LICENSING, AUDIT & GENERAL PURPOSES COMMITTEE
26 NOVEMBER 2018

EXECUTIVE HEAD OF FINANCE
REPORT NO. FIN1836

TREASURY MANAGEMENT OPERATIONS MID-YEAR REPORT 2018/19

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report sets out the main activities of the Treasury Management Operations during the first half of 2018/19.

RECOMMENDATION:

1. Note the contents of the report in relation to the activities carried out during the first half of 2018/19.
2. Note the low level of investment income retuned form Payden & Rygel's Sterling Reserve pooled fund and the option to replace with an higher yielding fund
3. Approve an increase of £5m in Collective Investment Schemes (pooled funds) investment limit as set in Annual Treasury Management Strategy for 2018/19 approved by Council on 22nd February 2018. The increased investment level would allow the reinvestment of the remaining Covered Bonds due to redeem in December 2018 and increase investment income return.

1 INTRODUCTION

1.1 The Treasury Management Strategy for 2018/19 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 2018/19, provides an update on the current economic conditions affecting Treasury Management decisions and a forward look for the remainder of 2018/19.

1.3 Appendix A shows the actual prudential indicators relating to capital and treasury activities for the first half of 2018/19 and compares these to the indicators set in the Annual Treasury Management Strategy for the year. This Strategy was originally approved by Council on 22nd February 2018.

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 2018.

3 ECONOMIC BACKGROUND

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

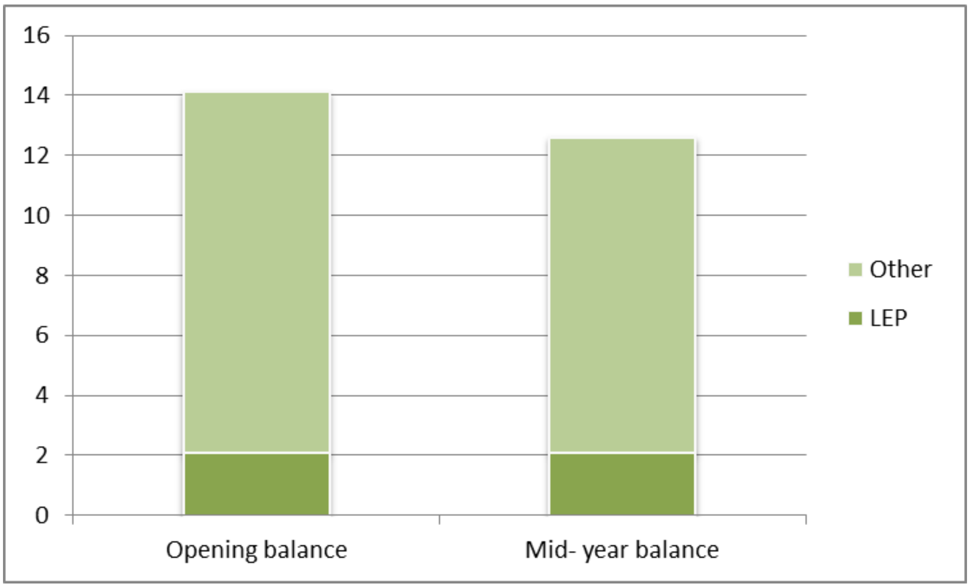
3.2 The commentary highlights there is continual economic uncertainty due to lack of an agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, even though Article 50 expires on 29th March 2019.

4. BORROWING ACTIVITY IN 2018/19

4.1 At the start of the current financial year the Council had external debt amounting to £14.1m, composed of £2.1m Enterprise M3 LEP monies and the remainder (£12m) borrowed short-term from two UK local authorities.

4.2 Actual capital expenditure has not significantly progressed in the first half year, and £1.5m of the local authority borrowing has been repaid in the first half of the year. Total borrowing at the mid-point of the financial year therefore amounted to £12.6m.

Borrowing movement



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 is £50m for 2018/19 as outlined within the Annual Treasury Management Strategy report. This limit was set in relation to the 2018/19 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 2018/19

