, following a review of unrated building societies' annual financial statements, 3 building societies were removed from the Authority's list due to a deterioration in credit indicators. The maximum advised maturity was also lowered for eleven other societies from 6 months to 100 days due to the uncertainty facing the UK housing market following the EU referendum.

Local Context

On 31st March 2017, the Authority had net borrowing of £84.8m arising from its revenue and capital income and expenditure, an increase on 2016 of £1.4m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.16 Actual £m	**2016/17 Movement £m**	**31.3.17 Actual £m**
General Fund CFR	114.1	20.5	134.6
Less: Other debt liabilities *	(1.3)	(0.6)	(1.9)
Borrowing CFR	**112.8**	**19.9**	**132.7**
Less: Usable reserves	(22.8)	(12.2)	(35.0)
Less: Working capital	(6.6)	(6.3)	(12.9)
Net borrowing	**83.4**	**1.4**	**84.8**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

Net borrowing has remained level during the year. Although the CFR has increased due to borrowing funded spend on the 21st Century schools project

(£13.5m), the solar farm (£4.5m) and new vehicles (£1.6m), these have been offset by an increase in the capital receipts reserve (£13.6m) and working capital has also increased due to the timing of receipts and payments allowing net borrowing to remain at a similar level.

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2017 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m
Long-term borrowing	68.2	1.6	69.8
Short-term borrowing	26.6	(7.1)	19.5
Total borrowing	**94.8**	**(5.5)**	**89.3**
Long-term investments	0.0	0.0	0.0
Short-term investments	4.1	0.0	0.1
Cash and cash equivalents	7.3	(6.9)	4.4
Total investments	**11.4**	**(6.9)**	**4.5**
Net borrowing	**83.4**	**1.4**	**84.8**

Note: the figures in the table are based on the balance sheet in the Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments

As explained above, net borrowing has remained level during the year. Investment balances were managed down during the year in order to reduce the net cost of borrowing/investing. This has resulted in the small fall in gross borrowing.

Borrowing Activity

At 31st March 2017, the Authority held £89.3m of loans, a decrease of £5.5m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change is shown in table 3 below.

Table 3: Borrowing Position

	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Rate %	31.3.17 Average Maturity years
Public Works Loan Board	52.7	(0.9)	51.8	4.4%	16 yrs
Other WG Loans	2.5	2.4	4.9	0.0%	9 yrs
Banks (LOBO)	13.6	0.0	13.6	4.8%	25 yrs
Local authorities (short-term)	26.0	(7.0)	19.0	0.6%	< 1yr
Total borrowing	**94.8**	**(5.5)**	**89.3**		

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In furtherance of these objectives new borrowing was only taken out when internal borrowing had been utilised as far as possible. Minimum cash balances were maintained to ensure sufficient cash was available to pay unforeseen charges. New borrowing was mainly required to cover maturing short and long term loans and mainly took the form of short term borrowing from other Local Authorities at low interest rates.

It was decided early in 2017 to take out £5.0m of 5 year PWLB maturity debt at slightly higher interest rates. This was done to take advantage of the Project rate on offer up to 31 March 2017 (0.2% lower than the normal rate attainable). This also tied in a small amount of medium term debt to a fixed rate, thus reducing the interest rate risk on the Authority's debt. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

The "cost of carry" analysis performed by the Authority's treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

The Authority continues to holds £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the

interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during 2016/17.

Other Debt Activity

The Authority has bid for and received £4.5m of loans from the Welsh Government in 2016/17 to build a solar farm. This was offered at 0% interest rate which is a significant saving for the Authority.

Investment Activity

Despite maximising internal borrowing, the Authority still holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17, the Authority's investment balance averaged £19m. This is due to timing differences between income and expenditure and the difficulty in achieving forecasts for both. 2016/17 was not a typical year with a very large receipt, and a large capital project & related grant income being the subject of protracted negotiations. Efforts have been made to better forecast both income and expenditure to reduce this further by matching the timing of new debt to periods of reduced cash levels. The year-end investment position and the year-on-year change is shown in table 4 below.

