Property Acquisitions **Exempt Report**

Strategic Acquisition of Property Holdings in Surrey Heath

Portfolio	Leader
Ward(s) Affected:	Town but also borough wide significance

Purpose

To consider the proposal to acquire strategically important assets in Surrey Heath to increase our strategic influence in delivering our key priorities

Background

1. Members will recall the creation of the Property Acquisition Strategy in 2011 and the commitment to acquiring strategically important assets which either promote the delivery of our key priorities or are important in assisting the long term economic wellbeing of the borough, or for housing.

2. In pursuit of these objectives, property to the value of circa £20m has already been acquired, via prudential borrowing, LEP (Local Enterprise Partnership) funded loans or internal funding.

3. In 2015 and 2016 respectively, the Property Acquisition Strategy was further reviewed to allow for quick and effective decision making on strategic acquisitions for the Council as follows:

   - that acquisitions to the value of £2m be delegated to the Chief Executive in consultation with the Leader (2015); and

   - that the Chief Executive discharge this delegation and the Property Acquisition Strategy via a new Land and Property Board (which includes the Leader and Deputy Leader) established in February 2016.

4. The Board has exercised their functions in accordance with the provisions of this strategy by acquiring and managing a number of assets, namely Ashwood House, St George's Industrial Estate and various land acquisitions in Camberley Town Centre.

Current Position

5. The Council has since 2010 focused on delivering a number of key priorities for the Council, the most important of which has been the redevelopment of Camberley Town Centre.

6. This year we have sought to progress 10 potential project sites in the Town Centre and these are as follows:
    i. Mall Refurbishment
    ii. Highway junction improvements on A30
    iii. Ashwood House, Princess Way improvement
    iv. London Road Redevelopment (three separate projects encompassing, new parking provision, housing and retail development)
    v. Land East of Knoll Road
    vi. Station Development
    vii. Public Realm improvements in the town centre

7. One of the key factors which promotes effective and timely delivery of these projects is where we can control the outcome, either by working with key stakeholders effectively or by acquiring these assets ourselves.

8. Whilst we have worked for many years with C&R to jointly create a new town centre vision for Camberley, it has become apparent that any redevelopment of the town centre is unable to deliver the financial returns their investors require. Hence they are unable to proceed with any major regeneration.

9. As a result of this an opportunity has recently arisen for the Council to acquire the Mall Shopping Centre in Camberley and all other property interests owned by Capital and Regional (C&R) in the town. The Council already owns a substantial freehold interest in much of the town centre. C&R own a number of both freehold and long leasehold interests.

10. Acquisition of the assets would enable the Council to progress its vision to regenerate the town, ensuring that the town centre remains sustainable for the future.

11. Whilst there is market speculation around the sale of Camberley, the current proposals are the subject of a Non-Disclosure Agreement and Members are reminded of their duties to ensure that this highly confidential and commercially sensitive information remains confidential to the organisation at this time until a formal decision is made, to ensure our position is not compromised in the current financial markets, whilst we finalise the negotiations relevant to this acquisition.

12. For the Council to consider acquiring such an asset, a number of aspects of this arrangement need to be carefully considered and the Council has been assessing these matters through an extensive due diligence process over the last few weeks. It has procured the services of professional firms who specialise in these types of acquisitions and asset management

13. Members are asked to note the urgent action we have taken, in accordance with our constitutional powers, to approve spending to engage these advisers and assess this proposal and whether it is in the Council's best interests to proceed.

14. I have set out the matters we must consider in this report and will report to Members on the most up to date position at the meeting.

Key Issues

15. The Council has an opportunity to acquire the freehold and leasehold interests in its main shopping mall and other assets owned by Capital and Regional.

16. We have been offered the option to purchase the site off market as a preferred buyer and in order to give this option due and proper consideration, due diligence work is required before we have a clear assessment of values and whether the proposition is sound.

17. The Council needs to be satisfied on the matters set out in Annex A for which more detailed reports from our advisers will support any purchase and which will be provided to the Chief Executive, Executive Head of Finance and Head of Legal Services, to satisfy them that the Council not only has the necessary powers and authority to proceed with this purchase, but that the same represents best value and the borrowing can be properly supported by the revenue returns.

18. The Chief Executive and senior professional colleagues have worked closely with the Council's Land and Property Board, to progress this proposal, in view of the commercial sensitivity of the proposition. The speed within which we have been asked to consider this proposal, together with the strict requirements by C&R for limited disclosure, has restricted the personnel involved to date.

