ARGYLL AND BUTE COUNCIL	PERFORMANCE REVIEW AND SCRUTINY COMMITTEE
STRATEGIC FINANCE	17 NOVEMBER 2016

TREASURY MANAGEMENT MONITORING REPORT 31 AUGUST 2016

1. EXECUTIVE SUMMARY

1.1 This report sets out the Council's treasury management position for the period 1 July 2016 to 31 August 2016 and includes information on:

- Overall Borrowing Position
- Borrowing Activity
- Investment Activity
- Economic Background
- Interest Rate Forecast
- Prudential Indicators.

1.2 Borrowing is below the Capital Financing Requirement for the period to 31 August 2017, however, there are substantial internal balances, of which £74.4m is currently invested.

1.3 Long term borrowing was taken out during the period 1 July 2016 to 31 August 2016 of £5m from the PWLB: as interest rates fell considerably during the period a decision was taken to reduce the Council's refinancing risk.

1.4 The net movement in external borrowing in the period was an increase of £4.1m.

1.5 The levels of investments have increased to £74.4m at 31 August 2016. The rate of return achieved was 0.651% which compares favourably with the target of 7 day LIBID which was 0.139%.

1.6 As part considering ways to increase the number of eligible counterparties for investments discussion took place with Capita Asset Services the outcome of which were that the minimum sovereign rating criteria be reduced from AA to AA- to match Capita's suggested minimum rating and to allow for the potential downgrading of sovereign ratings that would remove institutions which are currently used from the acceptable counterparty list. It was also agreed that the Council actively considers lending to other local authorities when making any investment decisions.

1.7 The Performance Review and Scrutiny Committee note that the Policy and Resources Committee recommended to Council that the Investment Strategy be amended to reduce the minimum sovereign rating from AA to AA- to match the Capita Asset Services suggested counterparty criteria and allow access to a wider range of counterparties.

ARGYLL AND BUTE COUNCIL	PERFORMANCE REVIEW AND SCRUTINY COMMITTEE
STRATEGIC FINANCE	17 NOVEMBER 2016

TREASURY MANAGEMENT MONITORING REPORT 31 AUGUST 2016

2. INTRODUCTION

2.1 This report sets out the Council's treasury management position for the period 1 July 2016 to 31 August 2016 and includes information on:

- Overall Borrowing Position
- Borrowing Activity
- Investment Activity
- Economic Background
- Interest Rate Forecast
- Prudential Indicators.

3. DETAIL

Overall Borrowing Position

3.1 The table below details the estimated capital financing requirement (CFR) and compares this with the estimated level of external debt at 31 March 2017. The CFR represents the underlying need for the Council to borrow to fund its fixed assets and accumulated capital expenditure.

	Forecast 2016/17 £000's	Budget 2016/17 £000's	Forecast 2017/18 £000's	Forecast 2018/19 £000's
CFR at 1 April	253,896	259,000	263,368	261,395
Net Capital Expenditure	20,643	17,937	8,271	2,656
Less Loans Fund Principal Repayments	(9,236)	(9,236)	(8,236)	(8,236)
Less: NPDO Repayment	(1,935)	(1,935)	(2,008)	(2,117)
Estimated CFR 31 March	**263,368**	**265,766**	**261,395**	**253,698**
Less Funded by NPDO	(74,059)	(74,059)	(72,051)	(69,934)
Estimated Net CFR 31 March	**189,309**	**191,707**	**189,344**	**183,764**
Estimated External Borrowing at 31 March	169,589	169,589	179,589	181,589
Gap	**19,720**	**22,118**	**9,755**	**2,175**

3.2 Borrowing is below the CFR for the period to 31 March 2017. This reflects the approach taken to minimise surplus cash on deposit in order to avoid overdue exposure to investment / credit worthiness risks.

3.3 The Council's estimated net capital financing requirement at the 31 August 2016 is £189.3m. The table below shows how this has been financed. Whilst borrowing is less than the CFR there are substantial internal balances (mainly the General Fund) of which £74.4m is currently invested.

