BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

24 NOVEMBER 2016

REPORT OF THE HEAD OF FINANCE & SECTION 151 OFFICER

HALF YEAR TREASURY MANAGEMENT REPORT 2016-17

1. Purpose of the Report

1.1 The purpose of the report is to update Audit Committee on the mid-year review and half year outturn position for Treasury Management activities, Treasury Management and Prudential Indicators for 2016-17 and to highlight the compliance with the Council's policies and practices which have been reported to Cabinet and Council.

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

2.1 The work of the Audit Committee supports corporate governance and assists in the achievement of all corporate and service objectives. Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council make best use of financial resources and hence assist achievement of Corporate Priorities.

3. Background

3.1 To ensure effective scrutiny of treasury management in accordance with the Treasury Management Strategy, Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. During the 2016-17 financial year to date, in addition to the regular treasury management reports to Cabinet and Council, Audit Committee received the Annual Treasury Management Report 2015-16 in June 2016.

3.2 The Council's Treasury Management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, develops the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

3.3 The Council is required to operate the overall treasury function with regard to the Code and this was formally adopted by the Council in February 2012. This includes a requirement for the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. Council approved the TMS 2016-17 on 10 March 2016.

3.4 The Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010, which requires the Council to approve an Investment Strategy prior to the start of each financial year and this is included in the TMS.

4. Current Situation

4.1 The Council has complied with its legislative and regulatory requirements during the first half of 2016-17. The Treasury Management Strategy 2016-17 and the Half Year Outturn were reported to Council on 10 March 2016 and 2 November 2016 respectively. In addition, a quarterly monitoring report was presented to Cabinet in July 2016.

4.2 A detailed summary of the Treasury Management Activities for the first half of 2016-17 is shown in Appendix A. No long term borrowing or debt rescheduling has been taken as there were no significant savings to be made, however, for cash-flow purposes some short term borrowing was taken as detailed in section 2 in Appendix A. Favourable cash flows have provided surplus funds for investment and the balance on investments at 30 September 2016 was £47.10 million with an average rate of interest of 0.51%. This was an increase from the start of the financial year where investments were £26.00 million but the average rate of interest has decreased from 0.67%. The first table in section 4 in Appendix A details the movement of the investments by counterparty types and shows the average balances, duration and rates for the first half of 2016-17.

4.3 Also, as a result of the Brexit vote, markets have been volatile and following the reduction in the bank rate from 0.50% to 0.25% on 4 August 2016, interest rates have dropped which will result in a reduction in interest earned in 2016-17 but in conjunction with Arlingclose other possible investment options will be investigated. This reduction is not fully reflected in the investment return shown in the table in section 4 in Appendix A as this table includes investments which were previously agreed at rates prior to the rate cut but as older investments mature and new ones are taken out in the next quarter the investment return will fall.

4.4 The Council's Treasury Management advisers are currently Arlingclose. Their contract expired on 31 August 2016 so the contract was retendered in July and Arlingclose were the successful tenderer and awarded a new contract from 1 September 2016. The services provided to the Council include:-

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

4.5 Cipfa's Code of Practice for Treasury Management requires all Local Authorities to conduct a mid-year review of its treasury management policies, practices and activities. As a result of this review it was not deemed necessary to make any changes to the Treasury Management Strategy 2016-17, although the MRP Policy is currently under review. However, as detailed in section 5 in Appendix A for clarification purposes, there is a minor amendment which should be made to the Investment Strategy in relation to Local Authority credit ratings.

4.6 The 2011 Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management and Prudential Indicators. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital programme. Details of the estimate for 2016-17 set out in the Council's Treasury Management Strategy and also the projected indicators for 2016-17 are shown in section 7 in Appendix A.

5. Effect upon Policy Framework & Procedure rules

5.1 As required by Financial Procedure Rule 17.3, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Strategy 2016-17 as approved by Council.

6. Equality Impact Assessment

6.1 There are no equality implications.

7. Financial Implications

7.1 The financial implications are reflected within the report.

8. Recommendation

8.1 It is recommended that the Committee:

- Note the Annual Treasury Management Activities for 2016-17 for the period 1 April 2016 to 30 September 2016, the minor amendment to the Investment Strategy in the Treasury Management Strategy 2016-17 and the projected Treasury Management and Prudential Indicators for 2016-17 which were all reported to Council for approval on 2 November 2016.

