Northumberland County Council

AUDIT COMMITTEE

24 JULY 2019

Treasury Management Annual Report for the Financial Year 2018-19

Report of Alison Elsdon, Service Director - Finance

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services

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Purpose of the Report

This report provides details of performance against the Treasury Management Strategy Statement (TMSS) 2018-19, approved by the County Council on 21 February 2018. The report provides a review of borrowing and investment performance for 2018-19, set in the context of the general economic conditions prevailing during the year. It also reviews specific Treasury Management prudential indicators defined by the (CIPFA) Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code), and approved by the Authority in the TMSS.

Recommendations

- Members receive the report and note the performance of the Treasury Management function for 2018-19; and,
- Members recommend the report to County Council.

Link to the Corporate Plan

This report supports the "We want to be efficient, open and work for everyone" priority included in the Council's Corporate Plan 2018-21 "A Council that Works for Everyone".

Key Issues

The Local Government Act 2003 (the Act) and supporting Regulations require the Council to produce an annual review of treasury management activities and present the actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy

(CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The report provides a review of the Treasury Management activities for 2018-19; and, sets out performance against the Treasury Management Strategy Statement for 2018-19.

TREASURY MANAGEMENT ANNUAL REPORT 2018-19

1. INTRODUCTION

1.1. Background

This Treasury Management Annual Report provides a review of the activities of the Treasury Management function for the period 1 April 2018 to 31 March 2019, and shows performance against the Treasury Management Strategy Statement (TMSS) for 2018-19. Its production and submission to Council is a requirement of the CIPFA Code of Practice on Treasury Management.

Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2. Statutory and Regulatory Requirements

The Local Government Act 2003 (the Act) and supporting Regulations require the Council to produce an annual review of treasury management activities and the actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

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

1.3. Basis and Content of Treasury Management Annual Report for 2018-19

The report covers:

- Overview of and compliance with the Treasury Management Strategy for the financial year 2018-19;
- Economic conditions and interest rates during 2018-19;
- Overview of the treasury position at 31 March 2019;
- Borrowing activity for 2018-19;
- Investment activity for 2018-19;
- Performance against budget; and,
- Treasury management limits and prudential indicators position.

2. TREASURY MANAGEMENT STRATEGY FOR 2018-19

2.1. Overview of the 2018-19 Strategy

The expectation for interest rates within the treasury management strategy for 2018-19 was for Bank Rate (often referred to as Base Rate) to increase by 0.25% to 0.75%; and for only very gradual rises in medium and longer term fixed borrowing rates during 2018-19. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued economic uncertainty promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

With investment returns anticipated to remain low (at least in the short term), it is proposed to continue with the practise adopted in previous years of wherever possible using investments in lieu of external borrowing – i.e. operating an under-borrowing position. The treasury management strategy for 2018-19 forecast the year end under-borrowing would increase to £149.478 million (from £106.082 million at 31 March 2018).

Whilst the principal strategy of maintaining an under-borrowing position would reduce short term revenue costs, consideration would also be given to increased long-term borrowing whilst interest rates remain low.

2.2. Compliance

All treasury activities met the Treasury indicators set out in the TMSS, and borrowing was within the borrowing limits set by the Council. Throughout the period, all treasury activities have been conducted within the parameters of the TMSS 2018-19, alongside best practice suggested by the CIPFA Treasury Management Code and Central Government.

3. ECONOMIC CONDITIONS AND INTEREST RATES DURING 2018-19

3.1. Economy

After UK gross domestic product (GDP) grew by only 0.2% in quarter 1 of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3 (likely to have reflected one-off effects of the warm weather and the World Cup), before cooling off to 0.2% in the final quarter. This resulted in an overall growth in GDP for the year of 1.4% - a fall of 0.4% compared to 2017 and the weakest growth since the financial crisis. Aside from the United States, all other G7 countries also experienced a loss in momentum in 2018. The UK was only the fifth-fastest growing advanced economy in 2018, ahead of Japan and Italy.

Following an increase in Bank Rate from 0.5% to 0.75% in August 2018, members of the Bank's Monetary Policy Committee (MPC) voted to keep rates on hold at 0.75% for the remainder of the financial year, amid continued uncertainty over Brexit.

Nevertheless, the MPC has been increasingly concerned over the trend in wage inflation which peaked at a new post financial crisis high of 3.5% in the three months

to December (before falling only marginally to 3.4% in the three months to January), as employers ramped up their hiring in the lead up to Brexit.