	Position at 30/06/2016 £000's	Position at 31/08/2016 £000's
Loans	165,489	169,583
Internal Balances	100,535	94,193
Less Investments & Deposits	(72,610)	(74,467)
Total	**193,414**	**189,309**

Borrowing Activity

3.4 The table below summarises the borrowing and repayment transactions in the period 1 July 2016 to 31 August 2016.

	Actual £000's
External Loans Repaid 30th June 2016 to 31st August 2016	(887)
Borrowing undertaken 30th June 2016 to 31st August 2016	5,000
Net Movement in External Borrowing	**4,113**

3.5 The external borrowing of the Council increased by £4.1m during the period as £5m of long term borrowing was taken out from the PWLB taking advantage of historic low interest rates. This was offset by the repayment of £0.9m of long term borrowing.

3.6 The table below summarises the movement in level and rate of temporary borrowing at the start and end of the period.

	£000s	% Rate
Temp borrowing at 30th June 2016	663	0.30%
Temp borrowing at 31st August 2016	629	0.10%

Investment Activity

3.7 The average rate of return achieved on the Council’s investments to 31 August 2016 was 0.651% compared to the average LIBID rate for the same period of 0.139% which demonstrates that the Council is achieving a reasonable rate of return on its cash investments. At 31 August 2016 the Council had £69.4m of short term investments at an average rate of 0.651% and £5m placed in an Enhanced Money Market Fund with an unrealised gain of £3,841.02 at 31 August 2016. The table below details the counterparties that the investments were placed with, the maturity date, the interest rate and the credit rating applicable for each of the counterparties.

Counterparty	Maturity	Amount £000s	Interest Rate	Rating
Clydesdale Bank Instant	Instant Access	957	0.25%	Short Term A-2, Long Term BBB+
Handel 35 Day	35 Day Notice	5,000	0.55%	Short Term A-1+, Long Term AA-
BOS Corp	Instant Access	10	0.40%	Short Term A-1, Long Term A
Santander 95D	95 Day Notice	5,000	0.90%	Short Term A-1, Long Term A
Santander 180D	180 Day Notice	2,500	0.80%	Short Term A-1, Long Term A
Helaba Landesbank	31/08/2016	5,000	0.65%	Short Term A-1, Long Term A
Helaba Landesbank	19/04/2017	2,500	0.93%	Short Term A, Long Term A-1
Toronto Dominion	19/04/2017	2,500	0.90%	Short Term A-1+, Long Term AA-
Goldman Sachs	06/12/2016	5,000	0.75%	Short Term A-1, Long Term A
Commonwealth Bank of Australia	02/06/2017	5,000	0.985%	Short Term A-1+, Long Term AA-
Commonwealth Bank of Australia	22/06/2017	2,500	0.96%	Short Term A-1+, Long Term AA-
Nationwide BS	13/01/2017	5,000	0.49%	Short Term A-1, long Term A
BOS 3mth FTD	14/10/2016	5,000	0.65%	Short Term A-1, Long Term A
BOS 6mth FTD	20/01/2017	2,500	0.80%	Short Term A-1, Long Term A
CD - Toronto Dominion	12/01/2017	5,000	0.97%	Short Term A-1+, Long Term AA-
CD - National Australia Bank	04/11/2016	5,000	0.76%	Short Term A-1, Long Term A
MMF - BNP Paribas	Instant Access	3,000	0.41%	AAA
ENH MMF - Federated Cash Plus (T+1)	Instant Access	5,000	0.00%	AAA
MMF - Standard Life (formerly Ignis)	Instant Access	5,000	0.43%	AAA
MMF - Invesco AIM	Instant Access	3,000	0.40%	AAA
MMF- Blackrock	Instant Access	0	0.00%	AAA
MMF - Insight	Instant Access	0	0.00%	AAA
Total		**74,467**		

3.8 All investments and deposits are in accordance with the Council's approved list of counterparties and within the limits and parameters defined in the Treasury Management Practices. The counterparty list is constructed based on assessments by leading credit reference agencies adjusted for additional market information available in respect of counterparties.

3.9 The current market conditions have made investment decisions more difficult as the number of counterparties which meet the Council's parameters has reduced making it harder to achieve reasonable returns while limiting the exposure to any one institution.