19. Whilst there are clearly benefits in acquiring these interests, there are naturally risks associated with a purchase of this magnitude and I have set out an assessment of these risks later in the report.

20. The Council's powers to consider this acquisition are also extensive and Queen's Counsel's Advice has been obtained to provide the necessary assurances on the proposal and his advice is set out in detail in this report.

Resource Implications

21. The purchase of the shopping centre and associated properties in Camberley represents a substantial investment for the Council. Whilst an initial purchase price has been agreed in principle, based on the advice of our property advisers Montagu Evans, this is subject to the outcome of the due diligence exercise as mentioned above. It is therefore possible that the final value may change before completion of

this acquisition. However if any adjustment is made to the purchase price as a result of this work, it is likely to be downwards rather than upwards. Based on the draft figures we have received so far the purchase is estimated to make a net return before borrowing costs of over 5%. This is shown in more detail in Annex B. As the position changes with variations in PWLB, the Council is asked to authorise the Executive Head of Finance to decide how the purchase should be funded based on the available rates at the time that the borrowing is required.

22. The Council does not have the internal resources to fund this purchase and so it will need to be funded through external borrowing. This will most likely come from the Public Works Loans Board (PWLB) which is part of the Treasury and has been used by the Council to fund its other property acquisitions. PWLB interest rates are set twice a day and hence are only fixed when the borrowing is undertaken. However as an indication current 50 year annuity loans are priced at 2.19%.

23. The Council has been in discussions with its treasury advisors Arling Close as to other ways of funding this acquisition such as the LGA bond issue and European investment Bank loans. However given the short time scales involved these may not be practical. The repayment period will depend on the prevailing view as to the level of interest rates at the time the loan is taken.

24. Assuming the purchase is funded by a 50 year PWLB loan the net return after interest is 2.8%. This is above the 2% specified in the asset acquisition strategy. It should be noted that the Prudential Regulations stipulate that not only should the Council be able to cover the interest on any money it borrows but also has to make a “Minimum Revenue Payment” (MRP) against revenue for the capital repayment of the loan on an annual basis. This is to ensure that loans can be repaid and do not fall on future taxpayers. Based on a fixed 50 year fixed annuity loan as above this will require a capital repayment out of revenue of just over £1m in the first year. This is shown in more detail in Annex B.

25. In order to ensure that the investment remains financially viable, it will be essential to ensure that the shopping centre and Camberley remain attractive to potential investors and retailers. This will mean undertaking the long overdue refurbishment of the centre and advancing the other Camberley Town Centre improvements subject to satisfactory business cases. Members should note that were all these schemes to be undertaken then the Council’s total borrowing could rise to £150m.

26. It will also be essential to maintain rental income and that the property is managed in a commercial and professional manner. This will mean not only the appointment of a professional company to manage the property but also additional in house resources in relation to property, legal, finance and planning necessary to support a new function. There

will also be costs in relation to advertising and marketing which do not form part of the service charge. An estimate of these costs has been allowed for in the figures shown in Annex B.

Setting of Prudential Indicators

27. Under the Prudential Regulations the Council is required to set it prudential indicators so that the borrowing it undertakes is affordable and approved. The new indicators are set out in Annex C and reflect the estimated total borrowing requirement, based on current knowledge. It should be noted that the limits include current borrowing undertaken by the Council.

Legal Issues

28. Following a fully regulated procurement exercise, the Council has appointed a number of legal and technical advisers to assist with the due diligence work required for an acquisition of this nature. Officers have been working closely with the advisers and reporting regularly to the Land and Property Board on the progress to date. Whilst there is still further work to complete, so far the acquisition has not revealed any major areas of concern and further information of our current position regarding the process will be available at the meeting

29. The Council has sought QC's opinion as to whether the Council has the necessary powers to acquire and manage the assets including the power to borrow to invest in this proposal

30. The advice has confirmed that there is more than sufficient power to consider this acquisition as a Council and indeed there are a number of powers which could be exercised to purchase the assets, either under the Local Government Act 2003, the Local Government and Housing Act 1989 as well as the 1972 Act.

