LICENSING & GENERAL PURPOSES
27 NOVEMBER 2017

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1736

TREASURY MANAGEMENT OPERATIONS MID-YEAR REPORT 2017/18

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report sets out the main activities of the Treasury Management Operations during the first half of 2017/18.

RECOMMENDATION:

Note the contents of the report in relation to the activities carried out during the first half of 2017/18.

1 INTRODUCTION

1.1 The Treasury Management Strategy for 2017/18 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

1.2 This report sets out the main activities of the Treasury Management Operations during the first half of 2017/18, provides an update on the current economic conditions affecting Treasury Management decisions and a forward look for the remainder of 2017/18.

1.3 Appendix A shows the actual prudential indicators relating to capital and treasury activities for the first half of 2017/18 and compares these to the indicators set in the Annual Treasury Management Strategy for the year. This Strategy was originally approved by Council on 23rd February 2017, and subsequently further revised and approved at Council 27th July 2017.

2 TREASURY MANAGEMENT ADVICE

2.1 The Council receives independent treasury advisory services from Arlingclose Ltd. Arlingclose provide treasury advice to 25% of UK local authorities including technical advice on debt and investment management, and long-term capital financing. They advise on investment trends, developments and opportunities consistent with the Council's Treasury Management Strategy.

2.2 With the exception of pooled funds all investment activity is carried out by the Council's own treasury team with advice from Arlingclose Ltd, as outlined in paragraph 2.1 above, and having due regard to information from other sources such as the financial press and credit-rating agencies.

2.3 Pooled funds are managed at the discretion of the external fund managers associated with each fund. It should however be noted that whilst the funds are externally managed, the decision as to whether to invest lies solely with the Council in accordance with its Treasury Management Strategy.

2.4 Officers involved in treasury activities have attended Arlingclose treasury management meetings on investment security, liquidity and yield during the 6 months to 30th September 2017.

3 ECONOMIC BACKGROUND

3.1 A detailed market commentary provided by Arlingclose is provided at Appendix A to this report.

3.2 The commentary makes specific reference to the Markets in Financial Instruments Directive (MiFID II) regulatory update, for which Rushmoor meets the conditions to opt up to professional status. Arrangements to achieve this status have been made,

3.3 In addition, the last section of Appendix A discusses the CIPFA Consultation on Prudential and Treasury Management Codes. The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to Full Council, which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in the Full Council report, but other indicators may be delegated to another committee.

4. BORROWING ACTIVITY IN 2017/18

4.1 At the start of the current financial year the Council had actual external debt amounting to £14.6m, composed of £2.6m Enterprise M3 LEP monies and the remainder (£12m) borrowed short-term from two UK local authorities.

4.2 An element of the Enterprise M3 LEP amount was repaid in the first half of the year leaving £2.1m outstanding, and total borrowing at the mid-point of the financial year therefore amounted to £14.1m. Actual capital expenditure has not significantly progressed in the first half year, and £5m of the local authority borrowing has been repaid early in October 2017, just after the mid-point of the financial year 2017/18.

4.3 It should be noted that the Council enjoys an element of revenue cash buoyancy for the first ten months of each financial year. This is due to the timing of council tax and NDR income receipts matched against outgoing precepts and demands from HCC and government bodies.

4.4 The volume of capital expenditure is however likely to accelerate during the second half of the financial year, and some additional borrowing within the second half of the year to service this expenditure will be required.

4.5 The Council's Authorised Limit for external debt was increased to £50m in 2017/18 within the Annual Treasury Management Strategy revisions discussed in paragraph 1.3 of this report. This limit was set in relation to the 2017/18 approved capital programme. However, the actual amount of external borrowing at the end of the current financial year will depend largely on the overall volume of capital expenditure that will actually be incurred.

5. INVESTMENT ACTIVITY IN 2017/18

5.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The graph at Appendix B has been produced by Arlingclose and demonstrates that during the six months to 30th September 2017 the Council's returns on total investment portfolio were in excess of 2.5%. This return is down compared to the total investment returns generated during the previous financial year (2016/17 2.9%). The current half-year performance is however good when benchmarked against the average of 1.1% yield for all 135 Arlingclose local authority clients. A small number of other Councils with similar sized internal and external portfolios are marked on the graph to enable performance comparison.