3.10 When considering the Council's Investment Strategy at the latest treasury strategy meeting with the Council's treasury advisors Capita Asset Services they recommended that the Council reduce its minimum sovereign rating from AA to AA-. The justification for the reduction is that following the vote on Brexit a number of countries sovereign ratings were placed on negative watch which could lead to a downgrading, if this happened then a number of the counterparties which the Council currently uses could be removed from the counterparty list. The change in minimum rating would also bring the Council into line with Capita's recommended minimum rating.

3.11 The use of other local authorities as counterparties was also discussed and it was agreed that the day to day investment decisions would take the possibility of dealing direct with other local authorities into account. This will not require a change in the Council's Investment Strategy as it already allows for investments with other local authorities.

Economic and Interest Rate Forecasts

3.12 The latest economic background is shown in appendix 1 with the interest rate forecast in appendix 2.

Prudential Indicators

3.13 The prudential indicators for 2016-17 are attached in appendix 3.

4. CONCLUSION

4.1 The Council's borrowing increased by £4.1m but it is still below the Capital Financing Requirement for the period to 31 August 2016. There are substantial internal balances, of which £74.4m is currently invested. The investment returns were 0.651% which is above the target of 0.139%.

4.2 A proposed change to the Council's Investment Strategy to reduce the minimum sovereign rating from AA to AA- was recommended to Council by the Policy and Resources Committee on the 27 October 2016. The Council will also consider lending to other local authorities when making lending decisions.

5. IMPLICATIONS

5.1	Policy –	Change to the Council's Investment Strategy to reduce the minimum sovereign rating from AA to AA-.
5.2	Financial -	None

5.3	Legal -	None.
5.4	HR -	None.
5.5	Equalities -	None.
5.6	Risk -	None.
5.7	Customer Service -	None.

Kirsty Flanagan, Head of Strategic Finance
Dick Walsh Council Leader and Policy Lead for Strategic Finance

For further information please contact Peter Cupples, Finance Manager – Corporate Support 01546-604183.

Appendix 1 – Economic Background
Appendix 2 – Interest Rate Forecast
Appendix 3 – Prudential Indicators

Appendix 1

Economic background:

- During the quarter ended 30 June 2016:
  - The UK voted to leave the EU;
  - The economic recovery lost some momentum ahead of the vote;
  - Growth remained highly dependent on consumer spending;
  - The jobs recovery slowed, but wage growth picked up;
  - Inflation remained stuck at very low levels;
  - Sharp fall in sterling following the referendum result;
  - Post-referendum uncertainty brought the prospect of a near-term rate cut onto the agenda;
  - Both the ECB and the Federal Reserve kept policy unchanged.
- The economic recovery lost a little momentum in Q1 2016, with real GDP growth slowing from 0.7% q/q in Q4 to 0.4% – an annual rate of 2.0%. The recovery remained highly unbalanced too, with net trade subtracting from GDP growth for the second time in three quarters. And the current account deficit stood at 6.9% of GDP in Q1, only a little off the record 7.2% of GDP seen in Q4 2015. Business surveys suggest that activity slowed further in Q2 ahead of the EU referendum. Indeed, the Markit/CIPS composite PMI for May is consistent with quarterly growth slowing to 0.2% or so in Q2.
- However, the official output data for Q2 so far have been a little more upbeat. Industrial production rose by a monthly 2% in April – which suggests that the sector may have pulled out of recession in the second quarter – and construction output rose by a monthly 2.5%. Beyond the referendum, the first PMI survey conducted after the vote – released on August 1st – will provide an initial indication of the extent to which the vote to leave has affected activity. The first post-referendum official activity data are for industrial production, due to be released on August 9th.
- Consumers generally appear to have taken pre-referendum uncertainty in their stride, with household spending still the principal driver of economic growth. The pace of retail sales volumes growth has picked up, rising to a healthy annual rate of 6% in May. Away from the high street, the Bank of England's Agent's scores of consumer services turnover growth rose too. Admittedly, GfK/NOP consumer confidence has slipped back from its 2015 highs in the run-up to the referendum but remained elevated prior to the vote. Indeed, the balance for major purchases stayed at +9 in June, well above its long-run average of -6, pointing to solid growth in durable goods spending. However, consumer confidence is likely to weaken following the

referendum result: the extent of any immediate impact on confidence will be evident in the next GfK/NOP data, due on July 29th.