31. Whilst there are many ways in which we could structure this acquisition by far the most relevant power is that contained in s120 of the Local Government Act 1972, whereby the Council has the power to acquire property for the purposes of either its statutory functions or for the benefit, improvement or development of the area. Economic Development is a statutory function of a local authority and there are also powers within the planning legislation to acquire land by agreement for planning and public purposes. As the majority of the sites being purchased form either part of redevelopment proposals, refurbishment plans or preserving economic development of our town centre, we are satisfied that we have the necessary powers to support this proposal.

32. In terms of our investment powers, section 12 of the Local Government Act 2003 provides a power to invest "for any purpose relevant to its

functions under any enactment". The Council also has power under section 1 of the same Act to borrow money for such a purpose.

33. Therefore, the Council may carry out that acquisition, and borrow the purchase price, if it is acting for a purpose relevant to its statutory functions. The Council has statutory functions both in relation to the economic well-being of its area, and in relation to its planning and development. It also has more specific powers under the Local Government Act 1972 and the Town and Country Planning Act 1990 to acquire land for the benefit, improvement or development of its area (1972 Act) or in the interests of proper planning, or to facilitate development which will promote the economic development of the area (1990 Act.

34. It is considered that, in view of the rationale for the acquisition as set out above that the necessary powers are available to us.

35. Particular consideration has been given to the fact that part of Capital and Regional's landholdings are held in a Jersey Property Unit Trust (JPUT) and we would need to acquire this interest along with other ordinary freehold interests. We have therefore needed to seek advice on our position regarding this specific interest and both our legal advisers and our external auditors have confirmed that acquisition of this unique interest can also be acquired, provided the governance arrangements are properly constituted to address the unique requirements of this trust, namely a separate trust arrangement, whereby our decisions are ratified by the unit trust of which the Land and Property Board could provide an adequate vehicle to discharge the legal requirements. Legal documentation will need to be completed to ensure decision making arrangements are in place when we complete the acquisition of the assets.

36. As part of the transfer of ownership, staff currently employed by the owners will be the subject of TUPE (Transfer of Undertakings Protection of Employment) Regulations. However as the Council will be employing expert asset and property managers to manage the day to day operations, it has been agreed in principle that staff will transfer to their organisation rather than the Council in line with common practice.

Risk Management

37. There are a number of potential risks associated with the proposed acquisition, both at the point of acquisition and in the longer term.

Purchase risks

38. An initial price has been agreed but this is subject to the financial assessment confirming that the potential income generated from the lettings, the structural integrity of the asset and many other aspects of the arrangement can support the final valuation of the acquisition. Therefore this price may well vary before terms are finalised and

further detail are contained in the confidential aspects of this report which will be tabled at the meeting.

39. PWLB loan rates cannot be fixed in advance. The current assessment of financial impact assumes an interest rate of 2.19%; an increase in interest rates would increase borrowing costs. The costs of specialist advisers for the purchase are yet to be finalised. These are subject to confirmation by the Council's advisers and there may be additional requirements for specialist advice.

Ongoing risks

40. As with all property investment there is a level of financial risk in relation to empty properties, rent reductions, non-payment etc. This is mitigated to some extent by the large number of properties being purchased, units currently empty in the centre have been valued at nil and the council's borrowing costs are fixed. To give members some indication of the risk rents would need to reduce by 26% for the Council to suffer a financial loss. It should be noted by members that reductions in excess of this figure would put the financial viability of the entire Council at risk given the scale of this investment. Furthermore this figure could decrease and the risk increase if further borrowings are made, such as for a centre refurbishment, funded out of the income from this acquisition.

41. The acquisition is relatively illiquid – if the Council decided at some stage in the future that it wished to sell its units there may not be a high number of ready buyers available and such a sale may take many months to complete.

42. In addition there are reputational risks and the usual development risks associated with the various projects which will be needed to maintain and improve the assets and keep our town centre vibrant and competing with our competitors. How we market ourselves to potential retailers and keep our centre commercially attractive will be important in maintaining future revenue streams via this asset. To ensure we can compete favourably we will need to employ specialist advisers to support this function.

Options

43. The Council can either support the acquisition of C&R's interests in the Town Centre, in order to allow the Council a more direct and longer term control in the future management and direction of Camberley Town Centre and to reinforce the key priorities or the Council may choose not to support this purchase.

Proposals

44. The recommended option for the Council is to support the acquisition. There are many advantages as set out in this report to support this

option which will provide significant regeneration and economic development benefits. Whilst there are naturally risks associated with such an acquisition, these can be mitigated through due diligence and effective management of the centre, using expert asset and property management which in turn secures a further revenue stream for the Council.