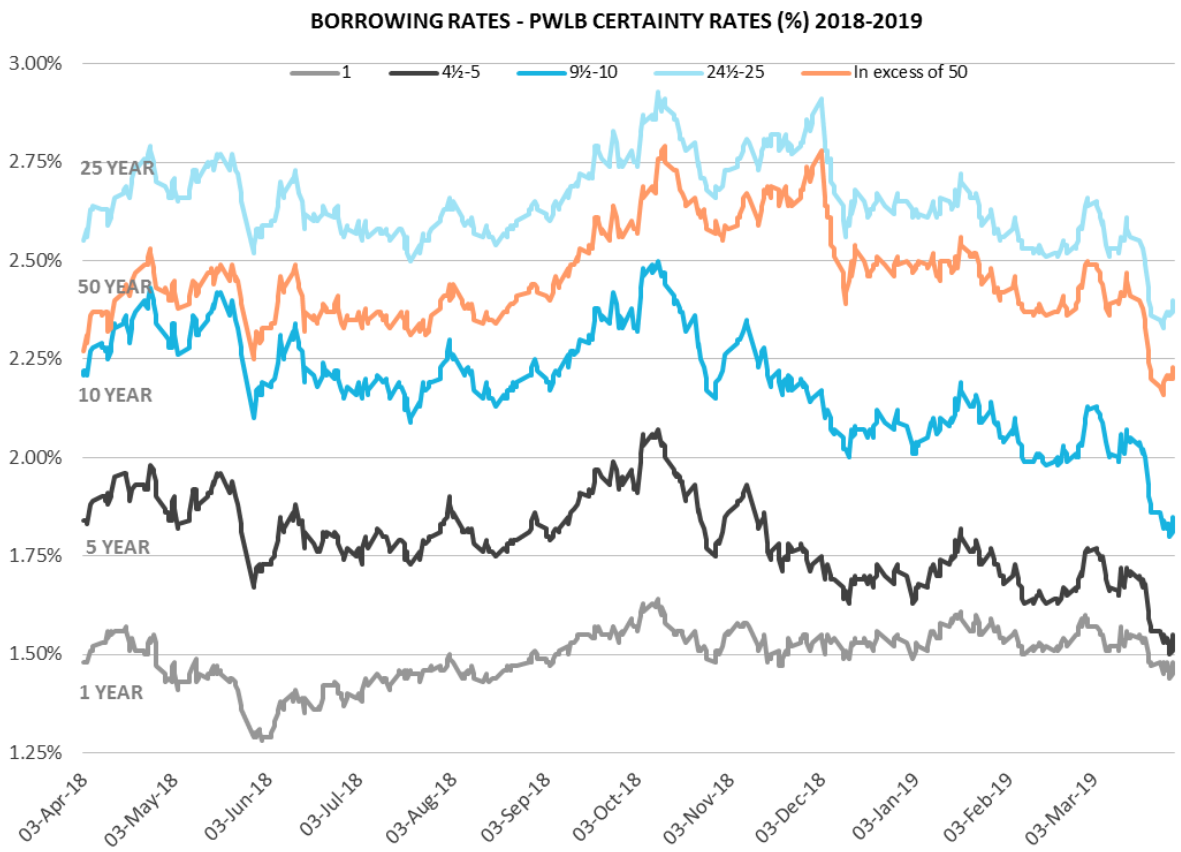
Meanwhile, Consumer Price Index (CPI) inflation itself has been on a falling trend since November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February.

3.2. Borrowing Rates

PWLB borrowing rates are driven by gilt yields (the interest rate of government debt), and in turn the inverse relationship between gilt prices and gilt yields – when prices / demand increase, yields fall. Also, demand for 'safe-haven' gilts typically strengthens when worries grow about the outlook for the economy.

After the initial optimism of the first half of the year gilt yields and borrowing rates peaked in October 2018 but followed a mostly downward trend thereafter – but there was a spike during December. March 2019 saw the sharpest decline in global government bond yields since the aftermath of the Brexit referendum in June 2016, after the U.S. Federal Reserve said it no longer expected to raise interest rates this year and investors worried about the risk of a no-deal Brexit.

The following graph shows PWLB (borrowing) rate movements during the year, for a selection of maturity periods.



3.3. Investment Rates

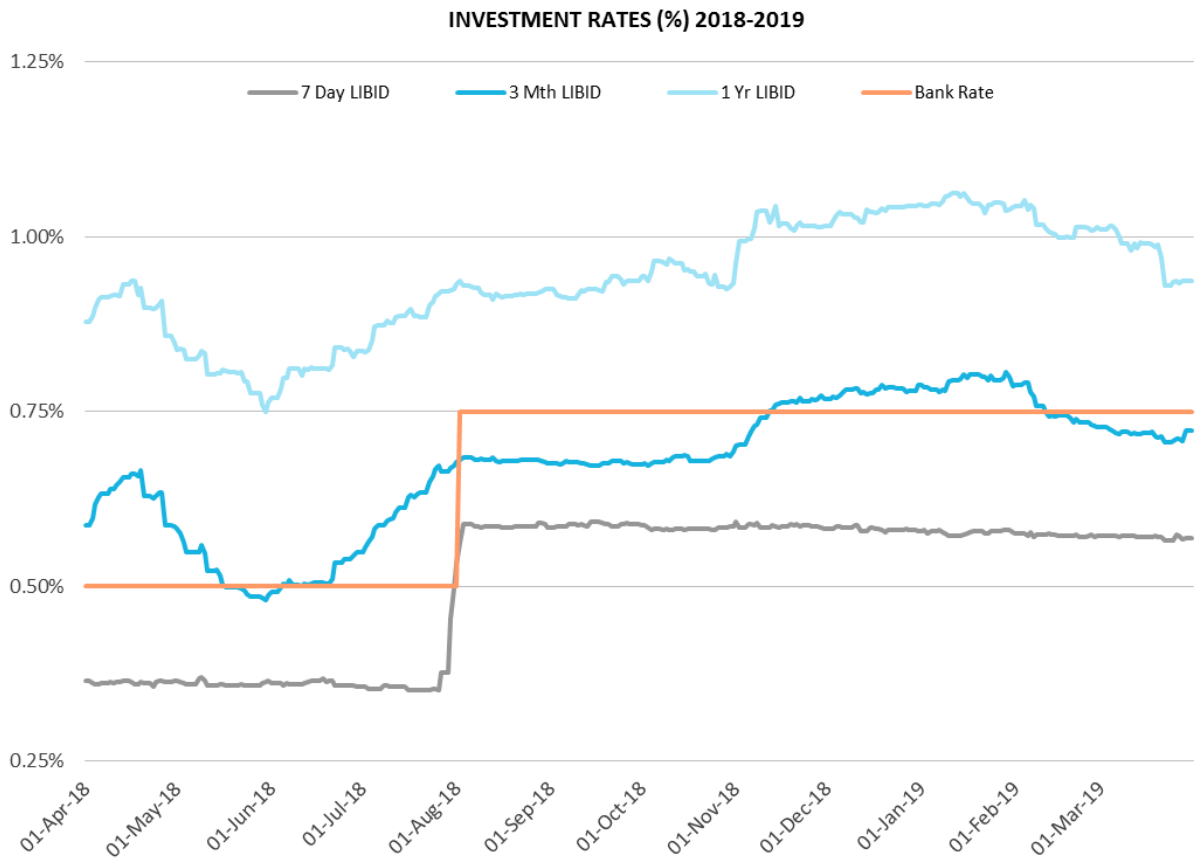
For the most part, investments rate movements follow a similar pattern to shorter term borrowing rates and Bank Rate movements.