5.2 **Pooled Funds**

Pooled Fund Capital Growth As these are long-term investments (3-5 year window) Finance staff monitor the capital value of these investments on a monthly basis.

Arlingclose continue to confirm, "we review all our advised funds regularly, and if we think the fund manager is under performing, or the fund holdings are no longer suitable for clients, then we will advise you to sell".

Pooled Fund Income Returns – The income returned by fund for the period to 30th September 2017 is analysed below (all percentage returns quoted below are measured at 12-month running averages):

- £5 million investment with Payden & Rygel's Sterling Reserve Fund. The Fund seeks to provide capital security, liquidity and income through investment in Sterling denominated investment-grade debt securities. The fund has provided a 0.84% income return performance.

- £5 million investment with CCLAs Local Authorities' Mutual Investment Trust. The fund has provided a 4.86% income return performance.

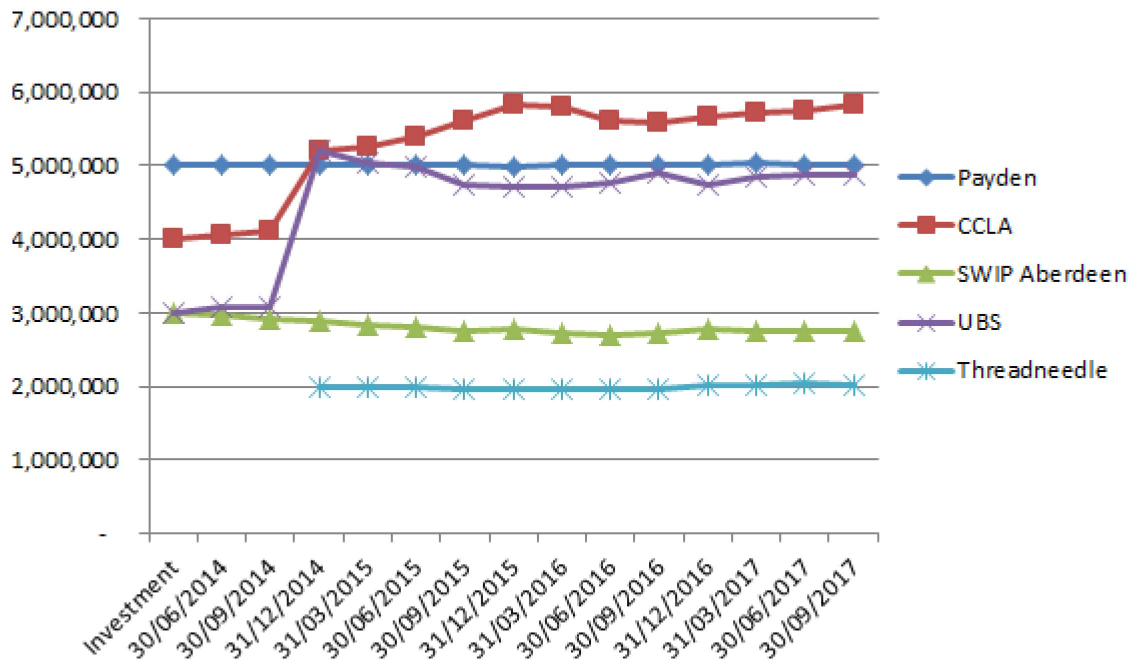
- £3 million investment with Aberdeen Asset Management Absolute Return Fund. This fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. The fund has provided a 2.23% income return performance.

- £5 million investment in the UBS Multi-Asset Income Fund. This Fund follows a strategy of reducing volatility exposure levels by spreading investments across a diversified range of asset classes. The fund has provided a 3.72% income return performance.

- £2 million investment in the Columbia Threadneedle Strategic Bond Fund. This Fund aims to provide income and capital appreciation through investment grade and high yield bonds. The fund has provided a 4.32% income return performance.

5.3 The history of market valuations for each of the Council's pooled funds is given in the table that follows. CCLA continues to perform well. SWIP Aberdeen is under-performing.

