Agenda Item No. 11

WEST OXFORDSHIRE DISTRICT COUNCIL

FINANCE AND MANANGEMENT OVERVIEW AND SCRUTINY COMMITTEE

WEDNESDAY 1 FEBRUARY 2017

CABINET - WEDNESDAY, 15 FEBRUARY 2017

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY

2017/2018 – 2019/2020

REPORT OF THE GO SHARED SERVICE HEAD OF FINANCE

(Contact: Paul Stuart, Tel: (01993) 861171)

(The Treasury Management Strategy Statement will be approved by Council and the Prudential Indicators and Limits will also be approved by Council as part of the formal budget and tax setting process).

1. PURPOSE

To consider the Council's Treasury Management Strategy for 2017/18 and approve; Prudential Indicators; MRP Statement and the Use of Specified and Non Specified Investments.

2. RECOMMENDATIONS

(a) That the Finance and Management Overview and Scrutiny Committee and Cabinet recommend to Council:

(i) The Treasury Management Strategy 2017/2018 to 2019/2020 at Appendix A.

(ii) The adoption of the MRP statement and the application of "Option 3: the Asset Life Method" for charging MRP in 2017/18 (as outlined in Appendix A).

(b) That the Council be recommended to adopt the Prudential Indicators and Limits for 2017/2018 to 2019/2020 (as outlined in Appendix B and summarised in Appendix E).

3. BACKGROUND

3.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services 2011 Edition (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. This statement also incorporates the Annual Investment Strategy as required by the Department for Communities and Local Government (CLG) Investment Guidance. Together, these cover the financing and investment strategy for the forthcoming financial year.

3.2. The purpose of this Treasury Management Strategy Statement is to approve:

- Treasury Management Strategy 2017/18
- Annual Investment Strategy for 2017/18
- Prudential Indicators for 2017/18, 2018/19 and 2019/20 (the Authorised Limit is a statutory limit)

- MRP Statement

3.3. In accordance with the requirements of the Prudential Code, the Council has adopted the CIPFA Treasury Management Code at its Cabinet meeting on 17 February 2010. All treasury activity will comply with relevant statute, guidance and accounting standards.

3.4. The authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

4. ALTERNATIVES/OPTIONS

The Committee may suggest amendments to the proposed Treasury Management Strategy for 2017/2018 to 2019/2020.

5. FINANCIAL IMPLICATIONS

There are no direct financial implications

6. REASONS

To incorporate the requirements of the Local Government Act 2003 and the guidance on Local Government Investments whilst complying with the principles of the CIPFA Code of Practice for Treasury Management.

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GO Shared Services Head of Finance

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Date: 24th January 2017

Background Papers:

ODPM Guidance under Section 15(1) (a) Local Government Act 2003.
CIPFA Treasury Management in the Public Service Code of Practice and Cross-Sectoral Guidance Notes.
Arlingclose Treasury Management Strategy Report.

Treasury Management Strategy Statement And Investment Strategy 2017/18 to 2019/20

1. Capital Financing Requirement

1.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves are the core drivers of Treasury Management Activity.

1.2 The Council's current level of investments is set out below:

EXISTING INVESTMENT PORTFOLIO

Investments	**31/12/2016 Actual Portfolio £000**
Managed in-house	
- Short Term Monies (Deposits)	11,700
- Monies on Call / MMF	6,945
- Corporate Bonds	
- Long Term Investments	5,000
Managed externally	
- Insight Liquidity Plus Fund	2,019
- Payden & Rygel Sterling Fund	2,034
- UBS Multi Asset Income Fund	1,973
- Aberdeen Absolute Return Bond Fund	1,826
- Schroders Income Maximiser Fund	1,080
- Threadneedle Global Equity Fund	1,321
- M&G Global Dividend Fund	1,296
- M&G Strategic Corporate Bond Fund	1,025
Total Investments*	**36,219**
Icelandic Investments O/S	22

* This total excludes the Councils remaining Icelandic Investment. The outstanding balance is shown separately in the line below.

