Midlothian

Midlothian Council
Tuesday 07 November 2017

Treasury Management Mid-Year Review Report 2017/18

Report by Gary Fairley, Head of Finance and Integrated Service Support

1 Purpose of Report

The purpose of this report is to inform members of the Treasury Management activity undertaken during the first half of 2017/18, the forecast activity for the second half of 2017/18, and update the Prudential Indicators for 2017/18.

2 Background

Council, on 07 February 2017, approved the Treasury Management and Annual Investment Strategy Statement for the financial year 2017/18.

3 Economic update for first half of 2017/18

The key points from economic activity in the first half of 2017/18 are as follows:-

- Borrowing rates remain at historically low levels, with long term Public Works Loan Board (PWLB) rates fluctuating between the 2.25% to 2.60% mark throughout the first 6 months of the financial year;
- The Monetary Policy Committee (MPC), on 14th September 2017, surprised markets with a more aggressive tone in terms of its words around warning that the Bank of England Base Rate will need to rise. It looks very likely that the MPC will increase bank rate to 0.50% in November, or, if not, in February 2018. It remains unclear whether this will be a one-off increase to reverse the cut to 0.25% following the referendum vote on Brexit, or the start of a slow, but regular, increase in Base Rate;
- The expectation is that both new fixed term and variable rate investment opportunities and temporary loan rates will mirror any increases in Base Rate;
- Consumer Price Inflation remains above the Bank of England's target of 2.00% (2.90% in August 2017), with forecasts continuing to show a peak of just over 3.00% by the end of 2017 before a gradual drop back to the 2.00% target by 2019.

An economic update for the first part of the 2017/18 financial year is included as Appendix 1. PWLB borrowing rates for the first half of the year are outlined in Appendix 2.

4. Treasury Activity during first half of 2017/18

The main points arising from treasury activity in the year to 11 October 2017 were:-

- Long-term borrowing of £20.000 million was sourced:-
  - £10.000 million maturity loan from PWLB drawn 06 April 2017 at an interest rate of 2.27% for a 48 year tenor. This loan has taken advantage of the Council's certainty rate discount of 0.20% from the standard PWLB rates; and
  - £10.000 million equal instalment of principal loan from Deutsche Pfandbriefbank drawn on 29 June 2017 at an interest rate of 2.63% for a 28.0 year tenor. This loan was a 'forward borrowing' loan with the original loan execution taking place on 24 February 2016, with the interest rate fixed at this point and benchmarked to the historically low borrowing environment with minimal cost of carry and hedged against interest rate movements between execution and drawdown;
- Long term borrowing of £10.058 million matured, this being a £10.000 million PWLB Maturity, £0.043 million Salix and £0.015 million PWLB Annuities;
- A £10.000 million deposit was placed with Bank of Scotland on 21 April 2017 for a 4 month period to 18 August 2017, at 0.48%;
- The average interest rate earned on external investments was 0.60%, exceeding the benchmark rate of 0.34%.

The Council's loan and investment portfolio as at 11 October 2017 is shown in tables 1 and 2 below (position at 31 March 2017 also shown for comparison):-

Table 1: Council's Loan Portfolio at 31 March 2017 and 11 October 2017

Loan Type	31 March 2017		11 October 2017	
	Principal Outstanding £000's	**Weighted Average Rate**	**Principal Outstanding £000's**	**Weighted Average Rate %**
PWLB Annuity	739	8.90%	724	8.90%
PWLB Maturity	197,224	3.77%	197,224	3.72%
LOBO	20,000	4.51%	20,000	4.51%
Market Loans	0	n/a	10,000	2.63%
Temporary Market Loans	39,000	0.36%	30,000	0.14%
Other Loans	339	0.00%	308	0.00%
Total Loans	**257,302**	**3.32%**	**258,256**	**3.23%**
Underlying Borrowing Requirement*	**278,783**		**281,824**	
Internal Borrowing	**21,481**		**23,568**	

* *The Underlying Borrowing Requirement is the Capital Financing Requirement excluding the "Public Private Finance" (PPP) Contract Liabilities*

