



COUNCILLOR PHIL DAVIES

CABINET

8 DECEMBER 2016

TREASURY MANAGEMENT

MID-YEAR REPORT 2016/17

Councillor Phil Davies (Leader of the Council) said:

‘The effective management of all of our resources is vital to the success of the Council. This includes our proactive approach to Treasury Management which will deliver a cash benefit of £8.7 million during 2016/17.

Achieving savings of such significant levels provides huge support to the front-line services residents rely on. We are able to achieve these savings from making business decisions regarding borrowing and investments to take advantage of commercial and funding opportunities alongside the security, liquidity and return on any investments.’

REPORT SUMMARY

The Authority’s treasury management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“the Code”), which requires the production of annual Prudential Indicators and a Treasury Management Strategy Statement on likely financing and investment activity. The Code also recommends that Members are informed of treasury management activities at least twice a year.

This report fulfils the Authority’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Department for Communities and Local Government (CLG) Investment Guidance.

Proactive Treasury Management activity resulted in previously identified one-off savings in 2016/17 of a minimum of £5 million.

- £2.5 million from a combination of reduced 2016/17 interest payments and revised Minimum Revenue Provision (MRP) charge in 2016/17.
- a further £2.5 million being generated in associated backdated adjustments as a result of revising the Council's MRP policy.

This 2016/17 one-off saving will increase to £8.7 million subject to the approval of Council in relation to amending the Treasury Management Strategy in calculating the Minimum Revenue Provision (as detailed in the report).

- £3.2 million from a combination of reduced 2016/17 interest payments and revised Minimum Revenue Provision (MRP) charge in 2016/17.
- £5.5 million being generated in associated backdated adjustments as a result of revising the Council's MRP policy.

For 2017/18 the saving from the change to the MRP policy will increase from the previously agreed £0.45 million to £1.25 million as detailed in Appendix 1.

This matter affects all Wards within the Borough.

The decisions in this report are key decisions.

RECOMMENDATIONS

1. That the Treasury Management Mid-Year Report for 2016/17 be agreed.
2. That the selection of the annuity method within 'Option 3 Asset Life' for calculating the Minimum Revenue Provision (MRP) be endorsed and that this amendment to the Treasury Management Strategy be referred to Council for approval.
3. That the current estimated saving of £5.0 million from Treasury Management activities in 2016/17 be noted.
4. That, subject to Recommendation 2, the Treasury Management savings for 2016/17 will increase to £8.7 million.
5. That, subject to Recommendation 2, the Treasury Management savings for 2017/18 will increase to £1.25 million and this be reflected in Budget 2017/18.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

- 1.1 Wirral has adopted the CIPFA Code of Practice on Treasury Management (“the Code”), which includes regular update reports to Members of treasury activity. This report is the mid-year review for 2016/17
- 1.2 Council delegates policy implementation and monitoring to Cabinet and execution and administration of activity to the Section 151 Officer.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 This report is essentially a monitoring report. The report contains within it discussion regarding the different options for calculating the Minimum Revenue Provision.

3.0 BACKGROUND INFORMATION

- 3.1 CIPFA define Treasury Management as: “The management of the local authority investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 3.2 Cabinet approves the Treasury Management Strategy at the start of each financial year. This identifies how it is proposed to finance capital expenditure, borrow and invest in the light of capital spending requirements, the interest rate forecasts and the expected economic conditions. During the year Cabinet receives a mid-year report on treasury management activities and at the end of each financial year this Annual Report.

ECONOMIC BACKGROUND

- 3.3 Growth and Inflation
 - 3.3.1 The preliminary estimate of Quarter 2 2016 Gross Domestic Product (GDP) showed reasonably strong growth as the economy grew at a healthy pace of 2.2%. Growth forecasts had already been downgraded as 2016 progressed, as the uncertainty surrounding the European Union referendum outcome dampened business investment. Although there may be some divergent views, in general the referendum result, coupled with the subsequent political change has heightened the perceived economic risks and prompted a sharp decline in household, business and investor sentiment.

3.3.2 Whilst the economic growth consequences of leaving the European Union remain speculative, there is some expectation that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, constrain investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects are expected to stifle economic growth through the second half of 2016 and in 2017.