Randal Hemingway
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2 November 2016

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Background documents:

Treasury Management Strategy 2016-17

SUMMARY OF TREASURY MANAGEMENT ACTIVITIES 01 APRIL TO 30 SEPTEMBER 2016

1. The treasury position for 1 April to 30 September 2016:

		Principal as at 01-04-16 £m	Average Rate %	Principal as at 30-09-16 £m	Average Rate %
Fixed rate long term funding	PWLB*	77.62	4.70	77.62	4.70
Variable rate long term funding	LOBO**	19.25	4.65	19.25	4.65
Total Long Term External Borrowing* **		**96.87**	**4.69**	**96.87**	**4.69**
Other Long Term Liabilities*** (including PFI)		22.42		22.10	
TOTAL GROSS DEBT		**119.29**		**118.97**	
Fixed rate investments		22.50	0.64	44.45	0.49
Variable rate investments		3.50	0.86	2.65	0.80
TOTAL INVESTMENTS******		**26.00**	**0.67**	**47.10**	**0.51**
TOTAL NET DEBT		**93.29**		**71.87**	

* Public Works Loan Board (PWLB)
** Lender's Option Borrower's Option (LOBO)

*** Long term borrowing include all instruments with an initial term of 365 days or more and long term liabilities includes the short term element of the liability

**** The investment totals include instant access deposit accounts which are included as "Cash" in the Council's balance sheet in the Statement of Accounts and also investments shown as "Cash Equivalents" in the Council's balance sheet that mature in 1 month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

Fixed rate in the above table includes instruments which are due to mature in the year

The £19.25 million in the above table relates to Lender's Option Borrower's Option (LOBO) loans due to mature in 2054, and which may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the next trigger date being January 2017 however it is not expected to be repaid on this date) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The current average interest rate for these LOBO's is 4.65% compared to the PWLB Loans average interest rate of 4.70%.

The long term liabilities figure of £22.10 million at 30 September 2016 includes £18.51 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg) and £2.40 million relating to a loan from the WG Central Capital Retained Fund for regeneration works within the Llynfi Valley.

It should be noted that the accounting practice required to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures shown in the above table and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or are stated at fair value in different instances.

2. Borrowing Strategy and Outturn for 1 April to 30 September 2016

The Bank Rate started the financial year at 0.50% after entering its eigth year at that level and remained at this rate until 4 August 2016 when it reduced to 0.25%. When the Treasury Management Strategy for 2016-17 was prepared it was forecast that the bank rate would increase by 0.25% in September 2016 and possibly rise to 1% by the end of the 2016-17 financial year, however as a result of the Brexit vote this will not happen and Arlingclose are predicting that it is possible there could be a further rate cut in coming months.

The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the PWLB at long term fixed rates of interest.

With short-term interest rates lower than long term rates, it is likely to be more cost effective in the short term to either borrow short term loans or use internal resources. Short term and variable rate loans expose the Council to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as shown in the treasury management indicators below in section 7. However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against the potential longer-term costs. The Council's Treasury Management advisors assist the Council with this 'cost of carry' and breakeven analysis.

No long term borrowing has been taken during the period 1 April to 30 September 2016 and it is not expected that there will be a requirement for any long term borrowing in 2016-17, however for cash-flow purposes £7.20 million short term borrowing was taken - £2 million taken in July and repaid in August, £2.50 million taken in August and repaid in September and £2.70 million taken in September which was repaid in October. Also, market conditions have meant that there has been no loan rescheduling so far this year, however, in conjunction with Arlingclose, the loan portfolio will be reviewed for any potential savings as a result of any loan rescheduling.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This is known as Internal Borrowing. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

3. Investment Strategy 2016-17

Both the CIPFA Code and the WG 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, balancing the risk of incurring losses from defaults against receiving unsuitably low investment income.

The major objectives to be followed in 2016-17 are:-

- To maintain capital security;
- To maintain liquidity so funds are available when expenditure is needed;
- To achieve the yield on investments commensurate with the proper levels of security and liquidity.