HISTORY OF MARKET VALUATIONS FOR THE COUNCIL'S POOLED FUND INVESTMENTS Amounts in £



5.4 **Bonds** – debt instruments in which an investor lends money for a specified period of time at a fixed rate of interest. **Covered Bonds** are conventional bonds that are backed by a separate group of loans (usually prime residential mortgages). When the covered bond is issued, it is over collateralised, with the pool of assets being greater than the value of the bond. The use of covered bonds has allowed the Council to actively move away from unsecured bank deposits, hence reducing exposure to bail-in. During the first half year 2017/18, the Council had not negotiated any additional bond investments in excess of continuation of its investment in the following covered bonds held at the commencement of the financial year. Note that the information below relates to bonds issued by building societies (listed at their nominal value):

The list of Bonds is provided on the following page.

- £1 million Yorkshire BS at a fixed rate of 1.33% (until Apr 18)
- £1 million Yorkshire BS at a fixed rate of 1.18% (until Apr 18)
- £2 million Leeds BS at a fixed rate of 1.47% (until Dec 18)
- £1 million Leeds BS at Libor + 0.27% (until Feb 18)

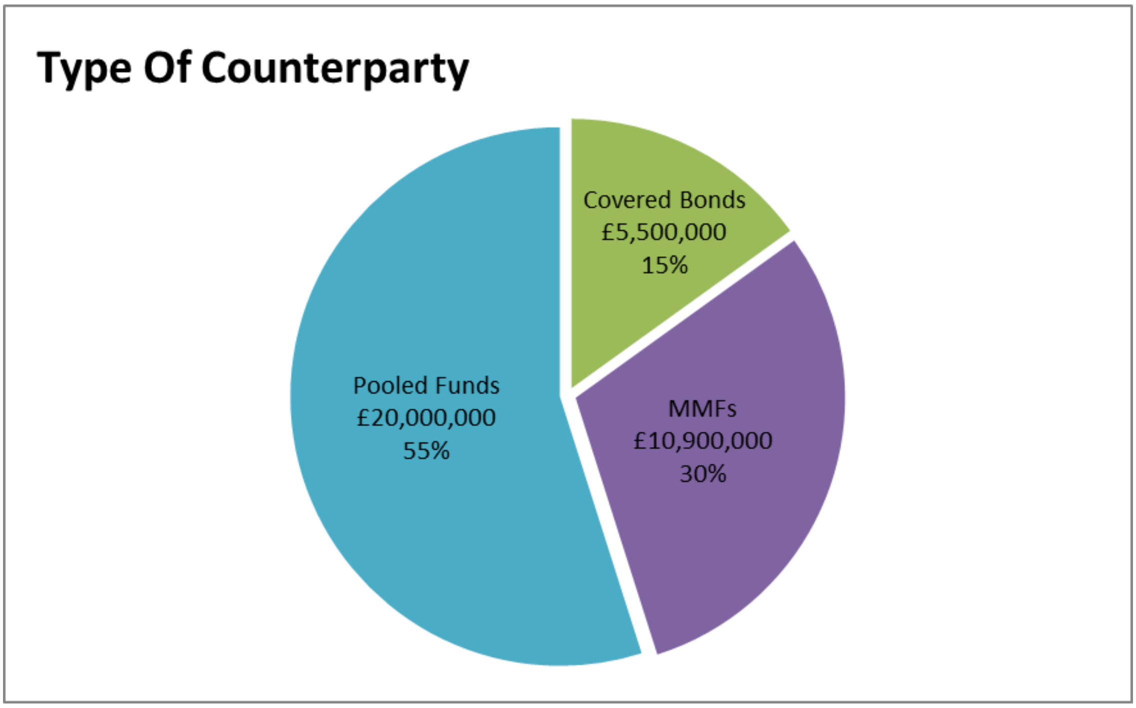
Other Investments – The Council continues to maintain some diversity in its portfolio by holding the following in institutions other than UK banks:

- Various temporary investments across a range of approved unsecured banks and building society counterparties all for durations of 6 months or less at rates ranging between 0.11% - 0.19% (as measured towards the end of the first half-year 2017/18). These temporary investments assist the Council to achieve essential cash liquidity on a daily basis. At the mid-point of the year 2017/18 the holding amounts to £10.9m.