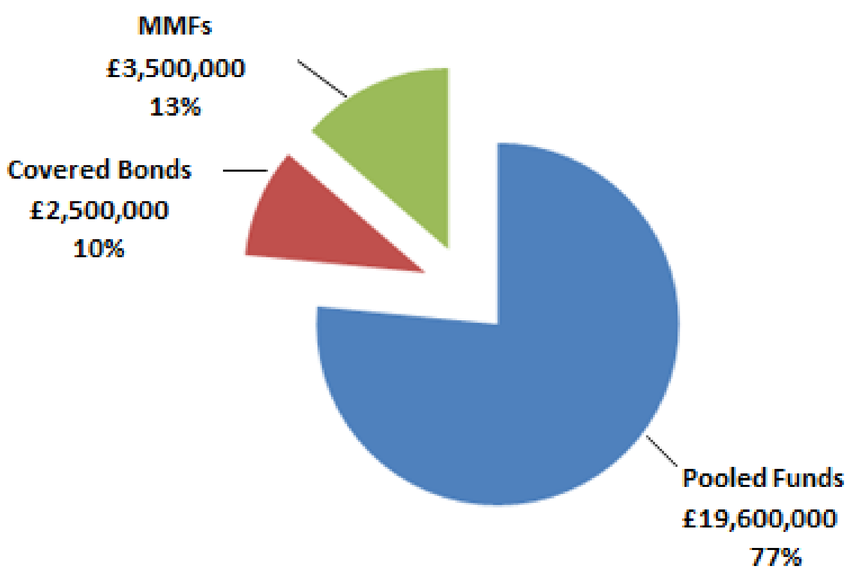
5.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The graph at Appendix B has been produced by Arlingclose and demonstrates that during the six months to 30th September 2018 the Council's returns on total investment portfolio were in excess of 1.5%. This return is down compared to the total investment returns generated during the previous financial year (2017/18 2.5%). The current half-year performance is however good when benchmarked against the average of 1.25% yield for all 135 Arlingclose local authority clients

5.2 **All Investments –** The table that follows summarises deposit/investment activity during the 6-month period to 30th September 2018. Overall, there was a decrease of £1.7m invested during the period.

Investment Counterparty	Balance at 01/04/18 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance at 30/09/18 £m	Avg Rate % and Avg Life (yrs)
Covered Bonds	4.5	-	(2.0)	2.5	Yields … Libor + 01.18%- 1.47%
AAA-rated Money Market Funds and short-term bank investments	3.2	Net increase in investment of 0.3	Activity in & out on a daily basis, resulting in a net increase in the period	3.5	Varies daily Average 0.54%
Pooled Funds: • Payden • CCLA • UBS Multi Asset • Threadneedle • M & G	5.0 3.6 5.0 2.0 4.0	- - - - - -		5.0 3.6 5.0 2.0 4.0	0.79% 4.83% 3.92% 3.12% 3.60%
TOTAL INVESTMENTS	27.3	0.3	(2.0)	25.6	

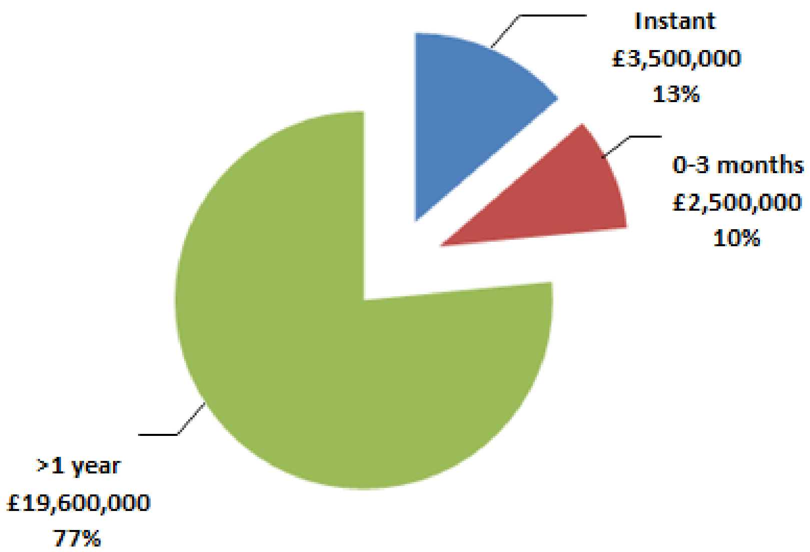
5.3 The following pie charts illustrate the spread of investments by counterparty along with a maturity analysis. These illustrate continued diversity.

Type of Counterparty



Maturity Analysis for ALL INVESTMENTS as at 30th September 2018	Amount invested £	% of total investments
Instant	3,500,000	13
0-3 months	2,500,000	10
3-6 months		-
6-9 months	-	-
9-12 months	-	-
> 1 year	19,600,000	77
Total for all duration periods	**25,600,000**	**100**

Maturity Analysis



5.4 The rate of return has been calculated as (1) External pooled funds (income return for the past year), (2) Over investments (effective rate of investments held at the end of the financial year). It should be noted that it is a "snapshot" of returns for the year. For 2018/19, the Council continued to use secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits. Details of the Council's investment activity together with returns generated during the first half of 2018/19 are outlined as follows:

5.5 **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 2018 is analysed below (all percentage returns quoted below are measured at 12-month running averages):

- Payden & Rygel's Sterling Reserve Fund - £5 million investment. The Fund seeks to provide capital security, liquidity and income through investment in Sterling denominated investment-grade debt securities. The fund has provided a 0.79% income return performance. Due to the low level of income returned an alternative pooled fund option is being considered

- CCLAs Local Authorities' Mutual Investment Trust - £3.9 million investment. The fund has provided a 4.83% income return performance.