The Annual Investment Strategy incorporated in the Council's Treasury Management Strategy 2016-17 includes the credit ratings defined for each category of investments and the liquidity of investments. The Council's investments have historically been placed in short term bank and building society unsecured deposits and local and central government, however, investments may be made with any public or private sector organisations that meet the minimum credit criteria specified in the Investment Strategy. The Council is looking to diversify into more secure and/or higher yielding asset classes during 2016-17 but any new instruments used will be in full consultation with the Council's treasury management advisors. In order to be able to use these different types of instruments the Council is required to hold a custody account with a third party as we are unable to deal direct and this is currently awaiting approval.

Investment decisions 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. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the Council 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. Investment Outturn for 1 April to 30 September 2016

On a day to day basis, the Council typically has surplus cash balances arising from the cash flow e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in deposit accounts. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy. There are two long term investments (original duration of 12 months or more) outstanding as at 30 September 2016 with a local authority - £2 million for one year at a rate of 0.59% which matured in October 2016 and £2 million for two years at a rate of 1.00% maturing in November 2017 but all other investments at 30 September 2016 are short term (deposit accounts or fixed term deposits). The table below details these investments outstanding by counterparty type:

Investment Counterparty Category	Balance 01 April 2016 (A) £m	Investments Raised (B) £m	Investments Repaid (C) £m	Balance 30 Sept 2016 (A+B-C) £m	Average Duration Investments in force during Apr - Sept 2016 Days	Average Original Duration of the Investment Days	Weighted Average Investment Balance Apr - Sept 2016 £m	Weighted Average Interest Rate Apr-Sept 2016 %
Govt DMO	-	28.20	28.20	-	**5**	**5**	**0.66**	**0.18**
Local Authorities	19.50	115.80	101.85	**33.45**	**44**	**90**	**33.98**	**0.46**
Building Societies	1.00	6.00	1.00	**6.00**	**139**	**181**	**5.75**	**0.68**
Banks (Fixed Maturity)	2.00	4.00	1.00	**5.00**	**90**	**230**	**3.06**	**0.92**
Banks Instant Access/Notice Period Accounts *	3.50	39.30	40.15	**2.65**	**n/a**	**n/a**	**4.89**	**0.69**
Total/Average	**26.00**	**193.30**	**172.20**	**47.10**	**70**	**127**	**48.34**	**0.54**

* An average duration is not shown as money is frequently added / withdrawn to/from these accounts as required by cash-flow

Favourable cash flows have provided positive cash balances for investment and as shown above the balance on investments at 30 September 2016 was £47.10 million. The table below shows a breakdown by counterparty type based on the remaining maturity period as at 30 September 2016:

Counterparty Category	Instant Access Deposit Accounts £m	Notice Period Deposit Accounts £m	Deposits Maturing Within 1 Month £m	Deposits Maturing Within 1-3 Months £m	Deposits Maturing Within 4-6 Months £m	Deposits Maturing Within 6-12 Months £m	Deposits Maturing Within 1-2 Years £m	Total £m
Local Authorities	-	-	13.00	7.15	3.80	7.50	2.00	33.45
Building Societies	-	-	5.00	-	1.00	-	-	6.00
Banks	0.65	2.00	-	2.00	2.00	1.00	-	7.65
Total	**0.65**	**2.00**	**18.00**	**9.15**	**6.80**	**8.50**	**2.00**	**47.10**

Occasionally, investments are placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits and after all other options have been explored. The interest rates offered by this facility are lower than some other counterparties but this is commensurate with the high level of security and reduced risk offered. It provides another option when examining potential investments and ensures compliance with the Council's investment objective that security takes priority over yield. There were no deposits outstanding at 30 September 2016.

The Council's primary objective for the management of its investment portfolio is to give priority to the security and liquidity of its funds before seeking the best rate of return. As shown above, the majority of surplus cash has been held as short term investments with UK Local Authorities and banks and building societies of high credit quality. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity.

Following the United Kingdom's vote to leave the European Union, there has been volatility within the markets. This continues to be far lower than during the credit crunch and ensuing financial crisis, but is expected continue into the medium term and it is probable that there will be a weakening of the UK economy. The long term economic effects remain uncertain, and may be less severe than many previously suggested. The situation in the markets will evolve, however current impacts have been less pronounced than worst case considerations indicated. The Council's Treasury Management advisors Arlingclose, continues to monitor the credit situation closely and remains comfortable with clients making investments in institutions as long as they are compliant with our Investment Strategy.