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 had proved disappointingly 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 which it did at its meeting on 2 August 2018.

It was not expected that the MPC would raise Bank Rate again during 2018-19 as the UK was entering into a time of major uncertainty with Brexit due in March 2019.

Investment rates changed very little during August to October, but rose sharply after the MPC meeting of 1 November due to the perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

The following graph shows a selection of investment rate movements during the year:



4. THE PORTFOLIO POSITION AT 31 MARCH 2018

4.1. Current Borrowing

The Council's debt at 1 April 2018 and 31 March 2019 is shown below:

TABLE 1: BORROWING	Total Principal 1 April 2018 £m	Weighted Average Rate %	Total Principal 31 March 2019 £m	Weighted Average Rate %
Public Works Loan Board Loans	295.397	3.30	351.872	3.07
LOBOs	209.500	3.90	176.500	3.95
Market / Local Authority (>1yr)*	247.100	1.83	181.100	2.18
Market / Local Authority (<1yr)*	20.000	0.67	22.000	0.95
Salix	0.067	-	0.050	-
TOTAL EXTERNAL BORROWING	**772.064**	**2.92**	**731.522**	**3.00**

* Note: above figures are based on the term of loans at their inception.

4.2. Current Investments

The table below summarises the investment position at 1 April 2018 and 31 March 2019:

TABLE 2: INVESTMENTS	Total Outstanding 1 April 2018 £m	Weighted Average Rate %	Total Outstanding 31 March 2019 £m	Weighted Average Rate %
Fixed Term Investments – Long Term (>1yr)*	33.250	3.24	33.250	3.24
Fixed Term Investments – Short Term (<1yr)*	65.000	0.59	-	-
Money Market Funds and Call Accounts	52.100	0.47	62.750	0.83
TOTAL INVESTMENTS (excl. Cash)	**150.350**	**1.14**	**96.000**	**1.66**

* Note: above figures are based on the term of investments at their inception.

5. BORROWING ACTIVITY 2018-19

5.1. Introduction

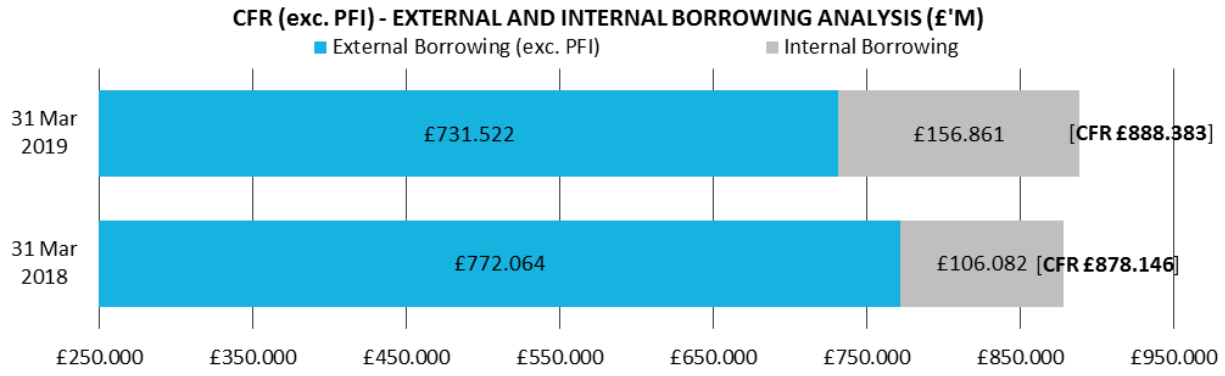
The Council borrows to fund the Capital programme, as well as to fund loans to third parties for policy reasons.

5.2. Borrowing Need – Capital Financing Requirement

The Council's long-term borrowing requirement or need to borrow is measured by the Capital Financing Requirement ("CFR"). The CFR represents total historic outstanding capital expenditure which has not yet been paid for from either revenue or cash-backed capital resources (such as grants and capital receipts). The CFR is repaid over time by an annual charge to revenue, known as the Minimum Revenue Provision (MRP). This charge, which is equivalent to depreciation, effectively spreads the cost of debt associated with capital expenditure over the useful economic life of the underlying assets.

At the same time the Council has significant levels of 'cash-backed' balances that are available for investment. Accordingly, the capital financing requirement (or borrowing requirement) need not always be met or funded externally from physical loans. At least in the short term, investment balances can be 'used' in lieu of borrowing externally; by withdrawing investments (in turn foregoing investment income) and instead using the cash to fund part of the borrowing requirement. This is often referred to as 'internal' or 'under' borrowing.

The following graph summarises the CFR (excluding PFIs) and external borrowing movements during the year:



The inter-relationship (and reconciliation) between the CFR, external borrowing and investments is further analysed in the 'Balance Sheet Review' attached at Appendix 1.