- The labour market performed fairly well prior to the EU referendum too, with employment rising by 55,000 in the three months to April. Admittedly, this is below the strong rises seen last year, but some easing in the pace of the jobs recovery was always to be expected given how much slack has already been eroded. Indeed, the ILO unemployment rate fell to 5.0% in the three months to April, it's lowest in over a decade. The timelier claimant count measure held at 2.2% in May. Pay growth also picked up in April – annual growth in regular pay (ex. bonuses), jumped from 1.9% to 2.5%.
- However, the labour market story hasn't been entirely positive. At least some of April's rise in pay growth was probably down to the imposition of the National Living Wage, so may not entirely be a reflection of a tighter labour market. And much of the rise in employment in the three months to April was driven by self-employment, which may reflect people struggling to find employee roles. In any case, employment growth may slow markedly in the next few months due to the disruption associated with the vote to leave the EU.
- Away from the labour market, inflation has been very subdued in the months preceding the EU referendum. CPI inflation has stood at just 0.3% every month so far this year, with the exception of March when Easter timing effects distorted the figures. But price pressures are likely to pick up in the months ahead. Around 80% of the difference between headline inflation and the Bank of England's 2% target is due to low food and energy price inflation. But the dampening influence of food and energy prices is set to wane as last year's sharp falls drop out of the annual comparison. What's more, sterling dropped by more than 8% following the UK's decision to leave the EU, leaving it around 14% below its mid-November peak. **This should eventually feed through to higher inflation, which we expect to rise above the Bank of England's 2% target in the first half of next year.**
- This leaves the MPC with an awkward trade-off between minimising the short-term hit to the economy and overshooting its inflation target. However, given how low inflation currently is, the MPC has some room for manoeuvre. We expect interest rates to be cut from 0.5% to 0.25%, probably at the MPC's next meeting on July 14th. Indeed, in a speech on 30 June, Governor Carney stated that "some monetary easing will likely be required over the summer", and markets are pricing in a rate cut at the MPC's next meeting. A ramp-up in the Bank's asset purchase programme is also a possibility, depending on the scale of the short-term economic damage.
- Like the Bank of England, both the Federal Reserve and the ECB kept rates on hold during Q2. However, despite leaving its economic projections

largely unchanged, the FOMC nonetheless cut its interest rate projections quite sharply. Six of the 17 officials anticipate just one hike in the US this year, and median interest rate forecasts for end-2017 and 2018 were revised down too. What's more, this was before the financial market turmoil which followed the results of the UK's EU referendum. At the margin, this could delay hikes even further. Meanwhile, we expect the ECB to respond to the economic damage generated by the UK's vote to leave the EU by accelerating the pace of its asset purchases and possibly with another small cut in interest rates.

- Turning to the public finances, the data released since March's Budget will only have added to the Chancellor's worries. Public sector net borrowing (excluding public sector banks) was only slightly down on a year earlier at £9.7bn in May, indicating that borrowing was already on course to overshoot the OBR's forecast of a 25% fall in FY 2016/17 as a whole before the effects of any post-referendum disruption are accounted for.
- The plans laid out in the March Budget stated that fiscal tightening would intensify this year – and Chancellor Osborne has warned that he would impose an austere emergency budget following a vote to leave the EU. However, Mr Osborne has already rowed back on this threat. What's more, if the OBR projects that the four-quarter average of annual GDP growth will fall below 1%, this activates a get-out clause in the government's fiscal rules. This could lead to some of the near-term tightening described in the Budget being deferred to help reduce the damage caused by the referendum result.
- Finally, the FTSE 100 has now recovered the ground it lost following the UK's vote to leave the EU, and stands around 3% higher than at the start of Q2. But the multinational-heavy FTSE 100 has benefitted from sterling's collapse, which boosts the value of firms' overseas earnings. The FTSE 250, which better reflects the domestic economy, is down 5% since the start of the quarter. Meanwhile, 10-year bond yields have sunk to new record lows of just under 1% on the back of safe-haven demand.