1.3 The controls for borrowing allow an authority to borrow funds in excess of the current level of its CFR up to the three year projected date – 2019/20. The condition of such borrowing is that the Council could only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

1.4 The forecasted movement in the CFR in the coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2016/17 Revised £'000	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
General Fund CFR	5,171	11,748	10,912	10,086
Less: Borrowing and Other Long Term Liabilities	(5,228)	(11,805)	(10,969)	(10,143)
Usable Reserves	(20,400)	(17,546)	(16,832)	(16,482)
Cumulative Net Borrowing Requirement / (Investments)	(20,457)	(17,603)	(16,889)	(16,539)

Table 1 shows that the capital expenditure plans of the authority can be funded entirely from sources other than external borrowing.

2. External Context and Interest Rate Forecast

2.1 Economic background:

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the European Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017, and last for at least two years. Uncertainty over future economic prospects is expected to remain throughout 2017/18.

2.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

2.3 Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

2.4 Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing. The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

2.5 **Credit outlook:** Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

2.6 **Interest rate forecast**: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view, and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a distinct possibility, to keep long-term interest rates low.

2.7 A more detailed economic and interest rate forecast provided by the Arlingclose is attached at ***Appendix C***.

3. Borrowing Strategy

3.1 As indicated in Table 1, the Authority is currently debt free. However, the current Medium Term Financial Strategy (MTFS) assumes that the Council will need to borrow, at least on a short term basis, to finance its capital programme during 2016/17.

3.2 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal versus short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term rates are forecast to rise slowly.

3.3 Arlingclose [the Council's treasury advisors] will assist the Authority with and decision upon when to borrow, with a 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low.

3.4 In addition, the Authority may borrow short-term loans (normally up to one month) to cover unexpected cash flow shortages.

3.5 **Sources**: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except our local pension fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

3.6 Capital finance may also be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Operating and finance leases
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

4. Annual Investment Strategy

4.1 In accordance with investment guidance issued by the CLG and best practice, this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments is secondary, lastly followed by the yield earned on investments.

4.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to carry on with its diversification of investments during 2017/18.

4.3 Investments are categorised as 'Specified' or 'Non Specified' within the investment guidance issued by the CLG.

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

4.4 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

4.5 **Approved Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£7m 5 years	£7m 20 years	£7m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£6m 10 years	£5m 25 years	£4m 10 years	£5m 10 years
AA	£5m 4 years	£6m 5 years	£6m 15 years	£4m 5 years	£5m 10 years
AA-	£5m 3 years	£6m 4 years	£5m 10 years	£3m 4 years	£5m 10 years
A+	£5m 2 years	£6m 3 years	£4m 5 years	£2m 3 years	£3m 5 years
A	£5m 13 months	£5m 2 years	£5m 5 years	£2m 2 years	£3m 5 years
A-	£5m 6 months	£5m 13 months	£4m 5 years	£2m	£3m 5 years
BBB+	£1m 100 days	£1m 6 months	£2m 2 years	£1m 6 months	£1m 2 years
BBB or BBB-	£1m next day only	£1m 100 days	n/a	n/a	n/a
None	£1m 100 days	£1m 100 days	n/a	n/a	n/a
Pooled funds			£6m max per fund		

This table must be read in conjunction with the notes below and in Appendix D.

4.3 **Credit Rating:** Investment limits are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

4.4 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account

4.5 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

4.6 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

4.7 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

4.8 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed.

4.9 **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

4.10 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

4.11 **Risk Assessment and Credit Ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.12 **Other Information on the Security of Investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

4.13 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

4.14 Registered Providers (RPs) have been included within the approved counterparty investments for 2017/18 following on from their use over the last four financial years. Investments with RPs will be analysed on an individual basis and discussed with Arlingclose prior to investing. If the RP have a credit rating from one of the agencies we would look at there viability rating and could lend to them on either a secured or unsecured basis on the assets it holds. If the RP does not hold a credit rating but is HCA (Homes & Communities Agency) rated then any investment made would be on a secured basis on the assets (i.e. Homes) it has as security for loans borrowed investment has been limited to £10m for RP's.