3.3.3 Inflation is expected to pick up due to a rise in import prices, reducing real wage growth and real investment returns. The Bank of England forecasts a rise in the Consumer Price Index (CPI) to 0.9% by the end of 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

3.4 Monetary Policy

3.4.1 This negative sentiment on economic growth prompted the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate economic risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (Quantitative Easing) and cheap funding for banks to maintain the supply of credit to the economy.

3.5 Market Reaction

3.5.1 In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows, based on the view that Bank Rate would remain extremely low for the foreseeable future.

THE COUNCIL TREASURY POSITION

3.6 The table shows how the position has changed since 31 March 2016 with the Net debt having reduced from £207 million at March 2016 to £189 million at 30 September 2016.

Table 1: Summary of Treasury Position

	Balance 31 Mar 16 (£m)	Maturities (£m)	Additions (£m)	Balance 30 Sep 16 (£m)
Investments	51	(254)	260	57
Borrowings	(208)	46	(35)	(197)
Other Long-Term Liabilities	(50)	1	0	(49)
Net Debt	(207)	(207)	225	(189)

INVESTMENT ACTIVITY

- 3.7 Both the CIPFA and the CLG's Investment Guidance require the Authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield. These investments arise from a number of sources including General Fund Balances, Reserves and Provisions, grants received in advance of expenditure, money borrowed in advance of capital expenditure, Schools' Balances and daily cashflow / working capital.
- 3.8 At 30 September 2016 the Council held investments of £57 million. The table below shows the level of investment increasing to £65 million at 30 June 2016 (from £51 million as 31 March 2016) due to the receipts for 2016/17 funding being received in advance. The level then reduced to £57 million as these funds were utilised.

Table 2: Investment Profile

Investments with:	31 Mar 16 £m	30 Jun 16 £m	30 Sep 16 £m
UK Banks	11	13	13
Non-UK Banks	4	13	12
UK Building Societies	4	5	5
Money Market Funds	16	29	22
Other Local Authorities	16	5	5
TOTAL	51	65	57

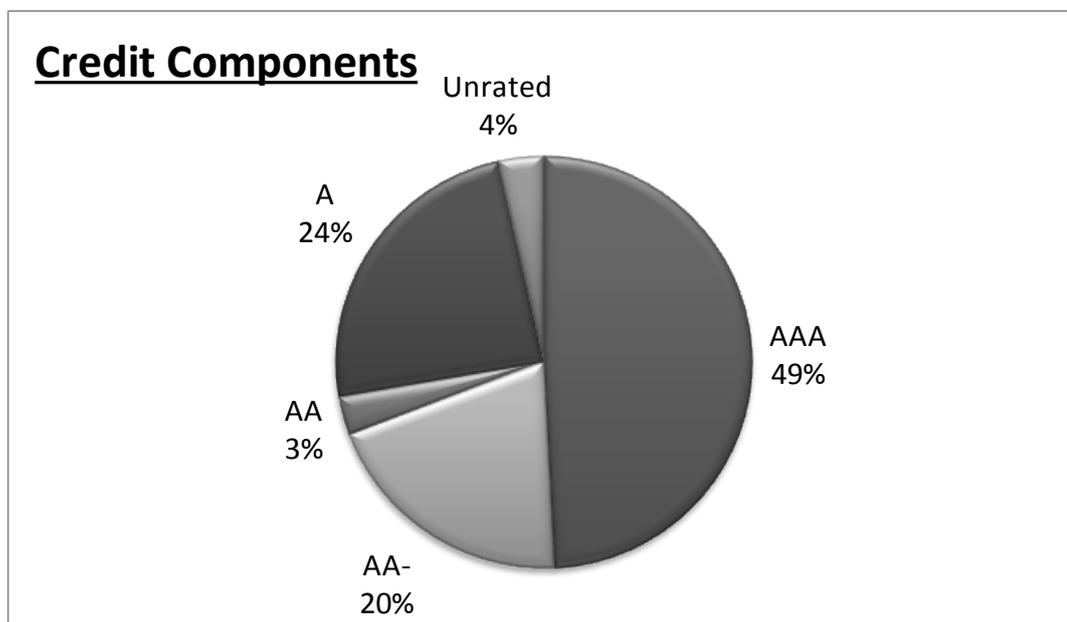
- 3.9 The table shows approximately where the investments came from.