Table 2: Council's Investment Portfolio at 31 March 2017 and 11 October 2017

Investment Type	31 March 2017		11 October 2017	
	Principal Outstanding £000's	**Weighted Average Rate**	**Principal Outstanding £000's**	**Weighted Average Rate %**
Money Market Funds	8,581	0.25%	23,719	0.20%
Bank Notice Accounts	49,985	0.79%	49,985	0.69%
Bank Certificates of Deposit	15,000	0.72%	15,000	0.72%
Bank Fixed Term Deposits	10,000	0.94%	0	n/a
Total Investments	**83,566**	**0.75%**	**88,704**	**0.56%**

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

5. Expected Treasury Activity during second half of 2017/18

Borrowing
It is expected that no further long-term borrowing will be undertaken in the latter half of 2017/18, as the Council's increase in capital financing requirement for the financial year 2017/18 has already been funded.

However, given both:-

a) the historically low interest rate environment; and
b) the capital expenditure forecasts for 2017/18 (presented to Council elsewhere on today's agenda and summarised in Section 6 below) and 2018/19 and beyond as previously reported to Council;

consideration will be given to borrowing now (for capital expenditure in 2018/19 or beyond) to secure historically low PWLB rates offers value compared with forward interest rate projections. Equally, consideration will continue to be given as to whether any forward borrowing opportunities offer value (this would allow the Council to secure loans now at an agreed rate, to be drawn down at later dates when interest rates are forecast to be significantly higher, eliminating the majority of the cost of carry).

Appendix 3 provides forecasts for interest rates from the Council's Treasury Management advisor, Capita.

As with all long-term borrowing decisions, an option appraisal will be undertaken prior to executing any loan transaction, to ensure that any loans taken offer best value to the Council.

Investments
As noted in Section 3 and detailed in Appendix 1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line, or below, with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

£15.000 million of the Council's investments are held in fixed term deposits which mature in late March 2018 and £49.985 million in bank notice accounts (with the notice period equating to broadly 6 months). Given the current low interest rate environment, it is proposed that Council officers, in conjunction with Capita Asset Services, continue to review the range of investment options available to the Council within its stated investment policy in order to select only the most creditworthy counterparties to ensure the security of Council funds, and from that list select the range of investment products that offer best value to the Council's investment portfolio.

Expected Loan & Investment Portfolio at 31 March 2018

Taking all of the above into account, the expected loan and investment portfolio at 31 March 2018 is shown in Tables 7 and 8 below:-

Table 7: Council's forecast Loan Portfolio at 31 March 2018

Loan Type	31 March 2018	
	Principal Outstanding £000's	**Weighted Average Rate**
PWLB Annuity	708	8.90%
PWLB Maturity	197,224	3.72%
LOBO	20,000	4.51%
Market Loans	9,821	2.63%
Temporary Market Loans	39,000	0.50%
Other Loans	277	0.00%
Total Loans	**267,030**	**3.28%**
Underlying Borrowing Requirement	**293,872**	
Internal Borrowing	**26,842**	

Table 8: Council's forecast Investment Portfolio at 31 March 2018

Investment Type	31 March 2018	
	Principal Outstanding £000's	**Weighted Average Rate**
Money Market Funds	5,000	0.45%
Bank Notice Accounts	49,985	0.94%
Bank Fixed Term Deposits	15,000	0.75%
Total Investments	**69,985**	**0.86%**

6. Prudential Indicators 2017/18

The following prudential indicators have been refreshed from those reported to Council on 08 March 2016 in the original Treasury Management and Annual Investment Strategy Statement 2017/18, based on the actual outturn for 2016/17 and the Council's Capital Plans for 2017/18 to 2021/22, and are shown in Table 9 and in graphical form below (see also Appendix 4):-

Table 9: Prudential Indicators 2017/18 – Mid Year Update

Indicator	**2017/18 Original Estimate £000's**	**2017/18 Current Position £000's**	**2017/18 Revised Estimate £000's**
2017/18 Capital Expenditure	66,208	12,154	45,365
2017/18 Required Borrowing	50,600	5,186	23,228
2017/18 Underlying Borrowing Requirement*	318,647	281,824	294,043
2017/18 Gross External Borrowing	298,962	258,256	267,031
Operational Boundary – Borrowing	318,647	294,043	294,043
Authorised Limit – Borrowing	384,042	384,042	411,955
2017/18 Capital Financing Requirement**	372,306	336,139	347,702

