CITY OF PLYMOUTH

Subject:	Annual Report on Treasury Management Activities for 2016/17
Committee:	Audit Committee
Date:	29th June 2017
Cabinet Member:	Councillor Darcy
CMT Member:	Andrew Hardingham (Interim Joint Strategic Director Transformation and Change)
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Ref:	Fin/CF
Key Decision	No
Part:	I

Purpose of the report:

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its treasury management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the treasury management activities for financial year 2016/17 including the final position on the statutory Prudential Indicators.

This report:

a) is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
b) confirms capital financing, borrowing, debt rescheduling and investment transactions for the year 2016/17;
c) provides an update on the risk inherent in the portfolio and outlines actions taken by the Council during the year to minimise risk;
d) gives details of the outturn position on Treasury Management transactions in 2016/17;
e) confirms compliance with treasury limits and Prudential Indicators (PIs) and the outlines the final position on the PI's for the year.

In line with the recommendations in the Code of Practice, this report is submitted to Audit Committee as the committee responsible for scrutiny of the treasury management function.

In accordance with Treasury Management Practices note 6, this report is required to be submitted to Full Council.

The Council Corporate Plan 2016/19

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

Into the medium and longer term the Council is facing significant pressures due to the national economic situation, which has led to a reduction in resources for local authorities over the Government's latest spending period. Effective Treasury Management will be essential in ensuring the Council's cash flows are used to effectively support the challenges ahead.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality:

There is an inherent risk to any Treasury Management activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved investment strategy, and keeping the counterparty list under constant review.

Recommendations & Reasons for recommended action:

1. To note the Treasury Management Annual Report 2016/17.
2. To refer the Treasury Management Annual Report 2016/17 to Full Council for approval.

   This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.

Alternative options considered and reasons for recommended action:

None - it is requirement to report to Council on the treasury management activities for the year.

Background papers:

- Treasury Management Strategy report to Council 27 February 2017
- Mid-Year Review report to Audit Committee 8 December 2016

Sign off:

Fin	AKH17 18.29	Leg/ Dem& Gov	DVS28 241	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Andrew Hardingham, Interim Joint Strategic Director Transformation and Change											
Has the Cabinet Member(s) agreed the content of the report? Yes											

Annual Report on Treasury Management Activities for 2016/17

Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

The Council's Treasury Management Strategy for 2016/17 was approved by Council on 16 February 2016. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury management activity and the associated monitoring and control of risk.

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 (International Labour Organisation). 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 Council'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 Council'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.

Local Context

On 31st March 2017, the Council had net borrowing of £265m arising from its revenue and capital income and expenditure, an increase on 2016 of £60m. 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	306	51	357
Less: Other debt liabilities *	-125	12	-113
Borrowing CFR	**181**	**63**	**244**
Less: Usable reserves	-51	-1	-50
Less: Working capital	-27	-2	-29
Net borrowing	**203**	**60**	**265**

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

Net borrowing has increased due to a rise in the CFR as new capital expenditure was higher than the financing applied including minimum revenue provision; together with a small decrease in usable reserves and a fall in working capital due to the timing of receipts and payments.

Borrowing Activity

At 31st March 2017, the Council held £287m of loans, (an increase of £44m on 31/03/2016) as part of its strategy for funding previous years' capital programmes. See table 2 below.

The Council'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 Council's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Council determined it was more cost effective in the short-term to borrow short-term loans instead.

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with this 'cost of carry' and breakeven analysis. Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, also remained affordable and attractive.

Table 2: Borrowing Activity

	Balance on 01/04/2016 £m	Movement £m	Balance on 31/03/2017 £m	Avg Rate %
Public Works Loan Board	44	0	44	5.76%
Banks - LOBOs	100	(18)	82	4.38%
Banks - Fixed Long Term	0	18	18	4.37%
Short Term Borrowing	99	44	143	0.05%
TOTAL BORROWING	243	44	287	4.85%
Other Long Term Liabilities	125	(12)	113	-
TOTAL EXTERNAL DEBT	368	32	400	-
Increase/ (Decrease) in Borrowing £m			32	

LOBOs

The Council holds £82m (£100m in 2016) 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. The Council then has the option to either accept the new rate or to repay the loan at no additional cost. During the year £26m of our LOBOs had options, none of which were exercised by the lender.

During 2016 Barclays Bank informed the Council that it had revoked its rights to exercise their options in future and £18m of LOBOs has therefore been reclassified as fixed rate long term loans.

LGA Bond Agency

UK Municipal Bonds Agency (MBA) plc. was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Council has analysed the potential rewards and risks of borrowing from the MBA and has approved and signed the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee.

As at 31st March 2017 no bonds have been issued by the Municipal Bonds Agency.