Supporting Information

45. The Council has been committed for a number of years to enhancing the economic vitality of the area, not only for its residents but also to provide both direct and indirect benefits to its business and provide valuable jobs for local people.

46. Our strategic policies, including our planning policies for the area have been set for many years and have as their key focus improving the vibrancy and vitality of Camberley.

47. Our professional advisers will be producing detailed reports which the Chief Executive has asked our external auditors to scrutinise to ensure the direction we are taking is a sound proposition and within our powers to achieve. To date the external advice supports the acquisition.

Corporate Objectives and Key Priorities

48. Since 2010, the Council's strategic priority has been the regeneration of the Camberley Town Centre. The detailed aspirations have been identified in the Camberley Town Centre Statement, the Council's Area Action Plan for Camberley and more latterly the Vision statements which identify various regeneration and redevelopment projects which could be undertaken for the general benefit, improvement and redevelopment of the area.

Governance

49. The Chief Executive will discharge the day to day management functions for the town centre through a combination of officer delegations, managing agent responsibility and Land and Property board strategic decision making. These will be formally set out in the legal documentation and the Property Management Agreement, upon which we are seeking specialist advice on the usual terms necessary to manage the acquisition effectively. The Land and Property Board will discharge this function acting as consultee to both the Council and the Jersey Property Trust, via managing agents.

50. There will be a formal detailed property management agreement with our agents, which we will review following 18 months of operation. This is a standard requirement for acquisitions of this nature. The legal advisers are working through these proposals on our behalf.

Recommendation

Council is asked to resolve that:

a) the acquisition of the Mall Shopping Centre and all other property interests held by Capital and Regional in Camberley Town Centre be approved on the basis that such acquisition will provide better control of the future of the town centre and further the Council's key priority to regenerate the Camberley Town Centre for the benefit of the Council's area.

b) the Chief Executive be authorised to complete the due diligence work currently being undertaken and thereafter, in consultation with the Land and Property Board be further authorised to complete the acquisition of all Capital and Regional's property interests in Camberley Town Centre, after taking all appropriate legal, valuation and technical

c) the Chief Executive, in consultation with the Land and Property Board and after taking appropriate legal and technical consultancy advice, enter into any legal documentation necessary to acquire all interests of the town centre owned by Capital and Regional and any miscellaneous documentation required to achieve a transfer of ownership.

d) the urgent action taken by the officers in consultation with the Leader and Chairman of Performance and Finance Scrutiny Committee, to urgently instruct professional advisors to assist with the acquisition of these interests and the investment, be noted.

e) that the Capital Programme be increased by the total amount shown in Annex B to reflect the estimated total costs of this acquisition

f) that the Prudential Indicators as set out in Annex C be approved and that actual financing of borrowing undertaken be delegated to the Executive Head of Finance in consultation with the Portfolio holder for Finance

Annexes	A B and C
Background Papers	None
Author/Contact Details	Karen Whelan Chief Executive
Head of Service	N/A

Consultations, Implications and Issues Addressed

Resources	Required	Consulted
Revenue	✓	
Capital		
Human Resources		
Asset Management		

Resources	**Required**	**Consulted**
IT		
Other Issues	**Required**	**Consulted**
Corporate Objectives & Key Priorities	✓	
Policy Framework		
Legal	✓	
Governance		
Sustainability		
Risk Management		
Equalities Impact Assessment		
Community Safety		
Human Rights		
Consultation		
P R & Marketing	✓	

Review Date:
Version:

Annex A

Progress with Due Diligence work

The following areas of investigation are being undertaken and the current position is set out below:

Title Investigation

The property is comprised of twenty two separate titles; eighteen freehold titles and four long leasehold. Of the four long leasehold titles one is a supplemental leasehold interest out of another of the leasehold titles. Two plans are attached which illustrate the freehold titles and leasehold titles respectively. Please note that each of these plans also shows the council's main <u>freehold</u> title tinted yellow and edged green respectively.

Numerous enquiries have been raised with the sellers' solicitors and full replies are awaited. The enquiries have been formulated with reference to the information that has been provided by the sellers as well as the results of standard searches and investigations. We have also carried out searches to ensure that the sellers will be selling all of their registered interests in the vicinity of the town centre.