Table 3: Investment Sources

Usable Reserves	31 Mar 16 £m	30 Jun 16 £m	30 Sep 16 £m
General Fund	11	11	11
Revenue Budget Contingency	12	12	12
Earmarked Reserves	73	74	74
Capital Receipts Reserve	8	9	9
Capital Grants Unapplied	10	10	10
	114	116	116
Internal Borrowing in lieu of External Borrowing	(63)	(51)	(59)
Reserves Invested	51	65	57

- 3.10 With short-term investment interest rates having remained at historic low levels, it is more cost effective in the short-term to use internal resources, rather than take on longer term external borrowing. By doing so, the Authority is able to reduce net borrowing costs, despite foregone investment income, and also reduce overall treasury risk. Whilst this strategy is beneficial over the short term, internal resources are reducing and it is unlikely that such this can be sustained long term. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing when long-term rates are forecast to eventually rise.
- 3.11 Security of capital remains the main investment objective. This is maintained by following the counterparty policy set out in the Treasury Management Strategy Statement for 2016/17. “High credit quality” organisations are those having a long-term credit rating of BBB+ or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.
- 3.12 Counterparty credit quality is assessed and monitored with reference to credit ratings (the Authority’s minimum long-term counterparty rating for 2016/17 is BBB+ across rating agencies Fitch, S&P and Moody’s); Credit Default Swap (CDS) prices, financial statements, information on potential government support and reports in the quality financial press.
- 3.13 The chart shows the credit composition of the investment portfolio.

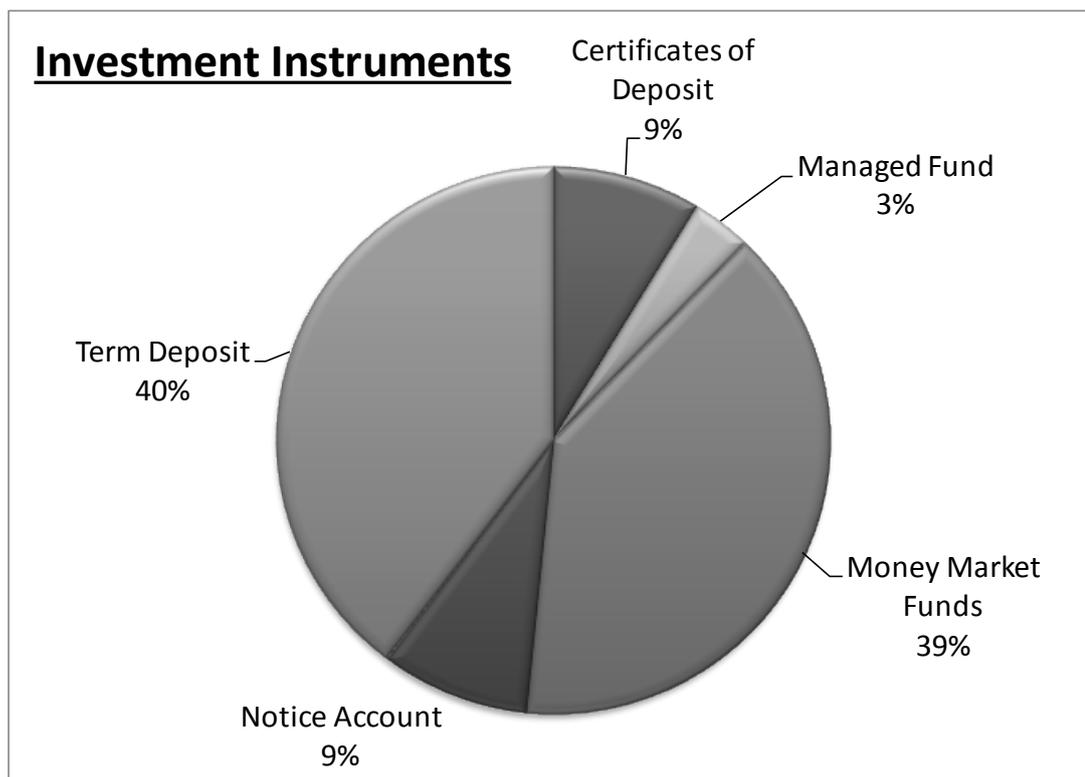
Chart 1: Investment Portfolio – Credit Components at 30 September 2016



Note: ‘Unrated’ institutions are Building Societies that despite the absence of a formal rating, are deemed credit worthy due to analysis of their performance over a variety of credit metrics. These institutions are subject to a lower counterparty limit than those with formal credit ratings