Appendix 2

Interest Rate Forecast:

Our treasury management advisers, Capita Asset Services have provided us with the following update to their interest rate forecasts.

Post EU referendum interest rate review

- The outcome of the EU referendum has necessitated a review of our interest rate forecasts. The UK now faces a very different situation from what it was in ten days ago both politically and economically. This mix of both political and economic uncertainty makes this the most difficult interest rate review we have done in recent years due to the sheer number of known unknowns. However, the impact on financial markets in the last ten days has not been as great as some had feared.
- This also puts the Monetary Policy Committee (MPC), in a very difficult position in terms of knowing how much the vote for Brexit will impact the real economy. What most forecasters expect is that the first two quarters growth in 2016 of around +0.4% is likely to fall to zero in the second half of the year. However, after the initial shock, the economy may recover some momentum so Capital Economics are forecasting growth of 1.5% for 2017, (after average overall growth for 2016 of 1.5%), and then recovery back to 2.5% in 2018. In his speech last Friday, the Governor of the Bank of England, Mark Carney, made clear that the MPC will consider cutting Bank Rate in the very near future but will also give consideration to using further quantitative easing (QE) purchasing of gilts, (and possibly other assets), as a means of providing further stimulus to economic growth by lowering borrowing rates.
- **Our own interest rate forecast is based on a cut of Bank Rate of 0.25% in the current quarter; this could come at the next MPC meeting of July 14 or at the next quarterly Inflation Report meeting on August 4. However, we would certainly not rule out a further cut to zero or possibly 0.10%. The first increase in Bank Rate does not then occur until quarter 2 2018 and the pace of increases thereafter has also been slowed down from that in our previous forecast. However, we have to emphasise that there are so many variables over this time period that it is very likely that these forecasts will be subject to significant updating as events evolve on both the political and economic scenes.**

- Carney's comments last Friday on the possibility of further quantitative easing caused an immediate fall in gilt yields of around 25 – 37 basis points (bps) in gilts with a duration of 10 and 50 years, so it could be said that just the threat of further QE has already achieved a significant drop in gilt yields and so borrowing costs. This, arguably, means that the benefits of actually implementing further QE are reduced. We have therefore revised down our forecasts for PWLB rates to take account of these movements in gilt yields since the referendum - which have fallen to all-time lows (with 2 year gilt yields even briefly turning negative!).

- However, Carney did make a strong point that it is not the role of the Bank of England to be the sole combatant in helping to stimulate growth of the UK economy and employment by using the monetary policy measures at its disposal. The Government has fiscal policy as a powerful tool to promote growth and it has various policy measures it could employ. Already the Chancellor of the Exchequer has said that the target of achieving a budget surplus in 2020 will need to be put back to avoid austerity measures creating an unwelcome headwind for growth during the near future. In addition, there are already comments in the public arena around lowering corporation tax - from falling from 20% to 17% by 2020 to falling from 20% to 15% as a stimulus to stop corporates moving out of the UK and attracting corporates to come to the UK. Fiscal policy could also include cuts in income tax, national insurance, VAT etc to stimulate consumer demand in the economy: however, such cuts may impact on the size of the budget deficit.

- In addition, the Government could take advantage of the plunge in gilt yields to borrow extra money to invest in infrastructure to improve the productivity of the UK economy.

- However, what will be vital will be to ensure that the UK retains the trust of international investors, both in terms of the fact that about 30% of all gilts are owned by overseas investors, who will want to be assured that the Government is not borrowing beyond the means of the economy to sustain the ability to pay interest and to repay the debt, and in terms of the value of sterling against other currencies. The current size of the balance of payments deficit of 6.9% of GDP is a major concern. The fall of 14% in the value of sterling since November 2015 will feed through eventually to stimulate demand for UK exports and to choke off imports into the UK by making home made goods and services more competitive. However, this will take time to feed through into reducing the size of this deficit.