So far a small number of minor defects with the title have been revealed and the Council's position in relation to these will be protected in standard commercial ways. These may include, though may not be limited to, warranties and indemnities from the sellers. Legal due diligence reports will be provided on the property to ensure that the Council is satisfied that it will be purchasing good and marketable titles which will not be subject to any foreseeable impediments to the implementation of the Council's business plan.

In addition to key point summaries of all of the occupational interests, full lease reports will be provided for all leases with a rent greater than £40,000 a year.

<u>Structure of Acquisition including JPUT</u>

The majority of the titles are currently held by C&R through a Jersey Property Unit Trust (**JPUT**)**.** It is the intention for the Council to acquire 100% of the units in the JPUT; the remaining titles will be acquired directly, although we are exploring whether it would be sensible to place all the title in the same structure.

There are some significant advantages for the Council in acquiring the units in the JPUT (rather than all of the titles directly).

Since the early 2000s, JPUTs have been used by institutional investors, pension funds, propcos, PE funds and individuals to acquire, hold and maintain UK commercial real estate. They are globally accepted as a real estate investment vehicle of choice and have enabled an increased level of liquidity in the real estate market that would not otherwise have been possible. JPUTs are recognised by HMRC as an accepted method of investing in UK real estate.

A JPUT is not a separate legal person in its own right, rather it is a contractual relationship between the trustees (typically third party professional fiduciaries) and the unitholders of the JPUT. Legal title to all of the assets of the JPUT is held by the trustees on trust for the unitholders. Investors holding UK real estate through a JPUT will need to ensure that the management of the JPUT is undertaken in Jersey. Typically a local managing agent property and asset manager is appointed who will assist with the asset management and make recommendations to a separate legal structure in respect of management decisions. This is a tried and tested management structure and one that the Council will be looking to replicate.

The intention is that on completion of the transaction, the JPUT will appoint Montagu Evans (**ME**) as the property and asset manager. The property and asset management agreement (**PAMA**) appointing ME will comprehensively set out the services to be provided by ME together with its reporting requirements to the JPUT. It will oblige ME to work with the trustees of the JPUT, to manage the properties in accordance with an agreed business plan. which will have been signed off by the Council.

Additionally, to ensure that there is little impact on the day to day management of the assets, ME, through the Land and Property Board of the Council, will be provided with a level of delegated authority to approve minor lease renewals and low levels of capital expenditure (provided they are in accordance with the business plan). ME will meet with the trustees at least quarterly and make recommendations to the trustees for all material matters requiring the trustees' approval. It is also intended that all material decisions will need to be put to the unitholders (i.e. the Council's Land and Property Board, who in turn will be governed by its own internal reporting requirements to other decision making committees) prior to being signed off by the trustees. This structure will ensure that: (a) the day to day management of the assets is largely unchanged from the position the Council would be in had it acquired the assets directly and (2) the management of the JPUT is undertaken through the JPUT.

Whilst the precise governance structure, in particular how the Council will interact with the JPUT and ME, is still to be finalised, any complexities arising as a result of this additional layer of management are easy to manage.

Surveys and Enquiries
As with a commercial investment of this nature, there is a Service Charge provision within the leases which allows the property manager to maintain and repair the fabric of the common parts and recharge this through the service charge account to the occupiers. In addition, the leases are generally held on Full Insuring and Repairing terms contracting the responsibility of the individual units to the occupiers. However, responsibility for the property

ultimately fall to the landlord which will be the Council. We have commissioned Building Surveyors who have carried out a comprehensive review of the property including:

- Internal & external fabric
- Services – heating, cooling, electrical etc
- Structure
- Drainage
- Health and Safety
- Planned Preventive Maintenance

These reports are being finalised although initial verbal reports indicate that further to the inspections, there is no evidence of serious and significant defects that would lead the surveyors to recommend adjustment of the purchase price.

It is however acknowledged by the our professional advisers that here will be the need to invest into the fabric of the property particularly to bring the common parts up to a standard capable of attracting new occupiers of the standard sought buy Surrey Heath residents.

Financial Model
The shopping centre and surrounding London Road properties amount to 166 occupational interests. Each of these occupational interests have been considered in forming a business plan to substantiate the income profile of the centre in line with creating a Business Plan. Our professional advisers will review these occupation leases in relation to information including lease expiry dates, passing rents, estimated current rental value, letting costs, marketing and renewal strategy. This work is ongoing to check the information provided by Capital & Regional. Current information is supporting a net income (after irrecoverable costs) of £5.0m.