- UBS Multi-Asset Income Fund - £5 million investment . 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 3.92% income return performance.

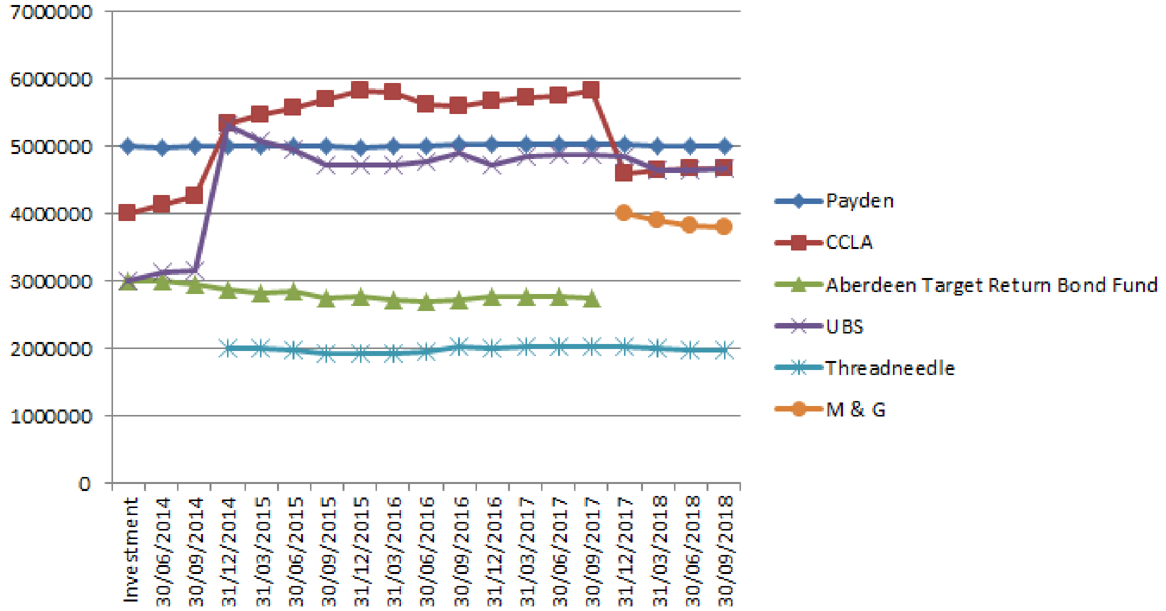
- Columbia Threadneedle Strategic Bond Fund - £2 million investment. This Fund aims to provide income and capital appreciation through investment grade and high yield bonds. The fund has provided a 3.21% income return performance.

- M & G Corporate Bond Fund - £4m invest in December 2017. This Fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. This fund has provided a 3.60% income return performance.

5.6 The history of market valuations for each of the Council's pooled funds is given in the table that follows.

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

Amounts in £



5.7 **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 2018/19, the Council had not negotiated additional bonds and is actively managing down its covered bonds. All bonds are due for redemption in 2018/19, with the one remaining bonds due for redemption in December 2018.

5.8 The council is a borrowing authority; any bonds that are redeemed offset the need to borrow. However, interest income is lost which has a revenue implication. Current short-term borrowing rate are around 1% and there is an option to reinvest the current active bond on redemption within a higher yielding pooled fund, producing a net benefit when taking into account borrowing rates. To enable a reinvestment of the Covered Bond in pooled funds the investment limit for pooled funds needs to be increased above the current £20m limit.

5.9 **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 0.35% - 0.64% (as measured towards the end of the first half-year 2018/18). These temporary investments assist the Council to achieve essential cash liquidity on a daily basis. At the mid-point of the 2018/19 year the holding amounts to £3.5m.

6 TREASURY MANAGEMENT INDICATORS

6.1 The Treasury Management Code requires that local authorities set a number of indicators for treasury management performance. The Council has also adopted a voluntary measure for credit risk as set out in paragraphs 3.2 to 3.4.

6.2 **Credit Risk (Credit Score Analysis):** 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.