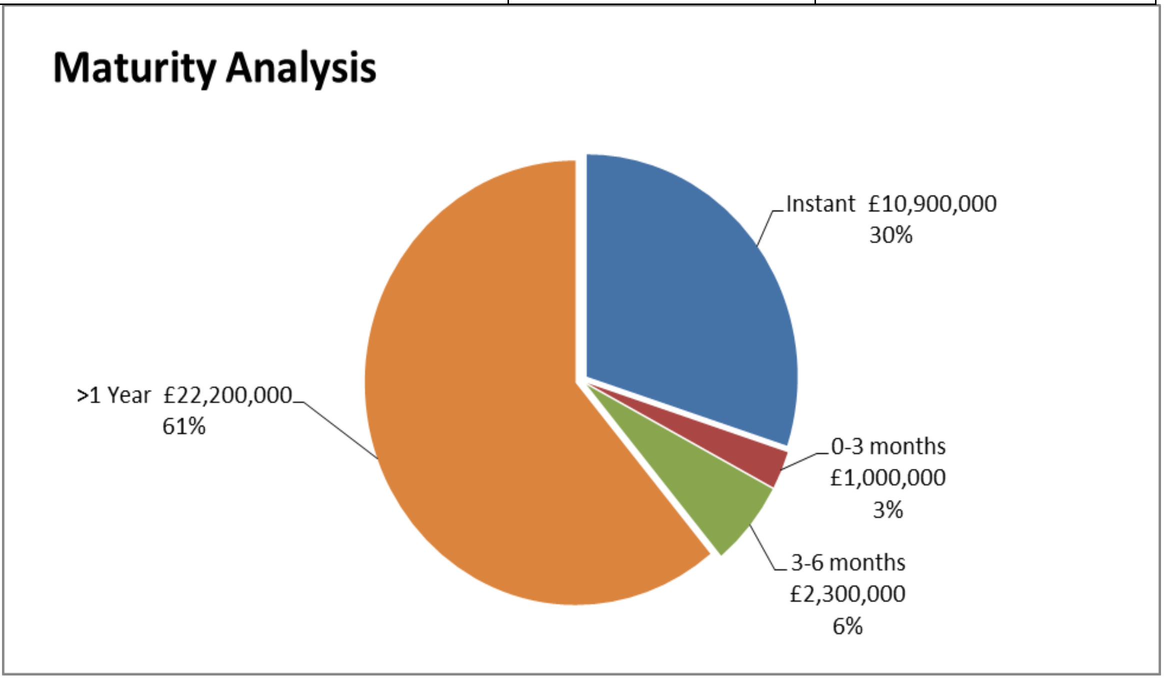
5.5 **All Investments –** The table that follows summarises deposit/investment activity during the 6-month period to 30th September 2017. Overall, there was an increase of £2.9m invested during the period.

Investment Counterparty	Balance at 01/04/17 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance at 30/09/17 £m	Avg Rate % and Avg Life (yrs)
UK Local Authorities	2.0	-	(2.0)	-	-
UK Banks and Building Societies (unsecured): Short-term Long-term	- -	- -	- -	- -	- -
Foreign Banks	-	-	-	-	-
Covered Bonds	6.5	-	(1.0)	5.5	Yields … Libor + 0.27%, 1.18%, 1.33% & 1.47%
AAA-rated Money Market Funds and short-term bank investments	5.0	Net increase in investment of 5.9	Activity in & out on a daily basis, resulting in a net increase in the period	10.9	Varies daily Average 0.16%
Pooled Funds: • Payden • CCLA • SWIP Aberdeen • UBS Multi Asset • Threadneedle	5.0 5.0 3.0 5.0 2.0	- - - - -		5.0 5.0 3.0 5.0 2.0	0.84% 4.86% 2.23% 3.72% 4.32%
TOTAL INVESTMENTS	33.5	5.9	(3.0)	36.4	

5.6 The following pie charts illustrate the spread of investments by counterparty along with a maturity analysis. These illustrate continued diversity.



Maturity Analysis for ALL INVESTMENTS as at 30th September 2017	Amount invested £	% of total investments
Instant	10,900,000	30
0-3 months	1,000,000	3
3-6 months	2,300,000	6
6-9 months	-	-
9-12 months	-	-
> 1 year	22,200,000	61
Total for all duration periods	**36,400,000**	**100**



6 CREDIT RISK (Credit Score Analysis)

6.1 Counterparty credit quality is assessed and monitored by reference to credit ratings. Credit ratings are supplied by rating agencies Fitch, Standard & Poor's and Moody's. Arlingclose assign values between 1 and 26 to credit ratings in the range AAA to D, with AAA being the highest credit quality (1) and D being the lowest (26). Lower scores mean better credit quality and less risk.