- 3.14 Investments with banks and building societies were primarily call accounts and fixed-rate term deposits. The maximum duration of any new investment was constantly reviewed in line with the prevailing credit outlook during the year as well as market conditions.
- 3.15 The introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits rose relative to other investment options. The Authority included further options for investment diversification in the Treasury Management Strategy Statement for 2016/17. In keeping with the DCLG Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and the use of call accounts.
- 3.16 For diversification purposes the Treasury Management team invest in a variety of counterparties and financial instruments to help mitigate counterparty and liquidity risks. A summary of the instruments invested in follows:

Chart 2: Investment Portfolio – Financial Instruments



- 3.17 Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

- 3.18 Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA.
- 3.19 In July Arlingclose completed a review of unrated building societies' annual financial statements. Cumberland, Harpenden and Vernon Building Society were removed from Arlingclose's advised list, following a deterioration in credit indicators. The maximum advised maturity was also lowered for eleven societies from 6 months to 100 days due to the uncertainty facing the UK property market following the EU referendum.
- 3.20 The budget for investment income is in the region of £300,000 and this is affected by two key factors:
- a) Low interest rates offered for investments and
 - b) The continuing policy of relying on internal borrowing to temporarily fund and thereby delay borrowing for the capital programme, which reduces balances available to put into investments but generates larger savings in interest incurred.
- 3.21 The average return on investments at the end of September was 0.55%. However this does not reflect the savings of an estimated 3.5% on delayed borrowing for amounts internally borrowed. The UK Bank Rate was reduced further to a new historic low of 0.25% in August. The return on investments, along with our policy of internally borrowing, reflects prevailing market conditions and the objective of optimising returns commensurate with the principles of security and liquidity.

BORROWING AND DEBT MANAGEMENT

- 3.22 The Council undertakes borrowing to fund capital expenditure. As explained in paragraph 3.12, the use of internal resources in lieu of borrowing, in the main, continues to be the most cost effective means of funding capital expenditure. As short-term investment interest rates have remained, and are likely to remain at least over the immediate future, lower than long-term borrowing rates, the Authority determined it was more cost effective in the short-term to use internal resources instead.
- 3.23 The use of internal borrowing will not be sustainable over the medium term. Elements of the Capital Programme will ultimately require funding via borrowing from external sources. Also as reserves are called upon the resources temporarily available to use in lieu of external borrowing diminish, meaning the Council will reach a point when it is no longer possible to delay borrowing any further. To reiterate internal borrowing does not remove the need to externally borrow, it merely delays incurring the debt and consequently the financing costs.

- 3.24 The decision to continue to use internal resources in lieu of borrowing for capital purposes, thereby reducing borrowing costs will generate savings in 2016/17 of £1.8 million whilst complying with the Regulations. In future years, as cash flows diminish through use of reserve and/or interest rates rise, external borrowing will have to increase. The Treasury Management team will continue to proactively manage the Authority's cash flow to delay external borrowing for as long as is possible and prudent to generate savings.
- 3.25 Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Council's treasury advisor.
- 3.26 The Public Works Loans Board (PWLB) remains the Council's preferred source of longer term borrowing given the transparency and control that its facilities continue to provide.
- 3.27 Temporary, short dated loans, predominantly from other local authorities remain affordable and attractive for periods of low cash flow, with rates available between 0.2% and 0.4%.
- 3.28 Other Long-Term Liabilities include the schools Private Finance Initiative (PFI) scheme and finance leases used to purchase vehicles plant and equipment. Under International Financial Reporting Standards (IFRS) these are shown on the Balance Sheet as a Financial Liability and therefore need to be considered within any Treasury Management decision making process.
- 3.29 The Council has not entered into any new lease agreements during 2016/17.

3.30 **Table 4: Council Debt at 30 September 2016**

Debt	Balance 31 Mar 16 (£m)	Maturities (£m)	Additions (£m)	Balance 30 Sep 16 (£m)
<u>Borrowings</u>				
PWLB	(39)	7	0	(32)
Market Loans	(166)	39	(35)	(162)
Interest Free Loans	(3)	0	0	(3)
<u>Other Long Term Liabilities</u>	(50)	1	0	(49)
TOTAL	(258)	47	(35)	(246)

MINIMUM REVENUE PROVISION (MRP)

- 3.31 Where the Authority finances capital expenditure by debt, it must put aside resources each year to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as the Minimum Revenue Provision (MRP). Although there has been no statutory minimum since 2008, the Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance (DCLG) on MRP most recently issued in 2012.