4.15 **Authority's Banker** – The Authority banks with Lloyds Bank PLC. At the current time it does meet the proposed minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Authority's minimum criteria Lloyds Bank PLC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

5. Balanced Budget Requirement

5.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

6. 2017/18 MRP Statement

6.1 The Council is required to annually set a policy on the way it calculates the prudent provision for the repayment of borrowing. This is referred to as the Minimum Revenue Provision, or MRP.

6.2 CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum

Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The guidance suggests four MRP options:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

Although four options are detailed, the guidance also allows authorities to develop their own method of calculating MRP, providing the method is prudent.

6.3 Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported non-HRA capital expenditure if the Authority chooses).

6.4 The Council must adopt a MRP Statement prior to the start of the financial year. This must be approved by Council. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.

6.5 It is proposed that the Council adopt Option 3, the 'Asset Life' Method, which makes revenue provision over the estimated life (in equal instalments) of the asset for which the borrowing is undertaken.

6.6 The current Medium Term Financial Strategy (MTFS) assumes that the Council will be borrowing in 2017/18 to fund elements its capital programme.

7. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

The Strategic Director will report to the Finance and Management Overview and Scrutiny Committee on treasury management activity and performance, including the monitoring of Prudential Indicators as follows:

(a) Activity and performance against the strategy approved for the year will be reported regularly to the Finance and Management Overview and Scrutiny Committee and as a minimum a mid-year and year end review.

(b) The Finance and Management Overview and Scrutiny Committee will receive an outturn report on treasury activity no later than 30th September after the financial year end.

(c) The Finance and Management Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

8. Other items

8.1 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

8.2 Training

The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff can regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.3 Investment Consultants / Treasury Advisors

The Authority uses Arlingclose as Treasury Management advisors. The current Arlingclose contract runs until November 2017. As part of the service Council staff receives:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshop and training events
- Ad hoc advice and events.

The Authority maintains the quality of the service with its advisors by holding regular meetings.

9. Financial Implications

The budget for investment income in 2017/18 is estimated to be £607,300, based on a weighted average investment portfolio of £35.4 million at an interest rate of 1.72%.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Strategic Director, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain

Appendix B

Prudential Indicators 2016/17 and 2017/18 – 2019/20

1. Background

1.1 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

1.2 The revised estimates are the updates to the approved estimates agreed by Council in February 2016. It is the revised and estimate indicators that are recommended for adoption.

2. Gross Debt and the Capital Financing Requirement

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

2.2 If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

2.3 The Strategic Director reports that the authority had no difficulty meeting this requirement in 2016/17, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2016/17 Approved £'000	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Programme	3,508	9,834	10,803	1,307	1,307

3.2 Capital expenditure will be financed as follows:

Capital Financing	2016/17 Approved £'000	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital receipts	936	2,129	1,213	213	213
Government Grants / Contributions	315	879	554	554	554
Revenue contributions	2,257	1,826	2,090	540	540
Internal borrowing		4,000	-	-	-
External borrowing	-	1,000	6,946	-	-
Total Financing	3,508	9,834	10,803	1,307	1,307

4. Ratio of Financing Costs to Net Revenue Stream

4.1 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. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income. A negative value represents a surplus of investment income over borrowing costs.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Approved %	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Ratio	-7.0%	-7.0%	-4.6%	4.5%	3.9%

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing.

Capital Financing Requirement	2016/17 Approved £'000	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Total CFR	183	5,171	11,748	10,912	10,086

6. Actual External Debt

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2016	£'000
Borrowing	0
Other Long-term Liabilities	601
Total	**601**

7. Incremental Impact of Capital Investment Decisions

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2016/17 Approved £	2016/17 Revised £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase in Band D Council Tax	0.47	1.96	1.35	0.31	0.30

7.2 The Council's capital plans, as estimated in forthcoming financial years, have a neutral impact on council tax. This reflects the fact that capital expenditure is predominantly financed from internal resources (grants, contributions, and capital receipts).