Table 4: Investment Position

	31.3.16 Balance £m	**2016/17 Movement £m**	**31.3.17 Balance £m**	**31.3.17 Rate %**	**31.3.17 Average maturity years**
Banks & building societies (unsecured)	3.2	(2.1)	1.1		
Government (incl. local authorities)	3.0	0.4	3.4		
Money Market Funds	5.2	(5.2)	0.0		
Total investments	**11.4**	**(6.9)**	**4.5**	**0.35%**	**< 1 year**

Both the CIPFA Code and government guidance require the Authority 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. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The overall treasury aim for 2016/17 was to reduce investment balances and therefore interest rate risk and debt costs. The investment vehicles available for short term cash investments are limited to the Debt management office, money market funds and call accounts. For 1-6 months cash, certificates of deposit and

term deposits with banks and building societies, loans to other Local Authorities and t-bills are also an option which can yield slightly higher rates. Where cash was available for these longer periods these longer maturity investments were selected to optimise returns at a low risk level. The Debt management interest rate fell from 0.25% to 0.15% in August 2016 and further to 0.1% in March further squeezing returns. At this point money market funds maintained a slightly higher return so were used where possible.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 5 below.

Table 5: Investment Benchmarking

	Value weighted Average Credit Rating	**Time weighted Average Credit Rating**	**Bail-in Exposure**	**WAM* (days)**
31.03.2016	AA-	AA	74%	2
30.06.2016	AA-	A+	71%	27
30.09.2016	AA-	AA	80%	14
31.12.2016	A+	A+	100%	3
31.03.2017	AA	AA	23%	3
Similar LAs	**AA-**	**AA-**	**54%**	**88**
All Las	**AA-**	**AA-**	**60%**	**47**

*Weighted average maturity

Other Investment Activity

Although not classed as treasury management activities and therefore not covered by the CIPFA Code, the Authority also holds £41.9m of Investment Properties such as County Farms and Industrial Units, which are held to earn income or to appreciate in value. These properties increased in value by £0.8m during the year being mainly due to expenditure incurred during the year. The Authority also spent £4.3m on a Solar Farm asset in 2016/17. This was built primarily to earn income but the Code requires is to be held as Land & buildings once operational.

The Investment Properties earned rental income of £529,000 during 2016/17 and made a net profit of £405,000. This represents a rate of return of 1.0%. This is higher than the return currently earned on treasury investments which reflects the additional risks and burden to the Authority of holding such investments. Rental income on Investment Properties is restricted in the short term by long term rental agreements with tenants. The solar farm has only been operational a short time so the net return is not yet fully known.

Performance Report

The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in table 6 below.

Table 6: Performance

	Actual £'000	Budget £'000	Over/ (under)	Reason
Interest on investments	**(69)**	**(53)**	**(16)**	Mainly due to higher cash balances than forecast
Interest on external debt	**2,926**	**3,496**	**(570)**	£300k due to delay and reduction in long term debt taken out; £50k due to reduced rate on variable rate debt; £120k due to a reduction in short term debt rates from 1% to 0.6%; £100k due to slippage in the capital program
GRAND TOTAL	**2,857**	**3,443**	**(586)**	

Compliance Report

The Head of Finance/Section 151 Officer is pleased to report that all treasury management activities undertaken during 2016/17 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

The approved investment counterparties and limits for Specified Investments and for Non-specified investments as set out in the 2016/17 Treasury Management Strategy were all adhered to.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: External Debt Limits

	2016/17 Maximum £m	31.3.17 Actual £m	2016/17 Operational Boundary £m	2016/17 Authorised Limit £m	Complied
Borrowing	94.8	89.3	113.0	134.0	✓
PFI & finance leases	**1.3**	**1.9**	1.1	2.6	✓
Total debt	**96.1**	**91.2**	**114.1**	**136.6**	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was above the operational boundary for no days during 2016/17.