- 3.32 The broad aim of the DCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. DCLG prescribe various options to calculate this repayment provision.
- 3.33 The 2016/17 Treasury Management Strategy (Council 3 March 2016) agreed the use of the DCLG Option 3: Asset Life Equal Instalment Method to calculate MRP on assets funded from unsupported borrowing. The updated Strategy removed the previous 25 year calculation limit as this did not accord with the asset lives contained within the Council asset register. By aligning asset lives to the asset register the total amount of MRP repayable remains the same but is spread over a longer repayment term reflecting the life of the assets involved. The MRP charge period is a 'notional' charge and extending the repayment profile does not therefore impact on any interest costs
- 3.34 The 2016/17 revenue budget was reduced by £450,000 based on the estimated minimum reduction achievable from the revised asset life approach. This reduction was reflected in the agreed 2016/17 Council budget.
- 3.35 The 2015/16 Treasury Management Annual Report (Cabinet 18 July 2016) explained that the DCLG 'Option 3, Asset Life Method' to calculate the MRP charge was under review and may lead to a revised charge profile. Under Option 3 there are two sub-options, the equal instalment method or the annuity method which can be applied. Work has been undertaken to examine the sub-options combined with matching the profiles to the asset lives within the asset register. The total amount repayable remains the same but the profile of provision differs as shown in Appendix 1.
- 3.36 Both amended methods of calculation adhere to the Treasury Management Strategy and fulfil DCLG 'Option 3' in resulting in a prudent provision for the repayment of capital debt. Adoption of the 'Equal Instalment Method' will allow the Authority to release a one-off amount of £3.2 million in 2016/17 for MRP. This includes an adjustment of £2.5 million for past years charges having been higher than required under the new method, with an ongoing budget saving of £0.45 million per year.
- 3.37 The "Annuity Method" produces a profile of principal repayments which starts low and increases each year reflecting the time value of money i.e. £1 in year 1 will have more purchasing power than to £1 in year 10. Adoption of this method would release a one off amount £6.9 million in 2016/17 for MRP. This includes £5.5 million in respect of adjustments in 2016/17 reflecting previous years charges having been higher than required using the annuity calculation method. There will also be an ongoing saving in future years on a reducing basis starting at £1.4 million before rising to above the current budgeted MRP level in approximately 20 years' time. Appendix 1 provides details of the revised schedule of charges for both methods.

3.38 The main difference between the two MRP Option 3 methods is the amount released from backdated adjustments. This is calculated to be £3 million (£2.5 million equal instalments compared to £5.5 million for annuity, as per the two tables below). The annuity method profile results in a lower charge to the provision until 2038 as detailed in Appendix 1.

Table 5 - Historic MRP Adjustment Based on 'Equal Instalment' Method

Year Ending 31st March	Original MRP £	Revised Asset Life MRP £	Adjustment Amount £
2010	470,778	375,160	(95,619)
2011	635,011	501,872	(133,139)
2012	1,030,314	805,303	(225,011)
2013	1,823,436	1,440,717	(382,719)
2014	2,048,776	1,593,662	(455,114)
2015	2,367,776	1,600,369	(767,407)
2016	2,327,000	1,810,716	(516,284)
Total	10,703,090	8,127,798	(2,575,292)

Table 6 - Historic MRP Adjustment Based on 'Annuity' Method

Year Ending 31st March	Original MRP £	Annuity MRP £	Adjustment Amount £
2010	470,778	219,505	(251,273)
2011	635,011	296,467	(338,544)
2012	1,030,314	503,914	(526,400)
2013	1,823,436	888,989	(934,447)
2014	2,048,776	1,000,060	(1,048,716)
2015	2,367,776	1,035,968	(1,331,808)
2016	2,327,000	1,205,851	(1,121,149)
Total	10,703,090	5,150,754	(5,552,336)

3.39 Wirral's treasury advisers Arlingclose have assisted with work on the MRP calculations and approach. Given the technical accounting nature of the calculations and the backdating in respect of past years, liaison is taking place with Grant Thornton Wirral's external auditors to ensure necessary compliance with any accounting regulation and legislation. Authorities including others on Merseyside are currently calculating MRP using both of the methods outlined within Option 3.