6.2 The advice from Arlingclose is to aim for an A-, or higher, average credit rating, with an average score of 7 or lower. This reflects the current investment approach with its focus on security. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

6.3 The table below summarises the Council's internal investment credit score for deposits during the 6-month period to 30th September 2017. The Council's scores fall comfortably within the suggested credit parameters. This represents good credit quality deposits on the grounds of both size and maturity.

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
Q4 2015/16	3.02	AA	1.50	AAA
Q1 2016/17	4.74	A+	5.45	A+
Q2 2016/17	2.88	AA	1.57	AA+
Q3 2016/17	2.91	AA	1.38	AAA
Q4 2016/17	2.97	AA	1.21	AAA
Q1 2017/18	3.08	AA	1.08	AAA
Q2 2017/18	3.46	AA	1.03	AAA

6.4 **Interest Rate Exposure**: This indicator is set to monitor the Council's exposure to the effects of changes in interest rates. The indicator calculates the relationship between the Council's net principal sum outstanding on its borrowing to the minimum amount it has available to invest. The upper limits on fixed and variable rate interest rate exposures expressed as the amount of net principal borrowed is shown in the table that follows.

At 30th September 2017 the Council's total net position on principal sums invested amounts to £36.4m (investments) offset by £14.1m (fixed rate borrowing) resulting in a (net) amount of £22.3m.

Interest Rate Exposure	2017/18 Approved Limit	End of Q2 2017/18 Actual
Upper limit on fixed interest rate exposure – represented by the maximum permitted net outstanding principal sum borrowed at fixed rate – Note that a negative indicator represents	-£16m	£2m

net investment		
Upper limit on variable interest rate exposure – represented by the maximum permitted net outstanding principal sum borrowed at variable rate – Note that a negative indicator represents net investment	-£25m	-£24m

At the mid-point of the financial year 2017/18 the upper limit on fixed rate exposure is now a positive figure, composed of fixed rate investments (£12m) net of outstanding borrowing (£14m) resulting in +£2m. As the Council still has more variable rate funds available to invest and has no variable rate borrowing the above variable rate indicators result in negative figures.

6.5 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are given in the table below:

	Upper	Lower	End of Q2 2017/18 Actual Performance
Under 12 months	100%	0%	85%
12 months and within 24 months	100%	0%	6%
24 months and within 5 years	100%	0%	9%
5 years and within 10 years	100%	0%	-
10 years and above	100%	0%	-

At 30th September 2017, the Council's external borrowing amounts to £14.1m. The maturity duration percentages expressed in future time periods are related to the tiered repayment structure for the Enterprise M3 LEP.

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

	2017/18 Approved Limit	End of Q2 2017/18 Actual Performance
Limit on principal invested beyond year end at any one time	£50m	£22m

7 COMPLIANCE

7.1 All treasury management activities undertaken during the first half of 2017/18 fully complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

8 FORWARD LOOK

8.1 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e after inflation) struggles in the face of higher inflation.

8.2 In relation to the pooled funds, Arlingclose advise that the Council should consider selling units of poor performing holdings. The resulting cash to be utilised to purchase units in another pooled fund that is judged to be producing improved returns.

8.3 The UK Bank Rate was increased to 0.50% (from 0.25%) on 2nd November 2017. The Council's advisors central case estimate is for the Bank Rate to remain at 0.5%.

8.4 Treasury management decision making is now progressively developing with regard to incurring additional external borrowing to service the Council's capital expenditure plans.

9 BUDGETED INCOME & OUTTURN

9.1 The Council's full year 2017/18 budgeted investment income interest is now estimated to be £837,000, compared to the original budget for the year of £839,000. In addition, borrowing interest costs for the current year are estimated to be £40,000, compared to a budget of £51,000 contained in the original budget for 2017/18. This information is contained in the Cabinet report "Revenue Budget Monitoring and Forecasting position at October 2017" for 14th November 2017.

10 CONCLUSIONS

10.1 The Council's treasury team continues to concentrate on the security of deposits/investments while keeping a keen regard on the income returns available. It is estimated that the Council's commitment towards capital expenditure in the current year will raise the level of external borrowing at the end of the year.