5. Review of the Treasury Management Strategy 2016-17

Cipfa's Code of Practice for Treasury Management requires all Local Authorities to conduct a mid-year review of its treasury management policies, practices and activities. As a result of this review it was not deemed necessary to make any changes to the Treasury Management Strategy 2016-17, although the MRP Policy is currently under review.

For clarification purposes however, there is a minor amendment which should be made to the Investment Strategy included within the Treasury Management Strategy 2016-17 (Table 3 Non-Specified Investment Limits) as additional wording would make it clear that Local Authorities are excluded from this limit as the majority of Local Authorities do not have credit ratings:

- ***Current Extract*** - Total Investments without credit ratings or rated below the Council's definition of "high credit quality" – Category Cash limit of £6m

- ***Replacement Extract*** - Total Investments without credit ratings (excluding Local Authorities) or rated below the Council's definition of "high credit quality"– Category Cash limit of £6m

6. Cardiff Capital Region City Deal

As Members will be aware, progress is being made on the Cardiff Capital Region City Deal initiative. It will have significant capital expenditure and treasury management implications. Careful consideration will need to be given to the affordability of additional borrowing, the amount of income receivable to support any borrowing over the period of the deal and any risk implications on the Council's Treasury Management Strategy. No figures are assumed in the Council's Capital Programme or within this report. Any amounts required will represent new commitments over and above the existing capital programme and these will have to be incorporated into the Prudential and Treasury management indicators at the stage that more detail is known.

7. Treasury Management and Prudential Indicators 2016-17

Details of the estimate for 2016-17 set out in the Council's Treasury Management Strategy and also the projected indicators for 2016-17 are shown below.

Treasury Management Indicators 2016-17

The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks using the following indicators.

The Council needs to set the upper limits to its **Interest Rate Exposure** for the effects of changes in interest rates. There are two treasury management indicators that relate to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk.

No.		Treasury Management Strategy 2016-17 £m	Projection 31-03-2017 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2017	96.87	**96.87**
	Total Projected Principal Outstanding on Investments 31 March 2017	12.00	**20.00**
	Net Principal Outstanding	**84.87**	**76.87**
1.	**Upper Limit on fixed interest rates (net principal) exposure**	140.00	**59.62**
2.	**Upper Limit on variable interest rates (net principal) exposure**	50.00	**17.25**

The Section 151 Officer will manage interest rate exposures between these limits in 2016-17.

A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

The 19.87% shown in the table below relates to £19.25 million Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of their maturity date of 2054, as detailed in section 1 above. The Code requires the maturity of LOBO loans to be shown as the earliest date on which the lender can require payment, i.e. the next call date which is January 2017, however, the lender is not expected to exercise this option due to current low interest rates, so the maturity date is actually uncertain but is shown in the "Under 12 months" category as per the Code.

No	Maturity structure of fixed rate borrowing during 2016-17	Upper limit	lower limit	Projection 31-03-17
3.	Under 12 months	50%	0%	**19.87%**
	12 months and within 24 months	25%	0%	**0.00%**
	24 months and within 5 years	50%	0%	**0.00%**
	5 years and within 10 years	60%	0%	**12.47%**
	10 years and above	100%	40%	**67.66%**

The **Upper Limit for Total Principal Sums invested over 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		Treasury Management Strategy 2016-17 (Limit) £m	Projection 31-03-17 £m
4.	**Upper Limit for Total Principal Sums Invested for more than 364 days**	15	**6**

Prudential Indicators 2016-17

The following Prudential Indicators are based on the Council's capital programme which is subject to change.

The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure is funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2016-17 £m	Projection 31-03-17 £m
1	**Estimates of Capital Expenditure**		
	Non – HRA	43.55	47.10
	Total Capital Expenditure	**43.55**	**47.10**
	Financed by :-		
	Capital Grants and Contributions	12.55	17.54
	Capital Receipts	17.20	14.81
	Revenue Contribution to Capital	7.46	9.12
	Net Financing Need for Year	**6.34**	**5.63**

The capital expenditure figures have changed from the Treasury Management Strategy 2016-17 as the capital programme approved by Council on 10 March 2016 has been amended to include new approved schemes and to incorporate slippage of schemes identified as part of the capital monitoring and a change in the profile of funding and prudential borrowing. This has resulted in a decrease in the Net Financing Need for 2016-17.