8. Authorised Limit and Operational Boundary for External Debt

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 **The Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	**2016/17 Approved £'000**	**2016/17 Revised £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
Borrowing	8,000	15,500	20,000	20,000	20,000
Other Long-term Liabilities	229	229	18	0	0
Total	**8,229**	**15,729**	**20,018**	**20,000**	**20,000**

8.5 The Operational Boundary has been set on the estimate of the most likely i.e. prudent but not worse case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.6 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	**2016/17 Approved £'000**	**2016/17 Revised £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
Borrowing	4,000	11,500	16,000	16,000	16,000
Other Long-term Liabilities	229	229	18	0	0
Total	**4,229**	**11,729**	**16,018**	**16,000**	**16,000**

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Cabinet meeting on 17 February 2010.

. *The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.*

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

10.2 The Council will lose its debt-free status during 2016/17 in order to fund its capital programme. The level of borrowing during 2016/17 will depend upon cash flow position at the end of the financial year. Decisions will be made for drawing down new loans on a fixed or variable rate basis, and for short or longer-term depending upon the cost of borrowing at the time.

10.3 The Council's existing level of fixed or variable rate exposure is nil. As the Council undertakes external borrowing it is planned that this will primarily be fixed rate borrowing, hence the indicator is still set at 100%. However, it may be necessary to temporary borrow at variable rates to cover short term arrangements.

	2016/17 Approved %	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	100	50	50	50	50

11. Maturity Structure of Fixed Rate borrowing:

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 The structure of borrowing has been front-loaded to allow short-term borrowing while the market is competitive. At some point the Council will borrow longer-term to meet its capital requirements in anticipation of interest rates changing.

	Upper	Lower
Under 12 months	100%	0%
Between 12 and 24 months	100%	0%
24 months to 5-years	75%	0%
5-years and within 10-year	75%	0%
10 years and above	90%	0%

12. Credit Risk:

12.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

12.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

12.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

12.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

13. Upper Limit for total principal sums invested over 364 days:

13.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	**2016/17 Approved £m**	**2016/17 Revised £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Limit	15	15	15	15	15

Appendix C

Arlingclose Economic & Interest Rate Forecast November 2016

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

Appendix D

Recommended Sovereign and Counterparty List

Instrument	Country/ Domicile	Counterparty	Long-Term Credit Rating Fitch/ Moody's/S&P	Current Max Duration	Maximum Counterparty Limit- Unsecured £m	Maximum Counterparty Limit- Secured £m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	A/A1/A	6 months	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	A+/A1/A	1 year	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Lloyds Bank (Lloyds Banking Group)	A+/A1/A	1 year	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Barclays Bank Plc	A/A2/A-	3 months	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Close Brothers Limited	A/Aa3/na	6 months	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Goldman Sachs International Bank	A/A1/A	3 months	£5m	£5m
Term Deposits / CDs /Corporate	UK	HSBC Bank Plc	AA-/Aa2/AA-	1 year	£5m	£6m

Bonds/Call Accounts						
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Leeds Building Society	A-/A3/na	3 months	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Nationwide Building Society	A/A2/A	6 months	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	NatWest (RBS Group)	BBB+/A3/BBB+	Not able to lend to at present	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	BBB+/A3/BBB+	Not able to lend to at present	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Standard Chartered Bank	A+/Aa2/A+	Not able to lend to at present	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Australia	Australia and NZ Banking Group	AA-/Aa2/AA-	6 months	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Australia	Commonwealth Bank of Australia	AA-/Aa2/AA-	6 months	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call	Australia	National Australia Bank Ltd (National Australia Bank	AA-/Aa2/AA-	6 months	£5m	£6m