10.2 Further capital expenditure in 2018/19 and future years will require further additional borrowing. Higher yielding pooled fund investments will be retained for as long as possible, as their redemption in the future to raise cash for capital purposes will cause significant revenue effects in relation to the loss of investment income. The Council continues to seek to diversify its investments in order to maximise returns and to safeguard the Council's treasury management position.

10.3 The Treasury and Prudential indicators were originally set at Full Council on 23rd February 2017 as part of the Treasury Management Strategy. This Strategy was subsequently further revised and approved at Council 27th July 2017. The Council can confirm that it has complied with its Treasury and Prudential Indicators for 2017/18.

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

Background papers:

CIPFA Prudential Code 2011 (Printed edition 2013)

CIPFA Code of Practice -'Treasury Management in the Public Services'

Loans and Investments records

Contact: Amanda Fahey, Head of Financial Services, x8440

ECONOMIC BACKGROUND - Comment provided by Arlingclose - Appendix A

External Context

Economic backdrop: Commodity prices fluctuated over the period with oil falling below $45 a barrel before inching back up to $58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

One month after the mid-point of 2017/18 and in a 7 – 2 vote, the MPC increased the Bank Rate in line with market expectations to 0.5%. Further potential movement in the Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting that inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Financial markets: Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

Credit background: UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Regulatory Updates

Markets in Financial Instruments Directive (MiFID II): Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

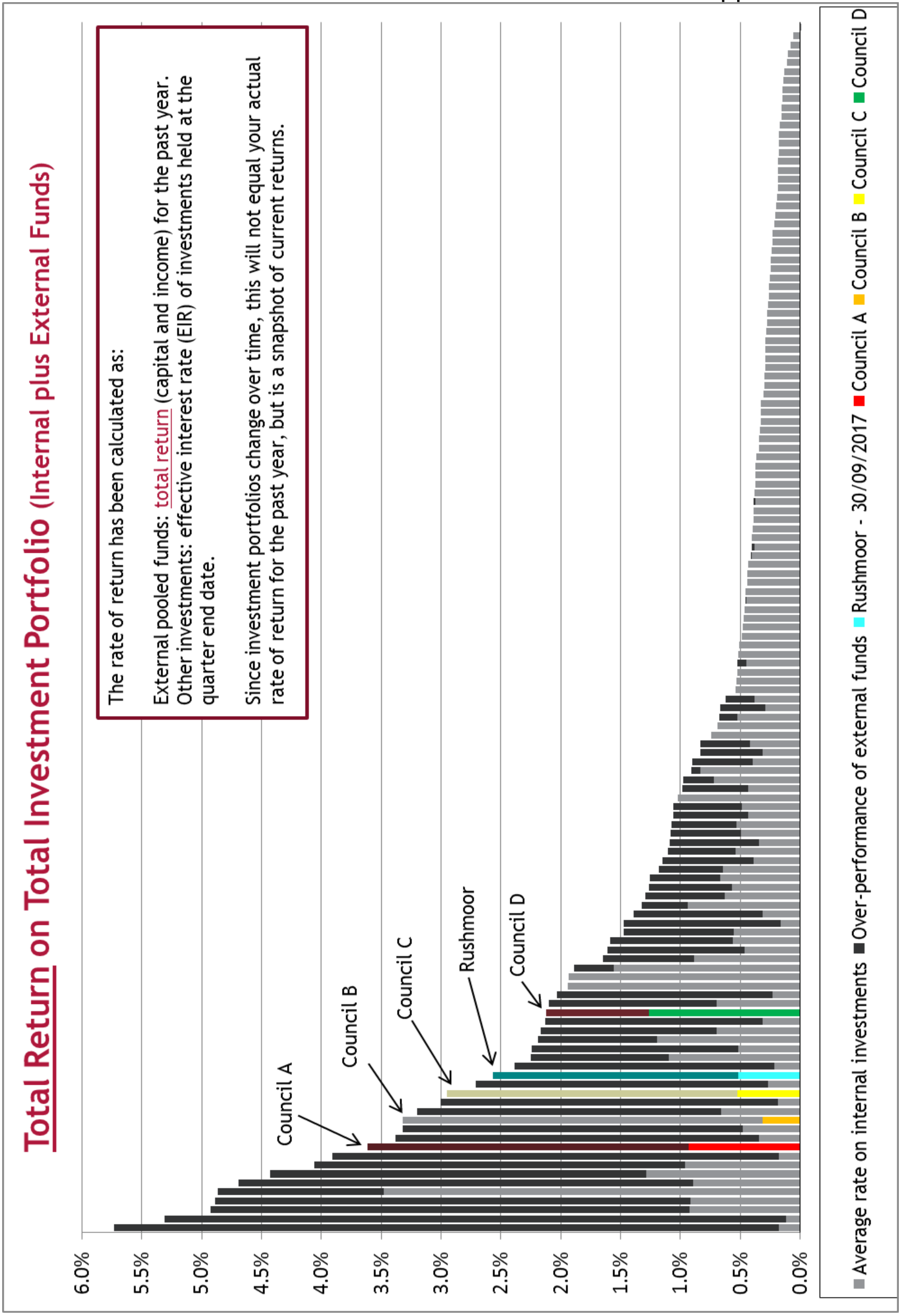
The Authority meets the conditions to opt up to professional status and has made arrangements to achieve this status in order to maintain their current MiFID status.