The CFR (excluding PFIs) reduced during the year and was lower than originally budgeted at 31 March 2019 at £731.522 million against a budget of £824.522 million; due to re-profiling of the capital programme. However, despite the increased utilisation of investment balances to support the borrowing requirement, external borrowing was still required during 2018-19 to replace maturing existing loans.

£170.542 million of loans matured and were repaid during the year and £130.000 million of new or replacement borrowing was taken out over the same period. As a result, total external borrowing decreased by £40.542 million, from £772.064 million at the start of year to £731.522 million at 31 March 2019. This in turn led to an increase in 'internal borrowing' (i.e. the difference between the CFR and actual external

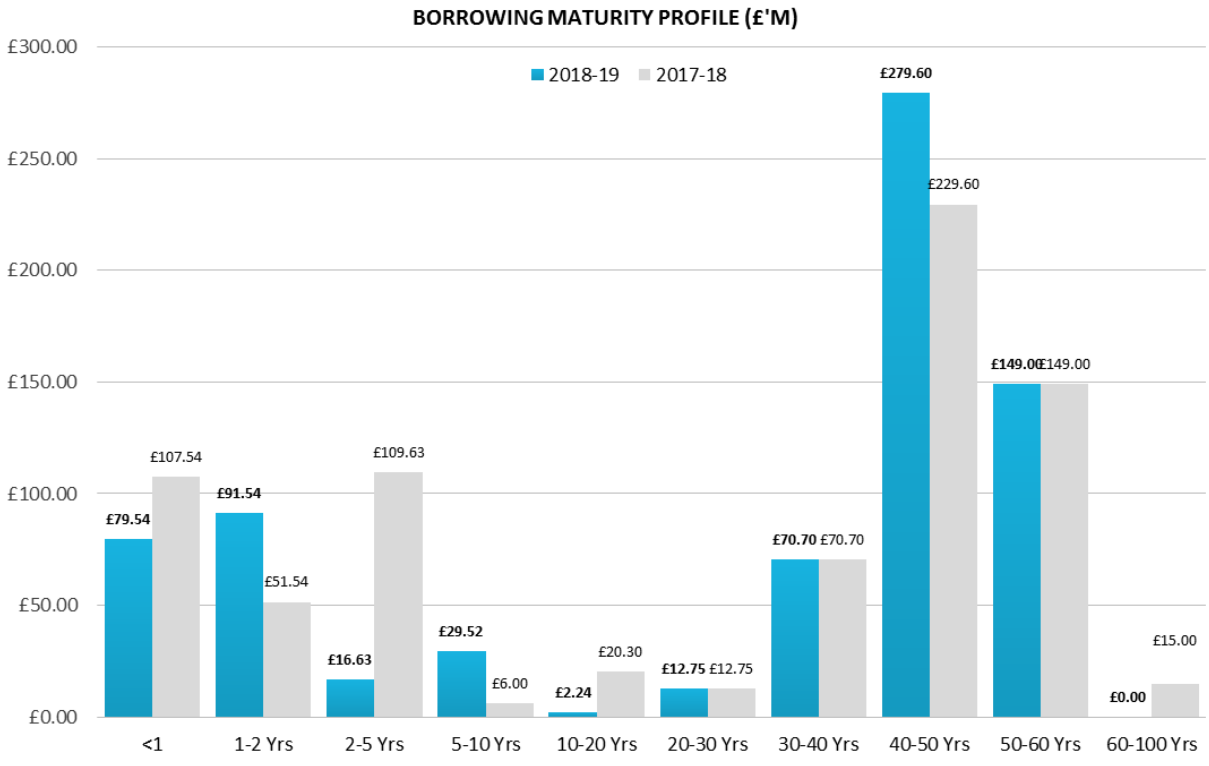
borrowing) of £50.779 million, from £106.082 million at the start of year to £156.861 million at 31 March 2019, which is shown in the graph above.

The weighted average maturity (WAM) of all new borrowing during the year was 19.46 years. The new borrowing was made up of 9 long term PWLB loans totalling £75.000 million (2 loans between 7 and 10 years and 7 loans between 45 and 50 years), and 7 shorter term local authority loans totalling £55.000 million (ranging from 3 to 6 months). This resulted in the year-end WAM of the portfolio increasing from 30.85 to 33.57 years.

The repayments made in year include the early redemption of two Lender Option Borrower Option (LOBO) loans, saving the Council an estimated £6.979 million over the lifetime of the LOBO period - as summarised in the following table;

Lender	Principal Repaid £m	Interest Rate %	Premium Paid £m	Estimated Lifetime Saving £m
Royal Bank of Scotland	15.000	4.26	5.489	6.51
Siemens Capital	18.000	3.03	0.235	0.47

The following graph shows the maturity of the loan portfolio at 31 March 2019 by monetary value (£731.522 million in total). LOBOs are shown as held to maturity. In the current climate it is not envisaged that loans would be called for repayment within the next 12 months, as rates are so low.



Consideration is being given to smoothing out the maturity profile. However, at present borrowing rates are significantly more expensive in the 20-30 year range – please see section 3.2 above. As mentioned above, £25.000 million of the new borrowing in year was taken out within the 7-10 year period.

5.3. Borrowing Performance / Benchmarking

The weighted average rate of interest paid on all borrowing during the year was 2.97%, and the average rate on loans at 31 March 2019 was 3.00%, an increase of 0.08% compared to the start of the year figure of 2.92%.

Comparison data for other local authorities, from CIPFA's benchmarking club, is not yet available but will be provided as part of the next treasury management update to members in the Autumn.

Overall borrowing levels were lower than originally budgeted, particularly in the latter part of the year, as a result of reduced spend /re-profiling of the capital programme.