Treasury Management Indicators

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

Security: The Authority 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. Unrated investments are assigned a score based on their perceived risk.

	31.3.17 Actual	**2016/17 Target**	**Complied**
Portfolio average credit rating	AA-	A-	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of principal borrowed / invested was:

	31.3.17 Actual £m	**2016/17 Limit £m**	**Complied**
Upper limit on fixed interest rate exposure	56.3	100.0	✓
Upper limit on Net variable interest rate exposure	28.5	50.0	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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

	31.3.17 Actual £ / %	**Lower Limit %**	**Upper Limit %**	**Complied**
Under 12 months – LOBO'S	13.6 / 24.2%	0	50	✓
Under 12 months - Other	0.0 / 0.0%			
12 months and within 24 months	1.0 / 1.8%	0	40	✓
24 months and within 5 years	8.9 / 15.8%	0	45	✓
5 years and within 10 years	12.1 / 21.5%	0	30	✓
10 years and above	20.7 / 36.8%	0	100	✓

Time periods start at the 31st March 2017. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sums invested for more than 364 days:

	2016/17
Actual principal invested for more than one year	Nil
Limit on principal invested for more than one year	£5m
Complied	✓

APPENDIX 2

Prudential Indicator Outturn Report 2016/17

Introduction: The *Local Government Act 2003* requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy'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 Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2016/17. Actual figures have been taken from or prepared on a basis consistent with, the Authority's draft statement of accounts.

Capital Expenditure: The Authority's capital expenditure and financing may be summarised as follows. Further detail is provided in Revenue and Capital Outturn report.

Capital Expenditure and Financing	2016/17 Estimate £m	2016/17 Actual £m	Difference £m
Total Expenditure	**42.3**	**41.7**	**(0.6)**
Capital Receipts	6.3	2.9	(3.4)
Grants & Contributions	13.5	14.1	0.6
Reserves & Revenue	0.5	0.9	0.4
Borrowing	22.0	23.8	1.8
Total Financing	**42.3**	**41.7**	**(0.6)**

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.17 Actual £m	Difference to Estimate £m	Movement in 2016/17
Total CFR	**114.1**	**124.8**	**134.6**	**9.8**	**20.5**

The CFR rose by £20.5m during the year as capital expenditure financed by debt outweighed resources put aside for debt repayment. The Actual CFR at 31 March 2017 was £9.8m higher than estimated in the 2016/17 Treasury Strategy due to an increase in borrowing of £1.8m and also due to a £7.3m set aside of capital receipts budgeted but not carried out.

Actual Debt: The Authority's actual debt at 31st March 2017 was as follows:

Debt	**31.03.17 Estimate £m**	**31.03.17 Actual £m**	**Differenc e £m**
Borrowing	105.0	**89.3**	(15.7)
Finance leases/PFI	1.1	**1.8**	0.7
Total Debt	**106.1**	**91.1**	**(15.0)**

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and CFR	**31.03.17 Estimate £m**	**31.03.17 Actual £m**	**Differenc e £m**
Total debt	106.1	**91.1**	(15.0)
Capital financing requirement	124.8	**134.6**	9.8
Headroom	**18.7**	**43.5**	**24.8**

Total debt remained below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary and Total Debt	31.03.17 Boundary £m	31.03.17 Actual Debt £m	Complied
Borrowing	113.0	**89.3**	✓
Other long-term liabilities	1.1	**1.8**	✓
Total Debt	**114.1**	**91.1**	✓

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the *Local Government Act 2003*. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	31.03.17 Boundary £m	31.03.17 Actual Debt £m	Complied
Borrowing	134.0	**89.3**	✓
Other long-term liabilities	2.6	**1.8**	✓
Total Debt	**136.6**	**91.1**	✓

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	31.03.17 Estimate %	31.03.17 Actual %	Difference %
General Fund	4.8	**4.3**	(0.5)

Adoption of the CIPFA Treasury Management Code: The Authority confirmed its continued adoption the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2016.