COMPLIANCE WITH PRUDENTIAL INDICATORS

- 3.40 The introduction of the Prudential Code in 2004 gave Local Authorities greater freedom in making capital strategy decisions. The prudential indicators allow the Council to establish prudence and affordability within the Capital Strategy. The indicators as shown in Appendix 2 demonstrate that the treasury management decisions are in line with the Strategy, being prudent and affordable

4.0 FINANCIAL IMPLICATIONS

- 4.1 In the financial year 2016/17 proactive treasury management activities are estimated to produce a one-off saving of £5.0 million. Adoption of the Annuity method for calculating MRP as outlined above would increase this to an estimated one-off saving of £8.7 million.
- 4.2 The Budget 2016/17 included an on-going revenue saving of £0.45 million through the adoption of the Equal Instalment Method. The adoption of the Annuity Method increases the 2017/18 saving to £1.25 million.
- 4.3 External debt finance has reduced to £197 million, a decrease of £67.3 million since 2012, despite additional annual capital commitments. This reduction has also contributed to the generation of substantial savings.
- 4.4 Investment income has also helped to generate resources for service delivery.

5.0 LEGAL IMPLICATIONS

- 5.1 The Council's has adopted the CIPFA Code of Practice on Treasury Management. This requires the annual production of Prudential Indicators and a Treasury Management Strategy Statement and the reporting of treasury management activities at least twice a year.
- 5.2 The adoption of the Annuity Method of calculating the Minimum Revenue Provision is a change from the previously agreed decision to use the Equal Instalment Method. As this presents a change to the Council agreed Treasury Management Strategy this revision needs to be agreed by Council.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

- 6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 The Council is responsible for treasury decisions and activity and none of these decisions are without risk. The successful identification, monitoring and control of risk are important and the main risks are:-

- Liquidity Risk (Inadequate cash resources).
- Market or Interest Rate Risk (Fluctuations in interest rate levels).
- Inflation Risk (Exposure to inflation).
- Credit and Counterparty Risk (Security of investments).
- Refinancing Risk (Impact of debt maturing in future years).
- Legal and Regulatory Risk.

8.0 ENGAGEMENT/CONSULTATION

8.1 The change in approach regarding the treatment of the Minimum Revenue Provision has been the subject of discussion with Arlingclose, the Treasury Management Advisors, and Grant Thornton, the Council's External Auditors.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

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APPENDICES

Appendix 1 Minimum Revenue Provision – Revised Charging Schedule
Appendix 2 Prudential Indicators 2016/17

SUBJECT HISTORY

Council Meeting	Date
Cabinet	
Treasury Management Strategy Statement 2016/17	22 February 2016
Treasury Management Annual Report 2015/16	16 July 2016
Treasury Management Performance Monitoring	7 November 2016

TREASURY MANAGEMENT STRATEGY**Minimum Revenue Provision – Revised Charging Schedule**

Year Ending 31st March	Revised Asset Life MRP £	Annuity MRP £	Annual Annuity (Saving)/Cost £
2010	375,160	219,505	(155,654)
2011	501,872	296,467	(205,405)
2012	805,303	503,914	(301,389)
2013	1,440,717	888,989	(551,728)
2014	1,593,662	1,000,060	(593,601)
2015	1,600,369	1,035,968	(564,401)
2016	1,810,716	1,205,851	(604,865)
2017	2,344,474	1,611,438	(733,036)
2018	2,845,213	2,036,769	(808,444)
2019	3,646,647	2,569,796	(1,076,851)
2020	3,863,784	2,685,555	(1,178,229)
2021	4,147,910	2,922,924	(1,224,986)
2022	4,403,102	3,138,525	(1,264,577)
2023	4,581,673	3,278,278	(1,303,396)
2024	4,581,673	3,393,747	(1,187,927)
2025	4,473,451	3,379,413	(1,094,038)
2026	4,448,753	3,470,533	(978,221)
2027	4,395,383	3,531,847	(863,536)
2028	4,336,989	3,592,734	(744,255)
2029	4,291,916	3,669,962	(621,954)
2030	4,245,716	3,731,830	(513,886)
2031	4,159,755	3,739,846	(419,909)
2032	3,889,247	3,466,746	(422,501)
2033	3,542,825	3,101,007	(441,818)
2034	3,532,276	3,195,942	(336,335)
2035	3,523,868	3,294,111	(229,757)
2036	3,508,350	3,388,849	(119,501)
2037	3,469,985	3,457,931	(12,054)
2038	3,406,197	3,490,891	84,695
2039	3,388,128	3,588,026	199,898
2040	3,358,251	3,660,027	301,775
2041	3,350,678	3,778,388	427,710
2042	3,336,816	3,891,149	554,332
2043	3,263,147	3,896,895	633,748
2044	3,195,670	3,923,482	727,812
2045	3,174,273	4,022,487	848,214
2046	3,055,795	3,969,393	913,597
2047	2,744,248	3,623,039	878,791
2048	2,510,814	3,420,151	909,336
2049	2,158,701	2,973,976	815,276
2050	2,158,701	3,084,940	926,239
2051	2,158,701	3,200,100	1,041,400
2052	2,158,701	3,319,620	1,160,919
2053	2,152,949	3,430,967	1,278,018
2054	1,865,793	3,050,619	1,184,826
2055	1,528,802	2,568,219	1,039,417
2056	1,207,653	2,091,647	883,994
2057	913,919	1,652,307	738,388
2058	585,965	1,142,693	556,728
2059	538,516	1,098,703	560,187
2060	406,553	810,985	404,432
2061	377,071	769,981	392,909
2062	362,834	764,113	401,279
2063	208,886	395,594	186,708
2064	154,951	280,949	125,998
2065	148,787	275,124	126,337
2066	145,740	277,212	131,472
2067	86,940	164,445	77,505
2068	35,220	75,531	40,311
Total Repaid	144,500,190	144,500,190	0