Interest paid on external borrowing was therefore £1.981 million below budget at £21.628 million (original budget of £23.609 million). Part of the reduction was also attributable to the average rate of interest paid over the year being slightly lower than estimated, at 2.97% compared to a budgeted figure of 3.05%.

6. INVESTMENT ACTIVITY 2018-19

6.1. Introduction

The Council has significant levels of 'cash-backed' balances that are available for investment; in the form of General Fund and HRA balances, and the numerous earmarked reserves and provisions.

The Council's investment policy (as set out in the Treasury Management Strategy Statement for 2018-19) is governed by the Ministry of Housing, Communities and Local Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). 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.).

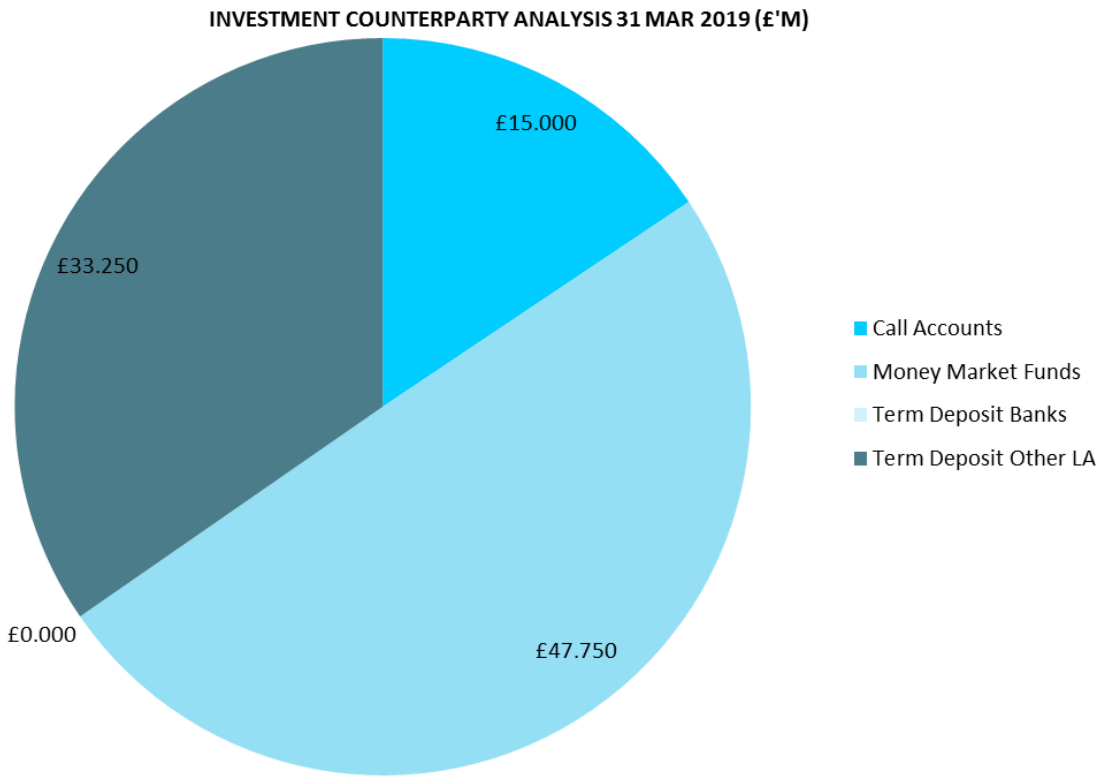
All investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

As identified in section 5 above, a significant (and increasing) proportion of available investment balances were used as 'internal borrowing' to support the financing of the CFR. This totalled £156.861 million at 31 March 2019 (an increase of £50.779 million – as reported above). In addition, over the year the level of available balances increased by £12.714 million, and the net difference between outstanding creditors and debtors (referred to as working capital) decreased by £16.452 million. (See Balance Sheet Review at Appendix 1).

As a result, overall external investments (excluding cash) reduced during the year from £150.350 million to £96.000 million, and the Council maintained an average balance of £121.059 million of internally managed funds.

The weighted average maturity (WAM) of the £96.000 million of investments held at the year-end was 1.19 years (1.03 years at 31 Match 2018). This is heavily influenced by the £33.25 million of long-term investments which in themselves have a WAM of 3.42 years.

An analysis of the year-end investment balance (excluding cash) by counterparty category is shown in the following chart:



6.2. Investment Performance / Benchmarking

The budget for 2018-19 was based on an estimated weighted average rate of return of 1.94% on average investment balances of £61.213 million. Actual average investment balances were higher than anticipated, at £121.059 million. This was due to a reduced level of resource required to fund the revised capital programme. However, as these 'additional' sums could only be invested short term, at the prevailing low rates, this in turn impacted on the overall weighted rate of return for the year, reducing it to 1.39%, as a greater proportion of investments were at these low rates.

Income from core treasury management investments exceeded the budget for the year by £0.490 million, totalling £1.678 million against an original estimate of £1.188 million.

Note: the above figures are exclusive of interest received on loans to third parties. These loans are made for policy reasons; and not day-to-day treasury undertakings in relation to the investment of cash flows etc.; and, as a result are not classed as core

treasury management activities. Actual returns on these facilities totalled £20.502 million, which was lower than the budgeted by £1.868 million as a result of a reduction in the overall estimated value of loans provided. This subsequently reduced the investment income achieved, as well as the borrowing costs (see para 5.3 above).

