MEETING:	**AUDIT COMMITTEE**
DATE:	**3 DECEMBER 2013**
TITLE:	**TREASURY MANAGEMENT 2013/14 – MID YEAR REVIEW**
PURPOSE:	**CIPFA's Code of Practice recommends that a report on the Council's actual Treasury Management during the current financial year is produced.**
RECOMMENDATION:	**RECEIVE THE REPORT FOR INFORMATION**
AUTHOR:	**DAFYDD L EDWARDS, HEAD OF FINANCE**

EXECUTIVE SUMMARY

During the six month period between 1 April and 30 September 2013, the Council's borrowing remained well within the limits originally set. There were no new defaults by banks in which the Council deposited money.

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1. BACKGROUND

The Council's Treasury Management Strategy for 2013/14 has been 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 council is embracing best practice in accordance with CIPFA's recommendations.

Treasury Management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Council to report on any financial instruments entered into to manage treasury risks.

2. ECONOMIC BACKGROUND

Growth: The UK economy showed some improvement, with consumer spending boosting growth. GDP for the first quarter of 2013 was revised up to +0.4% and for the second quarter was +0.7%. Recent data suggests a stronger rate in quarter three. Revisions by the Office of National Statistics to GDP back-data showed the UK avoided a double-dip recession in 2012, but that the downturn in 2008-09 was deeper than previously estimated. Growth is now still over 3% below its peak back in 2007.

Some positive signs for household spending emerged. The deterioration in real earnings growth (i.e. earnings less inflation) slowed, which implied a slower erosion of purchasing power. Consumer confidence improved. Household savings rates remained high, which is unsurprising given the uncertain economic outlook, but appear to be on a downward track, suggesting spending was being driven by borrowing or lower savings. This raises questions about the sustainability of the recovery at these rates of growth.

Inflation: Annual CPI for August (published September) was 2.7%. Inflation fell in line with expectations and is expected to remain close to this level throughout the autumn. Further out, inflation should fall back towards the 2% target as external price pressures fade and a revival in productivity growth curbs domestic cost pressures. The oil price (Brent Crude) climbed above $100/barrel on the back of political unrest in Egypt and the unresolved crisis in Syria.

Monetary Policy: There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The main development for UK monetary policy was the start of Mark Carney's tenure as Governor and the implementation of forward guidance. Within the August Inflation Report, the Bank stated its forward guidance, the main element of which is to defer monetary tightening at least until the ILO Unemployment Rate falls to a threshold of 7% (among a raft of caveats). The Bank projected that the probability of this happening would remain below 50% until 2016. The Governor has had to defend the Bank's guidance in the face of rising financial market expectations of an earlier rate rise on the back of the encouraging economic data.

In his testimony to Congress on 22nd May the US Federal Reserve Chairman Ben Bernanke stated that, if the nascent recovery in the US economy became established, the Fed would reduce its $85bn monthly asset purchase programme (QE). The apparent movement by the Fed towards tapering its open-ended QE programme prompted extreme asset price volatility in bonds and equities, as investors sought to crystallise gains driven by excessive liquidity. As a consequence, government bond yields spiked. There had been a growing expectation that the Federal Reserve would seek to commence 'tapering' in September but they took markets by surprise and maintained asset purchases at the existing level.

Global: Whilst the outlook for the global economy appeared to have improved over the first half of calendar 2013/14, significant economic risks remain, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth, and, despite the time gained by the ECB to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away. The region appears to be dragging itself out of recession and September's German general election passed with little incident but political uncertainties, particularly in Italy, could derail any progress towards a more balanced and stable regional economy. The US recovery appeared to be in train, but a lack of agreement on the federal budget by the end of September caused a partial government shutdown at the start of October, which could have an effect on GDP growth. Political risks also remain regarding the debt ceiling.

3. DEBT MANAGEMENT

Borrowing Activity in 2013/14

	Balance on 01/04/2013 £m	Debt Maturing £m	Transfer £m	New Borrowing £m	Balance on 30/09/2013 £m	Avg Rate % and Avg Life (yrs)
Short Term Borrowing[1]	17,437	(1,043)	(15,142)	33	1,285	9.07% 0.88 yrs
Long Term Borrowing	95,811	0	15,142	164	111,117	5.75% 21.71 yrs
TOTAL BORROWING	**113,248**	**(986)**	**0**	**197**	**112,402**	5.78% 21.47 yrs
Other Long Term Liabilities	29	0	0	0	29	4.35% 1.25 yrs
TOTAL EXTERNAL DEBT	**113,277**		0	197	**112,431**	5.78% 21.47 yrs
Increase/ (Decrease) in Borrowing £m					(846)	

PWLB Certainty Rate Update

The Council qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2012. In August the Council submitted its application to the Welsh Government along with the 2013/14 Capital Estimates to access this reduced rate for a further 12 month period from 1st November 2013.

[1] Loans with maturities less than 1 year.