Accounts		Group)				
Term Deposits / CDs /Corporate Bonds/Call Accounts	Australia	Westpac Banking Corp	AA-/Aa2/AA-	6 months	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Canada	Bank of Montreal	AA-/Aa3/A+	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Canada	Bank of Nova Scotia	AA-/Aa2/A+	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Canada	Canadian Imperial Bank of Commerce	AA-/Aa3/A+	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Canada	Royal Bank of Canada	AA/Aa3/AA-	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Canada	Toronto-Dominion Bank	AA-/Aa1/AA-	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Denmark	Danske Bank	A/A2/A	3 months	£5m	£6m
Term Deposits / CDs /Corporate	Finland	Pohjola Bank	A+/Aa3/AA-		£5m	£6m

Bonds/Call Accounts						
Term Deposits / CDs /Corporate Bonds/Call Accounts	Germany	Deutsche Bank AG	A-/A3/BBB+	Not able to lend to at present	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Germany	Landesbank Hessen-Thuringen (Helaba)	A+/A1/A	6 months	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Netherlands	ING Bank NV	A/A1/A	3 months	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Netherlands	Rabobank	AA-/Aa2/A+	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Netherlands	Bank Nederlandse Gemeenten	AA+/Aaa//AAA	5 years	£7m	£7m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Singapore	DBS Bank Ltd	AA-/Aa1/AA-	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Singapore	Oversea-Chinese Banking Corporation	AA-/Aa1/AA-	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call	Singapore	United Overseas Bank	AA-/Aa1/AA-	1 year	£5m	£6m

Accounts						
Term Deposits / CDs /Corporate Bonds/Call Accounts	Sweden	Nordea Bank AB	AA-/Aa3/AA-	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Sweden	Svenska Handelsbanken	AA-/Aa2/AA-	1 year	£5m	£6m
Term Deposits / CDs /Corporate Bonds/Call Accounts	Switzerland	Credit Suisse	A/A1/A	3 months	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	US	JP Morgan	AA-/Aa3/A+	1 year	£5m	£6m

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if counterparty is downgraded, this list may be shortened.*

Recommended UK Building Societies – Arlingclose remains comfortable with new investments in the counterparties below:

Instrument	Country/ Domicile	Counterparty	Maximum Duration	Maximum Counterparty Limit- Unsecured £m	Maximum Counterparty Limit- Secured £m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Coventry Building Society	6 months	£3m	£3m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Leeds Building Society	3 months	£3m	£3m

Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Nationwide Building Society	6 months	£5m	£5m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Darlington Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Furness Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Hinckley & Rugby Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Leek United Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Loughborough Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Mansfield Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Market Harborough Building Society	3 months	£1m	£2m
Term	UK	Marsden Building			

Deposits / CDs /Corporate Bonds/Call Accounts		Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Melton Mowbray Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	National Counties Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Newbury Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Scottish Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Stafford Railway Building Society	3 months	£1m	£2m
Term Deposits / CDs /Corporate Bonds/Call Accounts	UK	Tipton & Coseley Building Society	3 months	£1m	£2m

Appendix E

Summary of Prudential Indicators to be submitted to Council 22nd February 2017.

	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital expenditure	9,834,000	10,803,000	1,307,000	1,307,000
Ratio of financing costs to net revenue stream	-7.0%	-4.6%	4.5%	3.9%
Capital financing requirement	5,171,000	11,748,000	10,912,000	10,086,000
Incremental impact of capital investment decisions on the Band D Council Tax	£1.96	£1.35	£0.31	£0.30
Authorised limit external debt £	15,729,000	20,018,000	20,000,000	20,000,000
Operational boundary external debt £	11,729,000	16,018,000	16,000,000	16,000,000
Adoption of the CIPFA Code of Practice in Treasury Management	Yes	Yes	Yes	Yes
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	50%	50%	50%	50%
Maturity structure of fixed rate borrowing	See table below			
Upper Limit for total principal sums invested over 364 days	£15m	£15m	£15m	£15m

Maturity Structure of Fixed Rate Borrowing

	Upper	Lower
Under 12 months	100%	0%
Between 12 and 24 months	100%	0%
24 months to 5-years	75%	0%
5-years and within 10-year	75%	0%
10 years and above	90%	0%