6.3 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).

6.4 The table below summarises the Council's internal investment credit score for deposits during the 6-month period to 30th September 2018. 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
Q2 2017/18	3.46	AA	1.03	AAA
Q3 2017/18	3.46	AA	1.03	AAA
Q4 2017/18	3.63	AA-	1.05	AAA
Q1 2018/19	3.53	AA-	1.06	AAA
Q2 2018/19	2.79	AA	1.06	AAA

6.5 **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 2018 the Council's total net position on principal sums invested amounts to £25.6m (investments) offset by £14.1m (fixed rate borrowing) resulting in a (net) amount of £11.5m.

Interest Rate Exposure	2018/19 Approved Limit	End of Q2 2018/19 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 net investment	£35m	£11.6m
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	-£50m	-£23.1m

6.6 **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 2018/19 Actual Performance
Under 12 months	100%	0%	87%
12 months and within 24 months	100%	0%	7%
24 months and within 5 years	100%	0%	6%
5 years and within 10 years	100%	0%	-
10 years and above	100%	0%	-

At 30th September 2018, the Council's external borrowing amounts to £12.6m. The maturity duration percentages expressed in future time periods are related to the tiered repayment structure for the Enterprise M3 LEP.

6.7 **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:

	2018/19 Approved Limit	End of Q2 2018/19 Actual Performance
Limit on principal invested beyond year end at any one time	£40m	£20m

7 COMPLIANCE

7.1 All treasury management activities undertaken during the first half of 2018/19 fully complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

8 FORWARD LOOK

8.1 the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

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 0.75% (from 0.50%) in August 2018. The Council's advisors central case estimate is for the Bank Rate to increase at 0.25% every six months up to a level of 1.25% in September 2019.

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 2018/19 budgeted investment income interest is now estimated to be £835,000, compared to the original budget for the year of £846,000. In addition, borrowing interest costs for the current year are estimated to be £262,000, compared to a budget of £296,000 contained in the original budget for 2018/19. The movement in interest income and expense has been reported separately in the quarter 2 revenue monitoring report. Movement from original budget is outlined below:

Interest income and expenditure as at 30th September 2018	**2018/19 Estimate £000**	**2018/19 Projected £000**	**Movement year to date**
Income	846	835	-11
Expense	-296	-261	34
Net position	**550**	**573**	**23**

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 22nd February 2018 as part of the Treasury Management Strategy. The Council can confirm that it has complied with its Treasury and Prudential Indicators for 2018/19.

ALAN GREGORY
FINANCE MANAGER

Background papers:
CIPFA Prudential Code 2011 (Printed edition 2013)
CIPFA Code of Practice -'Treasury Management in the Public Services'
Loans and Investments records
Contact: Peter Timmins, Executive Head of Finance, x8440

Market commentary regarding the year 2018/19 from the Council's treasury management advisors Arlingclose.

External Context

Economic backdrop: Oil prices rose by 23% over the six months to around $82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year/year, above the consensus forecast and that of the Bank of England's in its August *Inflation Report*, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.

The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.

The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

Financial markets: Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the bet change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher in money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

Credit background: Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ringfenced bank NatWest Markets plc rose relatively sharply over the period to around 96bps. The CDS for the ringfenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.

The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.

Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.

Outlook for the remainder of 2018/19

Having raised policy rates in August 2018 to 0.75%, the Bank of England’s Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