PWLB Borrowing
The PWLB remained an attractive source of borrowing for the Council as it offers flexibility and control. As concerns mounted over the timing of the removal or 'tapering' of QE by the US Federal Reserve, gilts sold off and yields rose in May and June. The sharp rise in gilt yields led to a corresponding rise in PWLB rates (see Appendix A), with the most pronounced increase was for 10 year loans where rates as at 30th September were 0.83% higher than 1st April. Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

For the Council the use of internal resources in lieu of borrowing has, therefore, continued to be the most cost effective means of funding £10m of capital expenditure in 2013/14. This has lowered overall treasury risk by reducing both external debt and temporary investments. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Council's treasury advisor.

Debt Rescheduling:
The increase in PWLB repayment rates during the quarter lowered the premium that would apply on premature redemption of loans, but the premia was still relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

Changes in the debt portfolio over the quarter have achieved a reduction in credit risk by repaying debt with existing investments.

4. INVESTMENT ACTIVITY

The Welsh Government's Investment Guidance gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2013/14

Investments	**Balance on 01/04/13 £m**	**Investments made £m**	**Maturities £m**	**Balance on 30/09/13 £m**	**Avg Rate % and Avg Life (days)**
Short Term Investments	43,030	110,188	(109,528)	43,690	0.78% 87days
Investments in Pooled Funds	0	88,000	(76,000)	12,000	--------
Investments in other Local Authorities	5,000		(5,000)	0	0
TOTAL INVESTMENTS	**48,030**	**198,188**	**(190,528)**	**55,690**	--------
Increase/ (Decrease) in Investments £m				7,660	

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14. New investments can be made with the following institutions:

- Other Local Authorities;
- AAA-rated Money Market Funds;
- Call Accounts, Certificates of Deposit (CDs) and Term Deposits with select UK and non-UK Banks and Building Societies. The non-UK banks comprised those domiciled in Australia, Canada, USA, Europe and Singapore.
- Treasury-Bills and DMADF (Debt Management Office);
- Gilts
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank;
- Pooled funds (collective investment schemes);
- Investments with Registered Providers of Social Housing (housing associations).

Counterparty credit quality is assessed and monitored with reference to: Credit Ratings (the Council's minimum long-term counterparty rating of A- or equivalent across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms / potential support from a well-resourced parent institution; share price.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2013	5.27	A+	5.08	A+
30/06/2013	5.18	A+	5.30	A+
30/09/2013	5.44	A+	4.60	A+

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Counterparty Update

In April Fitch downgraded the UK's long-term sovereign rating by one notch from AAA to AA+, the second of the rating agencies to do so (Moody's had downgraded the UK's ratings in February to Aa1). Where assigned, local authorities' ratings, which benefit from an uplift due to their close and direct links to central government, were also downgraded.

The proposed sale of 632 Lloyds' branches to the Co-op Bank – referred to as Project Verde – fell through in April. These branches will now be transferred in September to TSB Bank, a new bank which will be sold thorough a listing on the stock market in 2014.

In May Moody's downgraded the long-term rating of Co-op Bank by six notches from A3 to Ba3 which is sub-investment grade. The downgrade reflected the agency's opinion that the bank faced the risk of further substantial losses in its non-core portfolio. In June the Co-op announced it had a £1.5bn regulatory capital shortfall requiring a recapitalisation via burden-sharing with junior creditors and asset disposals of its parent's insurance businesses. Moody's downgraded the bank's long-term rating a further four notches to Caa1 whilst Fitch downgraded the long-term from BBB- to BB-.

In the Chancellor's Mansion House speech on 19th June he signalled his intention to sell the government's stake in the Lloyds Banking Group reasonably soon and a 6% stake was indeed sold to institutional investors on 17th September at a price of 75p. In a positive move, Fitch upgraded Lloyds' viability rating to bbb+. The situation was more complicated with RBS since its problems were greater and reflected in its share price. It appeared that a 'good bank' and 'bad bank' split for RBS was being favoured by the Chancellor and sat behind the announcement concerning the departure of RBS Chief Executive, Stephen Hester, who disagreed with that route.

Moody's placed the RBS's long-term of A3 and standalone financial strength rating of D+ on review for downgrade on 5th July 2013, amid concerns about the impact of any potential breakup of the bank on creditors. Although the probability of losses remains low there is a possibility of capital impairment especially as the government has clearly indicated that it will not put up any further taxable funds. As a precautionary measure the Council has reduced its maximum duration on RBS investments to overnight.

Investment activity over the period was primarily based on overnight deposits and money market funds as the returns for longer investments are no higher than overnight and the risk is greater.

The Council's counterparty list as at 30 September 2013 is attached for information in Appendix A.

Safe Custody Arrangements

The Council set up a custody account with King and Shaxson in August 2012. Having set up the custody account, the Council now has the ability to use a number of approved investment instruments as outlined in the 2013/14 Treasury Strategy and diversify the investment portfolio. Investment instruments requiring a custodian facility include Treasury Bills, Certificates of Deposit, Gilts, Corporate Bonds and Supranational Bonds.