- What will make the decision making of the MPC more difficult in the next few years is that the fall in the value of sterling will feed through over the next 3-4 years into the economy and cause an increase in inflation. But manufacturers and service providers could absorb some

of the extra costs from the increased cost of imports of materials etc, or could increase productivity to offset extra costs, so there is considerable uncertainty about the timing and size of this feedthrough into inflation. Capital Economics have revised their interest rate forecast for inflation as follows: - 2016 0.6%; 2017 2.2% (was 1.5%); 2018 2.8% (was 2.1%). The MPC's target for CPI inflation is 2% but in the past they have looked through temporary spikes of imported inflation on the basis that they will drop out of the calculation of CPI after 12 months. So it is by no means certain that the MPC will, or will not, take action to counter such a rise in inflation.

- What we do have to emphasise at this point in time is that there are huge variables which could have a major impact on the UK economy and interest rates over the next four to five years in particular: -
    - Political uncertainty: the Conservative party is currently facing a leadership election and the situation in respect of the Labour party is under major stress. There is also another general election due in May 2020.
    - Political uncertainty in the EU if other countries hold referendums or there is a strong growth in anti EU political parties.
    - Uncertainty about when Article 50 will be initiated to start the UK withdrawal from the EU and what form any final agreement with the EU will take over access to the single market and requirements to conform to EU rules and to contribute to the EU budget etc. This in turn, could have a major influence on corporates deciding whether, or not, to move jobs away from the UK into the EU.
    - Whether the potential impact of all of the above could bring to the fore the question of whether Scotland remains as a part of the UK.
    - Consumer confidence in the UK will have a major impact on consumer expenditure and so on GDP growth; many factors could affect confidence e.g. house prices, inflation rising to outweigh pay inflation and so depressing disposable income, the outcome of Brexit negotiations, etc.

We will be undertaking a further review of our interest rate forecast following the release of the Bank of England Quarterly Inflation Report on 4th August where the Bank of England will update all its forecasts for growth, inflation etc and will explain its thinking around Bank Rate and QE.

CAPITA ASSET SERVICES' FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. rate is likely to go up more quickly and more strongly than Bank Rate in the UK and recent events have not changed that view, just that the timing of such increases may well have been deferred somewhat. While there is normally a high degree of correlation between the two yields, we would expect to see a decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK remains to the downside. Although economic growth remains relatively steady, only time will tell whether some of the global headwinds sap some of the strength from the UK's future growth.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to emerging market, geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Apart from the uncertainties already explained above, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

APPENDIX 3 : PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2016/17	2016/17	2017/18	2018/19
(1). EXTRACT FROM BUDGET				
	Forecast Outturn	**Original Estimate**	**Forecast Outturn**	**Forecast Outturn**
Capital Expenditure	**£'000**	**£'000**	**£'000**	**£'000**
Non - HRA	20,643	34,685	25,926	14,758
TOTAL	20,643	34,685	25,926	14,758
Ratio of financing costs to net revenue stream				
Non - HRA	7.80%	7.80%	7.39%	7.39%
Net borrowing requirment				
brought forward 1 April *	253,896	259,000	263,368	261,395
carried forward 31 March *	263,368	265,766	261,395	253,698
in year borrowing requirement	9,472	6,766	(1,973)	(7,697)
In year Capital Financing Requirement				
Non - HRA	9,472	6,766	(1,973)	(7,697)
TOTAL	9,472	6,766	(1,973)	(7,697)
Capital Financing Requirement as at 31 March				
Non - HRA	263,368	265,766	261,395	253,698
TOTAL	263,368	265,766	261,395	253,698
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	43.30	38.44	17.36	5.57

PRUDENTIAL INDICATOR	2016/17	2017/18	2018/19
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'M**	**£'M**	**£'M**
Authorised limit for external debt -			
borrowing	220	215	215
other long term liabilities	83	83	83
TOTAL	303	298	298
Operational boundary for external debt -			
borrowing	215	210	210
other long term liabilities	80	80	80
TOTAL	295	290	290
Upper limit for fixed interest rate exposure			
Principal re fixed rate borrowing	190%	190%	190%
Upper limit for variable rate exposure			
Principal re variable rate borrowing	60%	60%	60%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£20m	£20m	£20m

Maturity structure of new fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	80%	0%