Upon completing the due diligence review, the Council will receive a complete review of the income producing profile of the centre.

Business Plan for future management
Our professional team including asset manager, property manager, letting agent, architect and costs consultants have been working to develop a Business Plan for the future ownership and management of the shopping centre. This piece of work will be completed and approved by the Council prior to committing to Exchanging Contract for the purchase.

The initial business plan projects being evaluated include:

- Whole/Partial refurbishment of the Malls including floors, internal elevations/shopfronts and lighting either in a single or more than one phase;
- Rebranding including the removal of the Mall naming and signage;
- Opening the centre for longer periods;
- Marketing and attraction of new tenants;
- De-clutter the internal malls;

- Creating modern entrance’s with the ability to connect the mall to the surrounding streets;
- Reviewing the London Road Block and its development options;
- Working more closely with Standard Life and the owners of the Atrium;
- Reconfiguring and refurbishment of retail units to meet occupier demand;
- Introduction of more A3, food and beverage uses to create a longer trading day for customers;
- Use of vacant space for community uses.

Staffing and TUPE issues

The Council will appoint an external specialist property management company show will manage the day to day issues of the shopping centre. This will include issues such as security, rent collection, tenant liaison and operating the service charge etc. As is normal in the management of shopping centres of this size, there is a mix on service provider contracts and direct employees. The employees will transfer from Capital & Regional to the employment of the external property manager and it is not intended that the Council will employee directly, any onsite staff. Advise is being taken on ensuring that these transfers and actioned appropriately.

Annex B

Annex B
Financial summary in respect of the proposed acquisition of property in Camberley Town Centre

Capital and Revenue			
		Total	
Capital			
Estimated Price		88,500,000	
Stamp Duty		4,500,000	
Professional Costs		1,600,000	
Contingency		400,000	
		95,000,000	
Revenue			
Income		6,130,000	
Irrecoverable costs		-640,000	
Other costs - Mktg		-200,000	
Internal SHBC costs		-400,000	
Managing agents		-150,000	
		4,740,000	
Net return before borrowing		**5.0%**	
Borrowing costs based on 50 year PWLB annuity Loan			
Interest payment in year 1		**2,071,000**	
Net return after borrowing costs		**2.8%**	

It should be noted that all costs are based on best estimates using the information currently available and are subject to the outcome of due diligence

Annex C

Proposals for Council

a) Increase in Capital Programme

Members are asked to resolve that that Capital Programme be increased by £95,000,000 for property acquisition in Camberley Town Centre

b) Amendment to Prudential indicators

Members are asked to resolve that the Prudential Indicators for External debt be set as follows:

Operational Boundary	**2016/17 Revised £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Operation Boundary	122	122	122	122
Authorised Limit	132	132	132	132

The "operational boundary" is the expected level of debt whereas the "authorised limit" is the absolute approved maximum that may be undertaken.

Members are asked to approve the following Prudential indicators

i) Ratio of Financing Costs to Net Revenue Stream:

Ratio of Financing Costs to Net Revenue Stream	**2016/17 Revised %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**
General Fund	-15	-36	-37	-38

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.

ii) Incremental Impact of Capital Investment Decisions:

Incremental Impact of Capital Investment Decisions	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**
General Fund - increase in annual band D Council Tax	**-15.49**	**-34.58**	**-69.46**

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 earlier in this report.

iii) Interest rate exposures

	2016/17	**2017/18**	**2018/19**

Upper limit on fixed interest rate exposures	**£132m**	**£132m**	**£132m**
Upper limit on variable interest rate exposures	**£132m**	**£132m**	**£132m**

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date of later. All other instruments are classed as variable rate.

iv) Maturity structure of borrowing:

	Upper	Lower
Under 12 months	**100%**	**0%**
12 months and within 24 months	**100%**	**0%**
24 months and within five years	**100%**	**0%**
Five years and within 10 years	**100%**	**0%**
10 years and above	**100%**	**0%**

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 will be. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

v) Minimum Revenue Payment

	2016/17 Revised £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Minimum Revenue Payment	202	1,553	1,558	1,562

This is the minimum payment to be made out of revenue each year to repay capital

vi) Capital Financing Requirement

	2016/17 Revised £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Capital Financing Requirement	19,000	115,000	115,000	115,000

This is the level of financing the council requires to fund its assets to be funded from revenue