The returns achieved of 1.39% were maximised by the longer term investments with other Local Authorities taken out a number of years earlier, and compare favourably against the average London Interbank Bid Rate (LIBID) benchmark indicators of:

- 7 Day - 0.51%
- 3 Month - 0.68%
- 1 Year – 0.94%

As with borrowing, comparison data for other local authorities is not yet available from CIPFA, and again will be provided in the Autumn when the information is available.

However, data from Link Asset Services' benchmarking club shows Northumberland compares very favourably. Looking at the weighted average rate on investments held at 31 March 2018, Northumberland's rate of 1.66% was higher than the average for its benchmarking group (0.94%), as well as English Unitary Authorities (0.94%) and overall Link benchmarking group population (0.95%).

7. OVERALL TREASURY MANAGEMENT BUDGET PERFORMANCE

Overall net Treasury Management costs (including Minimum Revenue Provision, amortisation of premiums and discounts and PFI contracts etc.) were £0.914 million lower than budgeted, at £31.658 million in comparison to the budget of £32.572 million. The key variances are summarised in the following table:

	Additional Cost / (Saving) £m
Interest Payable – External Borrowing	(1.981)
Interest Payable – PFI Contracts	(0.168)
Interest Receivable – Treasury Management Activity	(0.490)
Interest Receivable – Loans to Third Parties	1.868
Debt Management Expenses	(0.100)
Minimum Revenue Provision (MRP)	(0.269)
Other	0.226
TOTAL NET UNDERSPEND	**(0.914)**

Notes:

- Contrary to section 6.2, the above figures DO include interest received from loans to third parties; on the basis that the underlying borrowing (and therefore

interest payable) in respect of these loans is reflected in the above costs and cannot be separately identified and excluded.

- MRP charges for the year were lower than budget due to a correction to previous years' charges following a review undertaken by Link Asset Services.

- The above figures exclude the MRP payments made in respect of third party loans, which are funded from the principal repayments made by the borrower and therefore have a neutral impact on Council budgets. They also exclude the premiums incurred during the year in respect of the early redemption of two LOBO loans – statutory regulations allow for these premiums to be amortised over the life of the original facilities rather than charged against general fund in the year they are incurred.

8. PRUDENTIAL INDICATORS AND TREASURY LIMITS 2018-19

The Prudential Code has been developed by CIPFA. The Code has a central role in capital finance decision making, including borrowing for capital investment. Its key objectives are to provide a framework for local authority finance that will ensure individual authorities' capital expenditure plans are affordable; all external borrowing is within prudent and sustainable levels; and, that treasury management decisions are taken in accordance with good professional practice.

To ensure compliance with the Code, councils are required to approve a set of Prudential Indicators for the financial year and adhere to these indicators during the course of that year. Details of the Prudential Indicators and Treasury Management Limits for 2018-19 are provided in Appendix 2.

Implications

Policy	The report provides a review of the Treasury Management activities for 2018-19, and sets out performance against the Treasury Management Strategy Statement for 2018-19. It is consistent with "We want to be efficient, open and work for everyone" priority included in the Council's Corporate Plan 2018-21.
Finance and value for money	The financial implications of the 2018-19 investment and borrowing transactions have been taken into account within the revenue budget and outturn for 2018-19. Northumberland County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Capita benchmarking clubs.
Legal	Under Section 1 of the Local Government Act 2003 (the Act) the Council may borrow money for any purpose relevant to its functions under any enactment, or for the purpose of the prudent management of its financial affairs. The Act and supporting regulations also requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010).
Procurement	There are no direct procurement implications for the County Council.
Human Resources	There are no direct staffing implications for the County Council.
Property	There are no direct property implications for the County Council.
Equalities	Not applicable for the County Council.
(Impact Assessment attached) Yes ☐ No ☐ N/A ☐	

Risk Assessment	The report highlights the principal financial risks within the Treasury Management function. The identification, monitoring and control of risk are the prime criteria by which the effectiveness of the County Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. The investment priority is security and liquidity rather than yield, which is a secondary aim.
Crime & Disorder	There are no Crime and Disorder implications for the County Council.
Customer Consideration	There are no Customer Considerations for the County Council.
Carbon reduction	There are no Carbon Reduction implications for the County Council.
Wards	All.

Background Papers:

Treasury Management Strategy Statement for 2018-19.

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance notes (revised 2011).

CIPFA Prudential Code for Capital Finance in Local Authorities.

Guidance on Local Government Investments; The Local Government Act 2003.

Local Authorities (Capital Finance and Accounting) Regulations 2012 (S.I.2012/265).

Report sign off:

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Chief Executive	Daljit Lally
Portfolio Holder	Nicholas Oliver

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APPENDIX 1

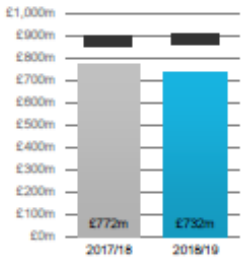
NORTHUMBERLAND COUNTY COUNCIL

2018/19 Desktop Balance Sheet Review

CAPITAL FINANCING AND BORROWING (£'000)

	2017/18	2018/19
Capital Financing Requirement	£951,984	£960,543
Underlying Borrowing Requirement	£878,146	£888,383
External Borrowing	£772,064	£731,522
Under Borrowing	£106,082	£156,861
Net Borrowing (exc TFR debt)	£619,629	£633,604