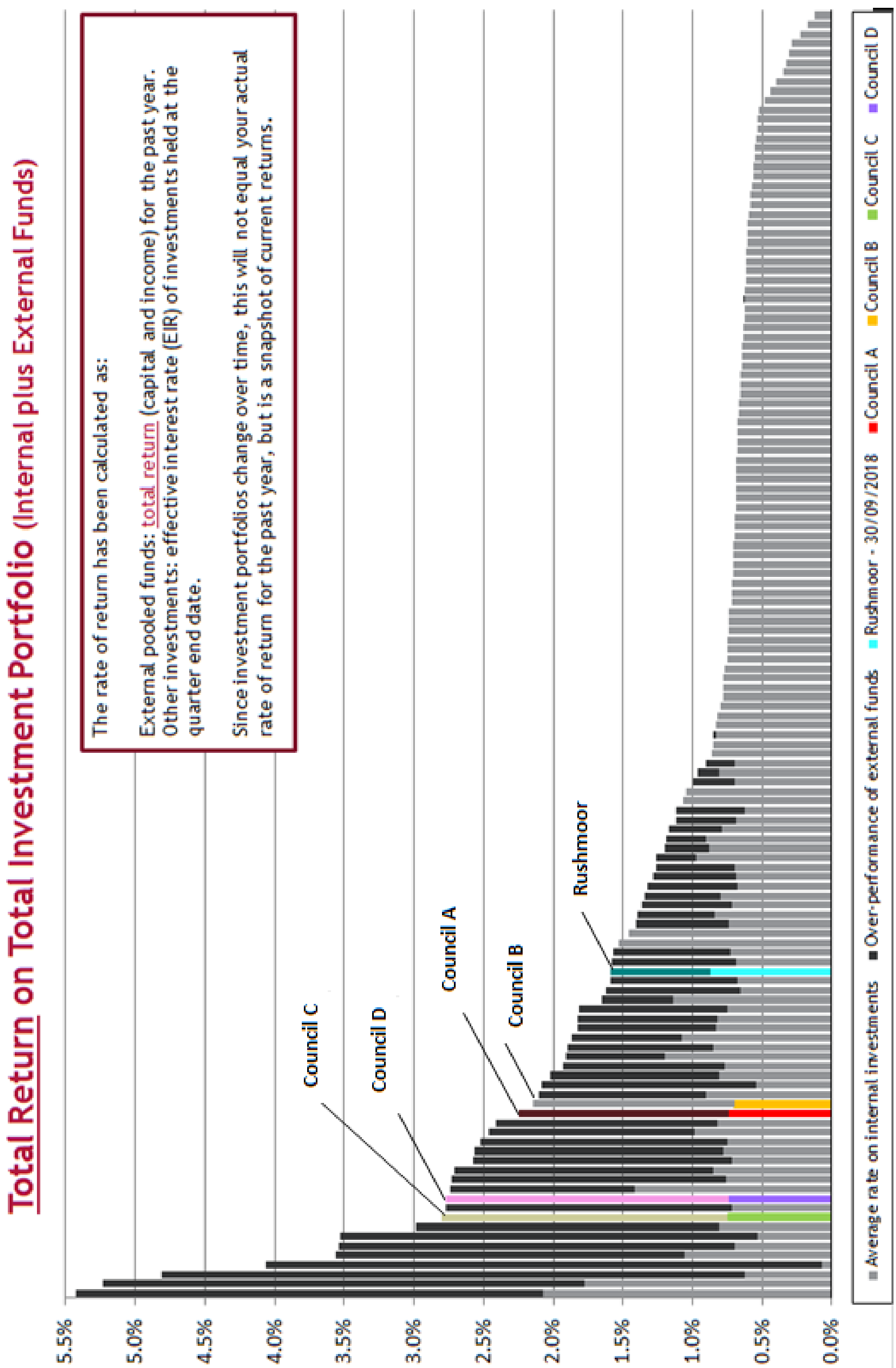
The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

Arlingclose’s central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

TOTAL RETURN ON INVESTMENT PORTFOLIO 1st HALF Yr 18/19



This Appendix shows the actual prudential indicators relating to capital and treasury activities for the first half of 2018/19 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 22nd February 2018.

The amounts stated within the 2018/19 Projected column cells are the same as reported in Appendix B of the Capital Programme Monitoring Position at September 2018 at Cabinet 13th November 2018.

1.1 Prudential Indicators

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

Capital Expenditure and Financing	2018/19 Estimate £m	2018/19 Projected £m
General Fund	28.718	54.441
Total Expenditure	**28.718**	**54.441**
Capital Receipts	0.733	0.733
Capital Grants & Contributions	7.646	8.598
Revenue	-	-
Prudential Code Borrowing	20.339	45.110
Total Financing	**28.718**	**54.441**

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	31.03.19 Estimate £m	31.03.19 Projected £m
General Fund	39.3	57.3
Adjustment ref IFRIC4 lease accounting	**2.9**	**2.7**
Total CFR	**42.2**	**60.0**

The CFR amounts provided above are provided in relation to the TMSS for 2018/19 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	**31.03.19 Estimate £m**	**31.03.19 Projected £m**
Borrowing	52.1	45.1
Total Debt	**52.1**	**45.1**

During 2018/19, 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	**2018/19 Estimate £m**	**2018/19 Projected £m**
Borrowing	58.0	45.1
Total Debt	**58.0**	**45.1**

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	**2018/19 Estimate £m**	**2018/19 Projected £m**
Borrowing	62.0	45.1
Other long-term liabilities	1.0	1.0
Total Debt	**63.0**	**46.1**

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	**2018/19 Estimate %**	**2018/19 Projected %**
General Fund	2.8	-2.0

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	**2018/19 Estimate £**	**2018/19 Projected £**
General Fund - increase in annual band D Council Tax	-29.43	-9.51