Debt Rescheduling

The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

Other Debt Activities

Although not classified as borrowing, the Council has capital finance from Private Finance Initiatives and Finance Leases and as at 31st March 2017 this amounted to £113m.

The liability for the PFI scheme has increased our requirement for finance and therefore we increased our Operational Boundary and Authorised limit to allow for this.

Minimum Revenue Provision (MRP)

Under regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003/146, as amended, local authorities are required to charge to their revenue account, for each financial year, MRP for the cost of their unfinanced capital expenditure.

There have been recent changes to the advice from CIPFA on MRP calculations and the use of the annuity method. Prior years involved detailed calculations which were very perspective but these have been replaced with a requirement that local authorities calculate an amount or MRP which they consider to be prudent.

During 2015/16 the Council carried out a review of its MRP calculation method and accounting assumptions. The Council's calculations were driven by a very complex methodology that needed a full overhaul. The Council therefore engaged its TM advisors, Arlingclose to review and advise practice. The main conclusions were that, due to the way we were calculating our annual MRP charge has resulted in an over-provision for many years and it also recommended a change in the calculation method.

The Council wanted to match the economic benefits from its assets with the life of those assets. Therefore the Council change its calculation method to the annuity method which not only spreads the cost of the borrowing over the life of the assets but it also takes into account the time value of money.

The Council's previous method of calculating MRP was to spread the cost of borrowing in a straight line over a maximum of 25 years. The current council tax payers would therefore pay a relative higher charge than council tax payers in the future. For example if an asset cost of £20m to build and has a life of 20 years then there would have been a £1m charged each year on the straight line basis. The annuity method takes into account the time of value because £1m today has a higher value (NPV) that £1m in 20 years' time.

The resulting change from the over provision of MRP in prior years reduced the MRP charge in 2015/16 by £5.960m and £3.652m in 2016/17.

To assist the Council in keeping a balance budget for 2016/17 the Council used £0.267m of capital receipt towards the MRP charge for 2016/17.

Investment Activity

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17, the Council's investment and cash balances ranged between £70 and £100 million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 3 below.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Table 3: Investment Activity in 2016/17

Investments	Balance on 01/04/2016 £m	Movement £m	Balance on 30/03/2017 £m	Avg Rate/Yield (%)
Short term Investments (call accounts etc.)	13	3	16	0.01%
Covered Bonds and Loans	13	(2)	11	1.35%
Money Market Funds	14	(1)	13	0.28%
Other Pooled Funds	22	0	22	3.25%
Other Deposits	13	4	17	0.94%
TOTAL INVESTMENTS	**75**	**4**	**79**	
Increase/ (Decrease) in Investments £m			4	

Both the CIPFA Code and government 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. The Council'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.

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Given the increasing risk and falling returns from short-term unsecured bank investments, the Council wants to diversify into higher yielding long term asset classes.

Treasury Management Outturn 2016/17

Budget Income and Expenditure

Treasury Management Outturn Position 2016/17

	2016/17 Budget	2016/17 Outturn	Year End Variance
	£m	£m	£m
Interest Payable	3.060		
LOBO (Lender Option, Borrower Option)		4.378	
PWLB (Public Works Loan Board)		2.550	
Temporary loans		0.409	
Internal Interest		0.119	
Recharge to Departments for Unsupported Borrowing (in accordance with business cases)		(5.025)	
Total Interest Payable	**3.060**	**2.431**	**(0.629)**
Interest Receivable	(1.257)		
CCLA Property Fund		(1.006)	
Money Market Fund		(0.089)	
Deposits		(0.061)	
Other Accounts		(0.105)	
Other External Interest		(0.176)	
Total Interest Receivable	**(1.257)**	**(1.437)**	**(0.180)**
Other Charges			
Debt Management	0.126	0.295	0.169
Amortised Premiums	(0.096)	0.117	0.213
Total Other Charges	**0.030**	**0.412**	**0.382**
Minimum Revenue Provision	**2.574**	**1.853**	**(0.721)**
TOTAL	**4.407**	**3.259**	**(1.148)**

The UK Bank Rate which has been maintained at 0.5% since March 2009 fell in August 2016 to 0.25%. Short-term money market rates have fallen to lower levels. Investments in Money Market Funds generated an average rate of 0.28%. The average cash balances were £19.8m during the year.

The Council's budgeted investment income for the year was £1.257m. The Council's investment outturn for the year was £1.437m.

The Treasury Management budget is a held as a subset of the Corporate Items budget with the Council's General Fund. Whilst interest costs are slightly less than the budget there are a number of factors that contribute to the final position. Whilst the Council not only borrows to finance capital expenditure, it also has to maintain a daily net cash surplus position. The costs of borrowing to finance invest to save capital schemes is charged to departments. The figures above include the borrowing implications of decisions to utilise the Asset Investment Fund to acquire assets to earn a revenue return which is accounted for in directorate's budgets.