External Borrowing vs Underlying

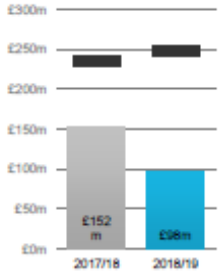


2017/18 (£'000)		2018/19 (£'000)	Change (£'000)
	Capital Financing Requirement (CFR)		
1,341,445	Property, Plant & Equipment	1,347,130	
1,479	Investment Property	1,531	
1,850	Intangible Assets	1,889	
7,668	Assets Held for Sale	8,075	
16,739	Capital Investments (non-TM)	11,416	
422,558	Capital Long-term Debtors	418,945	
(140,224)	Revaluation Reserve	(142,207)	
(686,427)	Capital Adjustment Account	(679,454)	
(13,104)	Financial Instruments Revaluation Reserve (capital)	(6,782)	
951,984	**CFR (as per Prudential Code)**	**960,543**	**8,558**
4,362	PFI Prepayment	4,185	
(78,200)	PFI Liability	(76,345)	
878,146	**Underlying Borrowing Requirement**	**888,383**	**10,237**
	External Borrowing		
(107,542)	Short-Term	(71,541)	
(664,522)	Long-Term	(659,981)	
(772,064)	**TOTAL External Borrowing (Principal)**	**(731,522)**	**40,542**
106,082	**Under Borrowing**	**156,861**	**50,779**

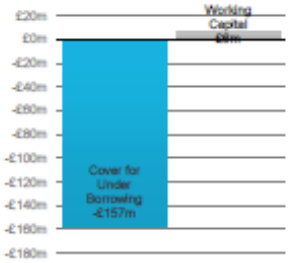
RESERVES / BALANCES AND INVESTMENTS (£'000)

	2017/18	2018/19
Balances Available for Investment	£235,710	£248,424
External Investments	£152,435	£97,918
(Internal Investments)	£83,275	£150,506

Investments vs Balances



Analysis of (Internal Investments)



2017/18 (£'000)		2018/19 (£'000)	Change (£'000)
	Reserves / Balances		
(55,433)	General Fund Balance	(55,433)	
(30,862)	Housing Revenue Account Balance (inc MRA)	(31,706)	
(3,594)	Collection Fund Adjustment Account	(155)	
(110,985)	Earmarked reserves / other balances	(122,148)	
(786)	Capital Receipts Reserve	(1,606)	
(11,711)	Provisions (exc. any accumulating absences)	(9,502)	
(22,339)	Capital Grants Unapplied	(27,874)	
(235,710)	**Amount Available for Investment**	**(248,424)**	**(12,714)**
	Investments		
65,000	Short-Term	-	
33,251	Long-Term	33,250	
54,184	Cash & Cash Equivalents	64,668	
152,435	**TOTAL Investments**	**97,918**	**(54,517)**
(83,275)	**(Internal Investments)**	**(150,506)**	**(67,231)**

WORKING CAPITAL (£'000)

	2017/18	2018/19
TOTAL Working Capital (Surplus)	-£22,807	-£6,355

Analysis of Working Capital

2017/18 (£'000)		2018/19 (£'000)	Change (£'000)
	Working Capital		
63,635	Debtors	75,005	11,370
(69,108)	Creditors	(63,664)	5,444
(9,953)	Capital Grants Receipts in Advance	(6,028)	
(10,465)	Cash Overdrawn	(15,569)	
828	Stock / WIP	1,810	
(25,063)	**NET Working Capital (Surplus)**	**(8,446)**	**16,817**
	Other		
2,298	Balance LT Debtors	(6,450)	
-	Balance of LT Liabilities	(1)	
3,059	FIAA - Premiums, (Discounts) etc	8,543	
-	Balance of Available for Sale (Rev)	(1)	
(3,101)	Deferred credits / receipts (non-capital)	-	
2,256	**Other Long-Term Working Capital**	**2,091**	**(165)**
(22,807)	**TOTAL Working Capital (Surplus)**	**(6,355)**	**16,452**

APPENDIX 2

PERFORMANCE AGAINST CAPITAL PRUDENTIAL INDICATORS

Authorised Limit and Operational Boundary for External Debt

These are important indicators, and are part of the Local Government Act 2003 requirements.

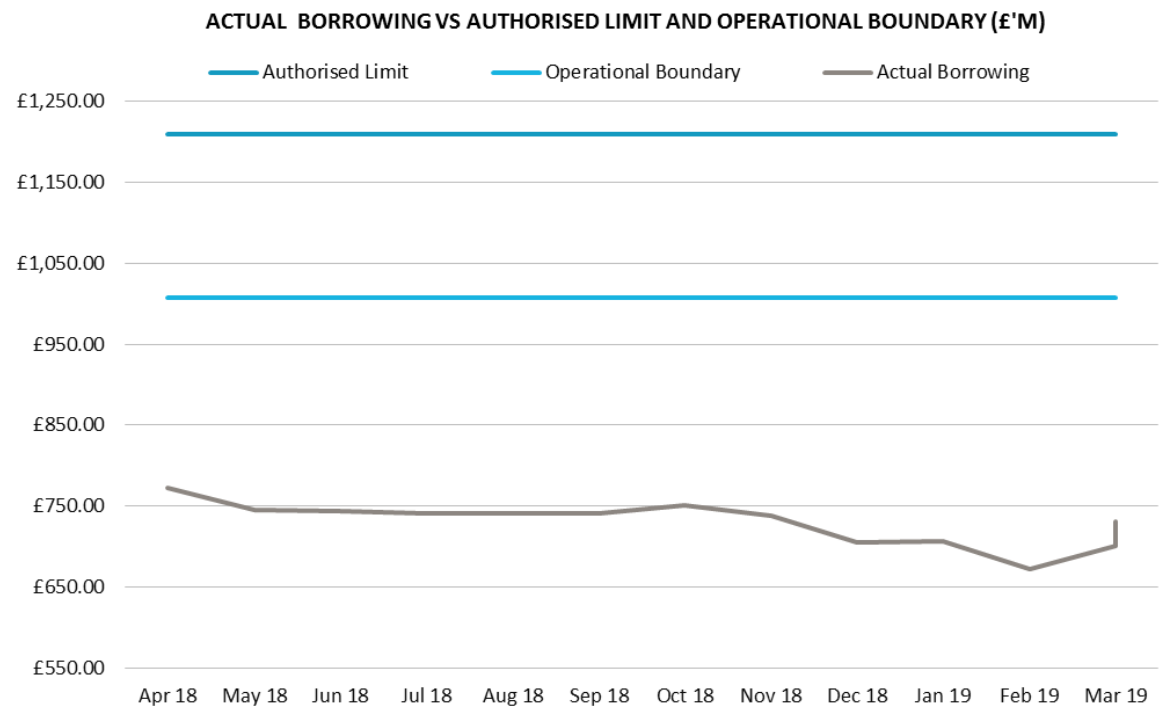
The authorised limit - is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