** Excludes "On balance sheet" PPP schemes.*
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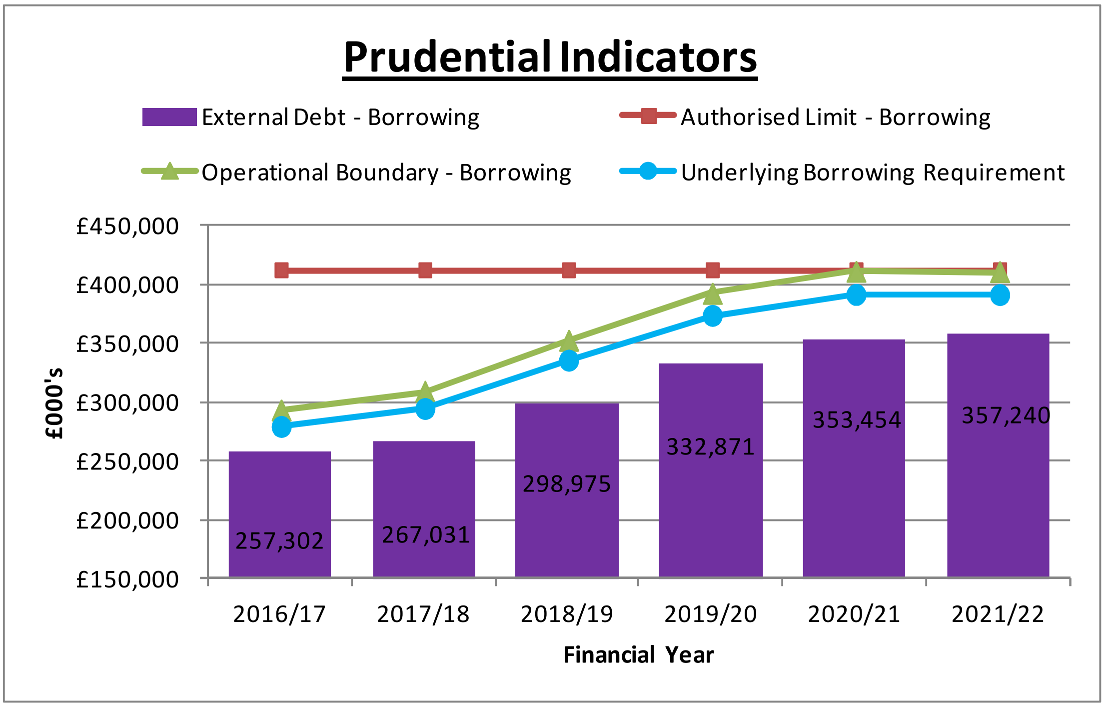

The **Capital Financing Requirement (CFR)** denotes the Council's underlying need to borrow for capital purposes. The CFR includes borrowing arising as a result of the Council's Capital Plans, plus the long-term liability arising from the Council's two PPP contracts. The

Underlying Borrowing Requirement strips out the latter of these (long-term liability arising from the two PPP contracts) from the CFR.

The **Authorised Limit for Borrowing** represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need with some headroom for unexpected movements. This was recommended to be £384.042 million in the Treasury Strategy report presented to Council on 07 February 2017 and subsequently agreed by Council.

Rather than restrict external borrowing in the remainder of 2017/18 to:-

- the expected Underlying Borrowing Requirement for this year (£294.043 million); or
- the Authorised Limit for Borrowing of £384.042 million approved by Council on 07 February 2017;

it is proposed that permission be granted to borrow up to the authorised limit for borrowing of £411.955 million (as shown in the table below), if market conditions supported this action. This would have the effect of securing lower costs for future years but care would be taken to ensure that the cost of carry from borrowing early is minimized and that the maturity structure of all debt is sufficiently robust to ensure that the CFR at 31 March 2022 remains achievable.