The MRP differential derived as a consequence of the changes to the MRP financing policy agreed in 2016/17 has been used to offset amortised premiums and the increase in the PFI financing requirements and factored into the overall revenue outturn position to enable the Council to break even at year end.

The TM budget has also benefited from repayment of loans enabling service departments to release back to revenue provisions previously created as the risk of default was considered high.

Externally Managed Funds

The Council also has investments in cash plus bond and property funds which allow the Council to diversify into asset classes other than cash with the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.

Although money can be redeemed from the pooled funds at short notice, the Council's intention is to hold them for the medium-term. Their performance and suitability in meeting the Council's investment objectives are monitored regularly and discussed with Arlingclose.

Update on Investments with Icelandic Banks

In March 2017 the Iceland authorities lifted the restriction of movement of monies from the country. It is hoped that the balances held in Icelandic Krona can be withdrawn in 2017/18 and this is being pursued in partnership with the LGA.

The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

Bank	Original Deposit £m	Balance March 2017 £m
Heritable Bank	3.000	0.060
Glitnir	6.000	1.400
Landsbanki	4.000	0.000
Total	**13.000**	**1.460**

Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2016/17, which were set in February 2017.

The Following indicators are set and monitored each year:

- Estimates of Capital Expenditure;
- Estimates of Capital Financing Requirement;
- Gross Debt and the Capital Financing Requirement;
- Operation Boundary for External Debt;
- Authorised Limit for External Debt;
- Ratio of Financing Costs to Net Revenue Stream ;
- Incremental Impact of Capital Investment Decisions.

Treasury Management Indicators

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

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

	2016/17 Limit	2016/17 Actual	Complied
Upper limit on fixed interest rate exposure	210%	69%	✓
Upper limit on variable interest rate exposure	80%	69%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

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

	Upper Limit	Lower Limit	31.03.2017 Actual	Complied
Under 12 months	100%	0%	50%	✓
12 months and within 24 months	100%	0%	1%	✓
24 months and within 5 years	100%	0%	0%	✓
5 years and within 10 years	100%	0%	0%	✓
10 years and above	100%	0%	49%	✓

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

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

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£40m	£35m	£35m
Actual	£0m	£0m	£0m
Complied	✓	✓	✓

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

	Target	Actual	Complied
Portfolio average credit rating	A	AA-	✓

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

	Target	Actual	Complied
Total cash available within 3 months	£15 m	£15m	✓

Investment Training
Officers have undergone the following training during the year:

Arlingclose – Review of Minimum Revenue Provision.

Arlingclose – Principles of Treasury Management Workshop.

CCLA – Investments Seminar

CIPFA – Interest rates after Brexit

Arlingclose – Review of Borrowing and Investments.

Arlingclose - Accounts closedown 2016/17.

Grant Thornton - Accounts Workshops for Local Authority Accountants

Prudential Indicators 2016/17

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

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 statement of accounts.

Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2016/17 Estimate £m	2016/17 Actual £m	Difference £m
General Fund	104.910	90.423	14.487
Total Expenditure	**104.910**	**90.423**	**14.487**
Capital Receipts	8.510	1.216	-7.294
Grants & Contributions	48.080	38.428	-9.652
Reserves	0.0	0	0
Revenue	2.590	0.340	-2.250
Borrowing	45.730	50.439	4.709
Leasing and PFI	0	0	0
Total Financing	**104.910**	**90.423**	**14.487**

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

Capital Financing Requirement	31.03.17 Estimate £m	31.03.17 Actual £m	Difference £m
General Fund	**329.230**	**357.065**	27.835
Total CFR	**329.230**	**357.065**	**27.835**

The CFR rose by £28m capital expenditure financed by debt outweighs resources put aside for debt repayment.
The increase in CFR shows that the Council is increasing its borrowing to pay for capital expenditure in the city.

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 Council 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.

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

Debt	31.03.16 Estimate £m	31.03.17 Actual £m	Difference £m
Borrowing	288	287	(1)
PFI liabilities & other Finance leases	125	113	(12)
Total Debt	**413**	**400**	**(13)**

Total debt is expected to remain below the CFR during the forecast period.
The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

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

Operational Boundary	31.03.17 Boundary £m	31.03.17 Actual Debt £m	Complied
Borrowing	350	287	✓
Other long-term liabilities	140	113	✓
Total Debt	**490**	**400**	✓

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 Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	31.03.17 Boundary £m	31.03.17 Actual Debt £m	Complied
Borrowing	400	287	✓
Other long-term liabilities	160	113	✓
Total Debt	**560**	**400**	✓

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	2016/17 Estimate %	2017/18 Actual %	Difference %
General Fund	**4.95%**	1.75%	3.20%

Recommendations

1. To note the Treasury Management Annual Report 2016/17.
2. To refer the Treasury Management Annual Report 2016/17 to Council for approval.