CIPFA Consultation on Prudential and Treasury Management Codes: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to Full Council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a Committee rather than needing approval of Full Council. There are also plans to drop or alter some of the current treasury management indicators.

CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.


Total Return on Total Investment Portfolio (Internal plus External Funds)
The rate of return has been calculated as:
External pooled funds: total return (capital and income) for the past year.
Other investments: effective interest rate (EIR) of investments held at the quarter end date.
Since investment portfolios change over time, this will not equal your actual rate of return for the past year, but is a snapshot of current returns.
Council A
Council B
Council C
Rushmoor
Council D
6.0%
5.5%
5.0%
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
Average rate on internal investments
Over-performance of external funds
Rushmoor - 30/09/2017
Council A
Council B
Council C
Council D

This Appendix shows the actual prudential indicators relating to capital and treasury activities for the first half of 2017/18 and compares these to the indicators set in the Annual Treasury Management Strategy for the year. This Strategy was originally approved by Full Council on 23rd February 2017, and subsequently further revised and approved at Full Council 27th July 2017.

The amounts stated within the 2017/18 Projected column cells are the same as reported in Appendix B of the Capital Programme Monitoring Position at October 2017 at Cabinet 14th November 2017.

1.1 Prudential Indicators

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing is summarised as follows.

Capital Expenditure and Financing	**2017/18 Estimate £m**	**2017/18 Projected £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
General Fund	30.945	36.988	2.026	2.161
Total Expenditure	**30.945**	**36.988**	**2.026**	**2.161**
Capital Receipts	4.600	4.800	0.500	0.500
Capital Grants & Contributions	3.285	4.938	1.331	1.431
Revenue	-	-	-	-
Prudential Code Borrowing	23.060	27.250	0.195	0.230
Total Financing	**30.945**	**36.988**	**2.026**	**2.161**

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

Capital Financing Requirement	**31.03.18 Estimate £m**	**31.03.18 Projected £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**
General Fund	29.6	33.8	33.8	33.7
Total CFR	**29.6**	**33.8**	**33.8**	**33.7**

The CFR amounts provided above are provided in relation to the TMSS for 2017/18 incorporating items within the 8-Point Plan with regard to "Invest to Save" schemes.

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

Debt	31.03.18 Estimate £m	31.03.18 Projected £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Borrowing	37.0	40.0	43.0	42.0
Total Debt	**37.0**	**40.0**	**43.0**	**42.0**

During 2017/18, the Council is expecting to continued make use of a revolving infrastructure fund from the Local Enterprise Partnership (M3 LEP).

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

Operational Boundary	2017/18 Estimate £m	2017/18 Projected £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	47.0	47.0	50.0	47.0
Total Debt	**47.0**	**47.0**	**50.0**	**47.0**

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

Authorised Limit	2017/18 Estimate £m	2017/18 Projected £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	49.0	49.0	51.0	50.0
Other long-term liabilities	1.0	1.0	1.0	1.0
Total Debt	**50.0**	**50.0**	**52.0**	**51.0**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2017/18 Estimate %**	**2017/18 Projected %**	**2018/19 Estimate %**	**2019/20 Estimate %**
General Fund	-6	-6	0	4

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2017/18 Estimate £**	**2017/18 Projected £**	**2018/19 Estimate £**	**2019/20 Estimate £**
General Fund - increase in annual band D Council Tax	-6.75	-6.75	-18.31	-18.19