Table 10: Authorised Limit for Borrowing: Calculation

Indicator	**2017/18 Original Estimate £000's**	**2017/18 Revised Estimate £000's**
CFR – General Services (31 March 2021)	128,063	141,746
CFR – HRA (31 March 2021)	231,089	249,211
Unrealised Capital Receipts & Developer Contributions 2017/18	10,105	3,583
Forecast level of Capital Receipts & Developer Contributions 2017/18 to 2020/21	14,785	17,415
Proposed Authorised Limit – Borrowing	**384,042**	**411,955**

7 Other Treasury related issues

Performance Indicators 2016/17 – comparison with other Scottish Local Authorities

The Treasury Management Forum collates performance indicators for all Scottish Local Authorities. The indicators relating to financial year 2016/17 have been published and once again demonstrate the continuing effectiveness of the Treasury function in maximising efficiency in Treasury Management activity, with the Council continuing to have the lowest weighted average borrowing & investment (loans fund) rate across all Scottish mainland authorities for the sixth year out of the last eight financial years. Appendix 5 outlines the loans fund rate for each Scottish Local Authority in 2016/17.

Were the internal loans fund rate to have equated to the Scottish weighted average of 4.20%, this would have generated loan charges in 2016/17 of £18.0m. The Council's actual 2016/17 loan charges for General Services and HRA were £15.4m, representing a cash saving (compared to the Scotland average) of £2.6m in 2016/17.

Revised CIPFA Codes

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

MIFID II

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on Midlothian Council apart from having to fill in forms sent by each institution lending to Midlothian Council and for each type of investment instrument the Council use apart from for cash deposits with banks and building societies.

Treasury Management Practices

The Council retain Treasury Management Practices which detail procedures and best practice within a number of areas of Treasury Management including risk management, performance measurement, decision making and analysis and cash and cash flow management. These have been updated to reflect current staffing structures and for housekeeping and to reflect the current legislative environment. These will be placed in the Members Library section of the Committee Management System.

8 Report Implications

8.1 Resource

Expenditure from Treasury Management activity i.e. loan charges, is reported in quarterly financial positions to Council, with Quarter 2 monitoring reflected in the Financial Monitoring 2017/18 – General Fund Revenue report elsewhere on today's agenda.

8.2 Risk

As the Council follows the requirements of the CIPFA Code of Practice for Treasury Management, and the Prudential Code, there is a reduced level of risks involved in Treasury Management activities. Those risks that do exist are further controlled through written Treasury Management Practices which define the responsibilities of all staff involved and these have recently been reviewed and updated.

8.3 Single Midlothian Plan and Business Transformation

Themes addresses in this report:-

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☐ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

8.4 Impact on Performance and Outcomes

The strategies adopted are an integral part of the corporate aim to achieve Best Value as they seek to minimise the cost of borrowing by exercising prudent debt management and investment. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

8.5 Adopting a Preventative Approach

The proposals in this report do not directly impact on the adoption of a preventative approach.

8.6 Involving Communities and Other Stakeholders

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Capita Asset Services, the Council's appointed Treasury Consultants.

8.7 Ensuring Equalities

There are no equality issues arising from this report.

8.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

8.9 Digital Issues

There are no Digital Services implications arising from this report.

9 Summary

Treasury Management activity during the year to 11 October 2017 has been effective in minimising borrowing costs and maximising investment income within the parameters set by the strategy for the year.

No further long-term borrowing is forecast for the remainder of 2017/18, reflective of the General Services and HRA capital plans reported elsewhere on today's agenda. However, consideration will continue to be given to borrowing now (for capital expenditure in 2018/19 or beyond) to secure historically low PWLB rates offers value compared with forward interest rate projections, and/or whether any forward borrowing opportunities offer value (this would allow the Council to secure loans now at an agreed rate, to be drawn down at later dates when interest rates are forecast to be significantly higher, eliminating the majority of the cost of carry).

The investment climate remains challenging given the low interest rate environment and creditworthiness concerns. Officers will continue to review the investment opportunities available to the Council.

The Prudential Indicators have been updated to reflect current capital expenditure and income projections.