The table below demonstrates that during 2018-19 the Council has maintained gross borrowing within its authorised limit.

	Authorised Limit for External Debt £m	Operational Boundary £m	Actual 31 March 2019 £m
External Borrowing	1,209.448	1,007.874	731.522
Other Long Term Liabilities (PFI)	86.637	72.198	72.160
TOTAL EXTERNAL DEBT	**1,296.085**	**1,080.072**	**803.682**

The following graph shows the external borrowing limits and actual borrowing over the year:



Treasury Management Limits on Activity

The purpose of this is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates.

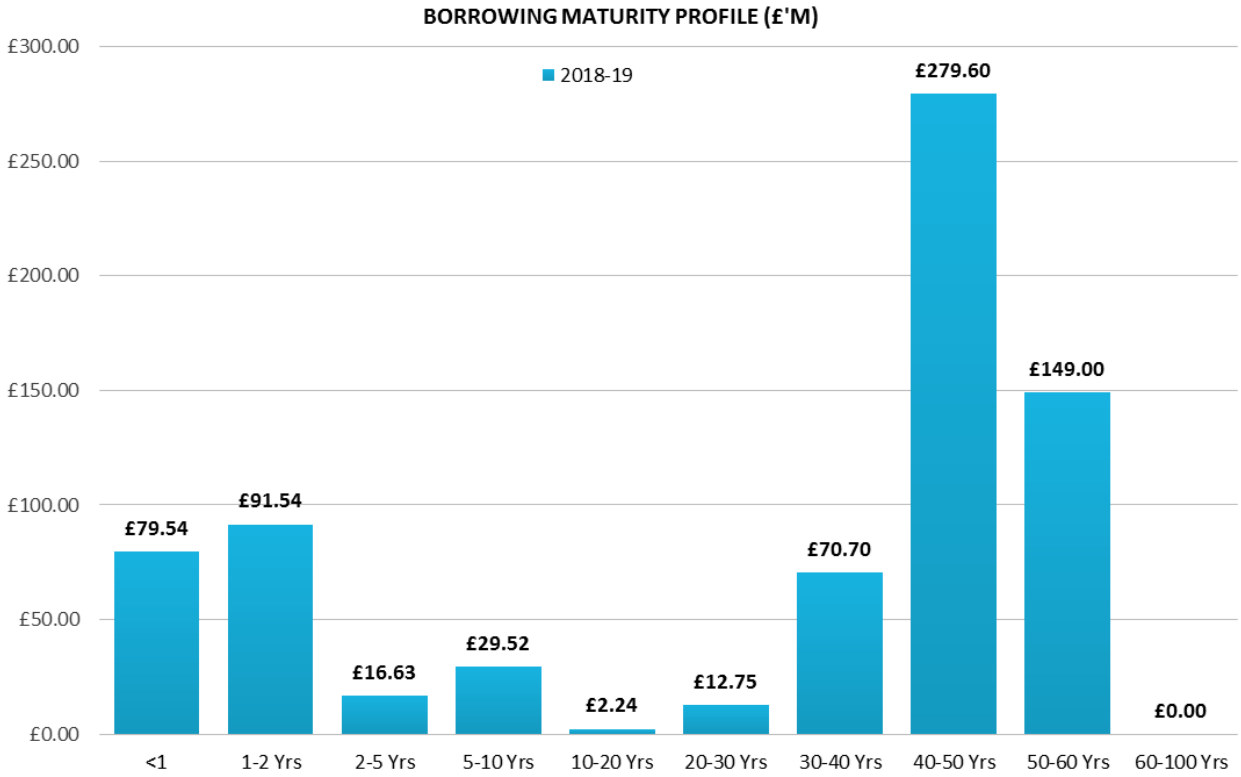
Lender option, borrower option loans (LOBOs) callable within 12 months are classed as variable; and if the rate is fixed for a longer period they are classed as fixed. At 31 March 2019 the total of variable rate loans was £78.000 million and is within the set limit.

	Limit for 2018-19	Actual 31 March 2019
Fixed Rate Exposure	0% - 100%	89.34%
Variable Rate Exposure	0% - 50%	10.66%

Maturity Structure of Borrowing

Measuring maturity structure of borrowing ensures a reasonable spread of maturing debt as a safety mechanism to ensure significant amounts of debt do not mature at a time when interest rates for refinancing the debt may be high.

The following graph shows maturity of loans by monetary value. LOBOs are shown as held to maturity. In the current climate it is not envisaged that loans would be called for repayment within the next 12 months as rates are low.



Investments for periods longer than 365 days

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	Limit 2018-19 £m	Actual Highest £m	Actual 31 March 2019 £m
Principal sums invested > 364 days	120.000	33.250	33.250