Schedule Assumptions:

This table illustrates the comparative MRP charging profiles of the 'Equal Instalment' method and the 'Annuity' method. It is based on the following assumptions:

- That the Capital Expenditure plans (and categorisation of calculated asset lives) follow those reported in the September 2016 Capital Monitoring.
- .The maximum estimated life for any asset category is 50 years.
- An additional £10 million of Capital financing per annum has been factored in up to and including 2021/22.

PRUDENTIAL INDICATORS 2016/17

(a) Net Debt and Capital Financing Requirement (CFR) Indicator

The CFR measures the underlying need to borrow money to finance capital expenditure. The Prudential Code stipulates that net debt (debt net of investments) should not, except in the short term, exceed the CFR for the previous year plus the estimated additional CFR requirement for the current and next two financial years.

	£m
CFR in previous year (2015/16 actual)	335
Increase in CFR in 2016/17 (estimate)	3
Decrease in CFR in 2017/18 (estimate)	-16
Decrease in CFR in 2018/19 (estimate)	-16
Accumulative CFR	306

Net Debt does not exceed the CFR and it is not expected to in the future. This is a key indicator of prudence

(b) Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases and the Private Finance Initiative that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

There were no breaches to the Authorised Limit and the Operational Boundary during the first half of 2016/17.

	Operational Boundary (Approved) 2016/17 £m	Authorised Limit (Approved) 2016/17 £m	Actual External Debt 30/09/2016 £m
Borrowing	337	347	197
Other Long-term Liabilities	58	63	49
Total	395	410	246

(c) Upper Limits for Fixed and Variable Interest Rate Exposure

These allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on the portfolio of investments.

Interest Rate Exposure	Fixed Rate of Interest	Variable Rate of Interest	Total
Borrowings	£197.3m	£0m	£197.3m
Proportion of Borrowings	100%	0%	100%
Upper Limit	100%	100%	
Investments	£27.8m	£29.6m	£57.4m
Proportion of Investments	48%	52%	100%
Upper Limit	100%	100%	
Net Borrowing	£169.5m	£-29.6m	£139.9m
Proportion of Total Net Borrowing	121%	-21%	100%

(d) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit	Lower Limit	Actual Fixed Rate Borrowing as at 30 Sep 16	% of Fixed Rate Borrowing as at 30 Sep 16
	%	%	£m	%
Under 12 Months	80.0	0.0	10.7	5.4
12 Months and within 24 Months	50.0	0.0	11.0	5.6
24 Months and within 5 years	50.0	0.0	7.8	4.0
5 years and within 10 years	50.0	0.0	36.5	18.5
Over 10 years	100.0	20.0	131.3	66.5
Total			197.3	100.0

(e) Total principal sums invested for periods longer than 364 days

This indicator allows the Council to manage the risk inherent in investments longer than 364 days and for 2016/17 the limit was set at £30 million.

As at 30 September 2016 the Council had no investments longer than 364 days.