10 Recommendations

It is recommended that Council:-

a) Note the report and the treasury activity undertaken in the period to 11 October 2017, as outlined in Section 4;
b) Note the forecast activity during the second-half of the year as outlined in Section 5;
c) Approve the revisions to the Prudential Indicators in Section 6 of this report.

12 October 2017

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Appendices

Appendix 1: Economic Update for first part of 2017/18 financial year
Appendix 2: PWLB Borrowing Rates 1 April 2017 to 30 September 2017

Appendix 3: Capita Asset Services Interest Rate Forecasts
Appendix 4: Prudential Indicators Detail
Appendix 5: Loans Fund Rate Comparison for all Scottish Local Authorities 2016/17

Appendix 1: Economic Update for first part of 2017/18 financial year

UK

After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. . The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

Eurozone

Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

US

Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Rest of World

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

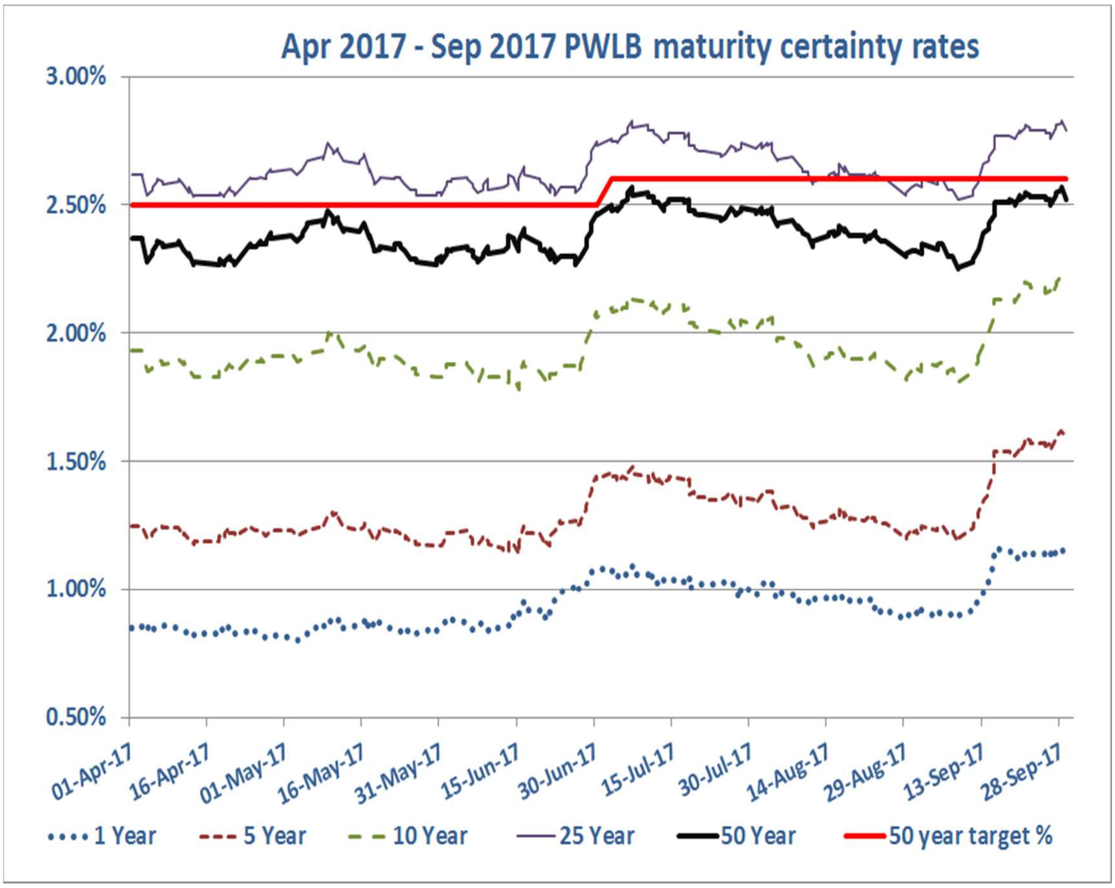
Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Appendix 2: PWLB Borrowing Rates 1 April 2017 to 30 September 2017