The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to finance capital expenditure and forms the basis of the charge to the General Fund under the Prudential Code system.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP).The actual MRP charge needs to be prudent and the methodology is detailed in the Council's MRP policy in the TMS 2016-17. The MRP requirement for the PFI Scheme and the Innovation Centre will be equivalent to the write down of the liability for the year and is met from existing budgets.

No.	Prudential indicators For Prudence	Est. Treasury Management Strategy 2016-17 £m	Projection 2016-17 £m
2	**Capital Financing Requirement (CFR)**		
	Opening CFR (1 April 2016) excluding other LTL	155.44	155.07
	Opening PFI CFR	18.79	18.79
	Opening Innovation Centre	0.72	0.72
	Opening HALO	0.84	-
	Opening Coychurch Crematorium	-	0.13
	Total Opening CFR	**175.79**	**174.71**
	Movement in CFR excluding other LTL	(0.18)	(0.89)
	Movement in PFI CFR	(0.55)	(0.55)
	Movement in Innovation Centre CFR	(0.05)	(0.05)
	Movement in HALO CFR	(0.12)	-
	Movement in CREM CFR		(0.05)
	Total Movement in CFR	**(0.90)**	**(1.54)**
	Closing CFR (31 March 2017)	**174.89**	**173.17**
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	6.34	5.63
	Minimum and Voluntary Revenue Provisions*	(7.24)	(7.17)
	Total Movement	**(0.90)**	**(1.54)**

Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and includes MRP for the Public Finance Initiative (PFI) and the Innovation Centre

Limits to Borrowing Activity

The Council's long term borrowing at the 30 September 2016 was £96.87 million as detailed in section 1 the Treasury Position above. External borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. As the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.

The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown below:

No.	Prudential indicators For Prudence Gross Debt 31 March	Estimate Treasury Management Strategy 2016-17 Est. £m	Projection 31-03-17 £m
3	External Borrowing	96.87	96.87
	Long Term Liabilities (including PFI)	22.50	21.77
	Total Gross Debt	**119.37**	**118.64**

Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, debt will only be for a capital purpose. The Council needs to ensure that external debt does not, except in the short term, exceed the Capital Financing Requirement for 2016-17. The table below shows that the Council is on target to comply with this requirement.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2016-17 £m	Projection 31-03-17 £m
4	**Gross Debt & the CFR**		
	Total Gross Debt	119.36	118.64
	Closing CFR (31 March 2017)	**174.89**	**173.17**

A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure. These are detailed below and confirms that the Council is well within the limit set :-

- The **Authorised Limit** for External Debt – this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members.

- The **Operational Boundary** for External Debt – this is not an actual limit and actual borrowing could vary around this boundary during the year. It is based on the probable external debt during the course of the year.

No.	Prudential indicators For Prudence	Treasury Management Strategy 2016-17 £m	Projection 31-03-17 £m
5	**Authorised limit for external debt -**		
	Borrowing	140	
	Other long term liabilities	30	
	Total	**170**	
6	**Operational Boundary**		
	Borrowing	105	
	Other long term liabilities	25	
	Total	**130**	
	Borrowing		**97**
	Other long term liabilities		**22**
	Total		**119**

Prudential Indicators for Affordability

The Prudential Code Indicators Numbered 1 to 6 above cover the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

The indicator the **Ratio of Financing Costs to Net Revenue Stream** demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by the WG in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on Treasury Management activities and the MRP charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers.

No.	Prudential Indicator for Affordability	Estimate Treasury Management Strategy 2016-17	Projection 2016-17
7.	**Ratio of Financing Costs to Net Revenue Stream**	5.24%	5.00%

The indicator of the **Incremental Impact of Capital Investment Decisions on Council Tax** identifies the estimate of the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements that have occurred since the Capital Programme was approved for the year. This is a purely notional calculation designed to show the effect of changes in capital investment decisions.

No.	Incremental Impact of Capital Investment Decisions on Council Tax	Estimate Treasury Management Strategy 2016-17	Projection 2016-17
8.	Increase in Band D Council Tax as per Capital Programme	£ 4.75	£ 4.75