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2017 to 30th September 2017

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	1.14	1.78	2.52	2.25
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.16	1.62	2.22	2.83	2.57
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.9408	1.2981	1.9470	2.6475	2.3917



Appendix 3: Capita Asset Services Interest Rate Forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix 4 Prudential Indicators Detail

Prudential Indicator for Capital Expenditure

The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget:-

Capital Expenditure by Service	2017/18 Original Estimate £000's	Current Position £000's	2017/18 Revised Estimate £000's
Resources	7,871	1,876	11,254
Education, Community & Economy	15,820	6,243	16,875
Health & Social Care	452	43	197
Council Transformation	120	10	205
HRA	41,945	3,982	16,834
Total	**66,208**	**12,154**	**45,365**

Forecast levels of capital expenditure on:-

- Resources has increased by £3.383 million compared to budget, due to rephasing of projects from 2016/17 to 2017/18 and the inclusion of approved budgets for new projects for (a) the provision of Outdoor Play Equipment in Rosewell & Gorebridge, structural works to Westerhaugh bridge, (b) the purchase of 9/11 White Hart street in Dalkeith, and (c) the new Legend Leisure Management System;
- Education, Community & Economy has increased by £1.055 million, due to rephasing across financial years for the Hopefield Primary School project, and the inclusion of approved budgets for the following projects: new Danderhall Primary hub, design team costs for the extension of Cuiken & Sacred Heart Primaries, Modular Units for various Primary/Nursery schools, the purchase of land at Shawfair Town Centre, and preliminary works to the A701 and A702;
- Health & Social Care has decreased by £0.255 million to reflect the rephasing of spend for the Assistive Technology project;
- Council Transformation has increased by £0.085 million to reflect rephasing of project spend from 2016/17 to 2017/18;
- HRA has decreased by £25.111 million to reflect the rephasing of the Phase II and III programmes.

Prudential Indicator for the Financing of the Capital Programme & Borrowing

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (principal repayments). This direct borrowing need is also supplemented by maturing debt and other treasury requirements.

Capital Financing	2017/18 Original Estimate £000's	Current Position £000's	2017/18 Revised Estimate £000's
Total Capital Expenditure	**66,208**	**12,154**	**45,365**
Capital Grants	9,022	5,218	12,152
Capital Receipts	0	984	2,076
Capital Reserves	0	0	0
Developer/Other Contributions	6,586	766	7,909
Total Financing	**15,608**	**6,968**	**22,137**
Borrowing Required	**50,600**	**5,186**	**23,228**

Total expected financing has increased from £15.608 million to £22.137 million, reflecting:-

- Forecast capital receipts applied to the HRA capital plan in 2017/18 of £2.076 million;
- Rephasing of developer contributions that can be applied to finance the capital plan;
- an increase in the level of "other contributions", predominantly reflecting the funding by Shawfair LLP of the Shawfair Town Centre land purchase.

Appendix 5

Loans Fund Rate Comparison for all Scottish Local Authorities 2016/17

Council	Loans Fund Rate
Midlothian	3.24%
Dumfries & Galloway	3.25%
Perth & Kinross	3.30%
East Lothian	3.53%
Falkirk	3.70%
Aberdeen City	3.82%
Orkney	3.73%
Fife	3.81%
Inverclyde	3.84%
Aberdeenshire	4.05%
North Lanarkshire	4.05%
East Renfrewshire	3.97%
Dundee City	4.13%
West Lothian	4.12%
Shetland	4.11%
West Dunbartonshire	4.21%
South Lanarkshire	4.28%
Renfrewshire	4.25%
Stirling	4.41%
Angus	4.47%
North Ayrshire	4.45%
Glasgow City	4.53%
Highland	4.52%
Moray	4.34%
Argyll & Bute	4.56%
Scottish Borders	4.62%
East Dunbartonshire	4.62%
Clackmannanshire	4.79%
East Ayrshire	5.02%
Edinburgh City	5.18%
South Ayrshire	5.35%
Comhairle Nan Eilean Siar	6.49%

The Loans Fund Rate combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges such as internal interest allowed, premiums written off and treasury-related expenses to arrive at a weighted average “loans fund rate” figure for each authority, as noted in the final column above