By establishing custody arrangements, the Council will be better-placed to consider the use of alternative investment instruments in response to evolving credit conditions.

The Council invested in a Certificate of Deposit with Standard Life Bank in August 2012 which matured in August 2013. A new Certificate of Deposit was taken out in August 2013.

Budgeted Income and Outturn

The Council's budgeted investment income for the year has been estimated at £0.556m. The average cash balances representing the Council's reserves, working balances and the Pension Fund's surplus cash, were £65.4m during the period.

The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2016/17. Short-term money market rates have remained at very low levels. New deposits were made at an average rate of 0.65%. Investments in CNAV Money Market Funds were at an average rate of 0.4%. The Council anticipates an investment outturn of £350,000 for the whole year.

Update on Investments with Icelandic Banks

Heritable – The Council has now recovered 94% of its investment in Heritable Bank. It is likely that further distributions will be received, although the administrators have not made any further estimate of final recoveries yet.

CIPFA issued further guidance on the accounting treatment surrounding these transactions in September 2013 when LAAP 82 (update 8) was issued.

5. COMPLIANCE WITH PRUDENTIAL INDICATORS

The Council can confirm that it has complied with its Prudential Indicators 2013/14, which were set in February 2013 as part of the Council's Treasury Management Strategy Statement which can be accessed through the following link **http://www.gwynedd.gov.uk/ADNPwyllgorau/2012-13/Cyngor%20Llawn/2013-02-28/english/08_06_(b)%20Treasury%20Management.pdf**
Details of treasury-related Prudential Indicators can be found in Appendix B.

6. OUTLOOK FOR Q3

At the time of writing this activity report in October 2013, the UK economic outlook appears to have improved. The projected path for growth has risen, but remains relatively subdued, with a distinct reliance on household consumption, which itself remains under pressure given the deterioration in real earnings growth, high unemployment and general low confidence. A variety of other factors will continue to weigh on a domestic recovery, including on-going fiscal consolidation, muted business confidence and subdued foreign demand. While the economic recovery may pick up steam, forward guidance from the Bank of England suggests that monetary policy is unlikely to be tightened until the ILO Unemployment Rate falls below 7%. The Bank projected this level would be reached in 2016. The latest forecast for Bank Rate from our advisors Arlingclose is below:

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Official Bank Rate												
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75
Arlingclose Centra	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

7. SUMMARY

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2013/14. As indicated in this report, none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

Appendix A

GWYNEDD COUNCIL'S LIST OF AUTHORISED COUNTERPARTIES (as updated 30/09/13)

Country	Counterparty	Maximum Limit of Investments £m	Maximum Length of Loans
UK	DMADF, DMO	No Limit	No Limit
UK	UK Local Authorities	£30m (£30m)	2 years
UK	Santander UK Plc (Banco Santander Group)	£12m (£18m)	**Up to 100 days** ~~2 years~~
UK	Bank of Scotland (Lloyds Banking Group)	£12m (£18m)	**Up to 6 months** ~~2 years~~
UK	Lloyds TSB (Lloyds Banking Group)	£12m (£18m)	**Up to 6 months** ~~2 years~~
UK	Barclays Bank Plc	£12m (£18m)	**Up to 1 year** ~~2 years~~
UK	**Close Brothers**	£12m (£18m)	**Up to 100 days** ~~2 years~~
UK	**Clydesdale Bank (National Australia Bank Group) **SUSPENDED 28/09/11****	~~£12m (£18m)~~	~~2 years~~
UK	HSBC Bank Plc	£12m (£18m)	**Up to 1 year** ~~2 years~~
UK	Nationwide Building Society	£12m (£18m)	**Up to 1 year** ~~2 years~~
UK	**NatWest (RBS Group)**	**£12m (£18m)**	**Overnight Only** ~~2 years~~
UK	**Royal Bank of Scotland (RBS Group)**	**£12m (£18m)**	**Overnight Only** ~~2 years~~
UK	Standard Chartered Bank	£12m (£18m)	**Up to 1 year** ~~2 years~~
Australia	Australia and NZ Banking Group	£12m (£18m)	**Up to 1 year** ~~2 years~~
Australia	Commonwealth Bank of Australia	£12m (£18m)	**Up to 1 year** ~~2 years~~
Australia	National Australia Bank Ltd (National Australia Bank Group)	£12m (£18m)	**Up to 1 year** ~~2 years~~
Australia	Westpac Banking Corp	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Bank of Montreal	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Bank of Nova Scotia	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Canadian Imperial Bank of Commerce	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Royal Bank of Canada	£12m (£18m)	**Up to 1 year** ~~2 years~~
Canada	Toronto-Dominion Bank	£12m (£18m)	**Up to 1 year** ~~2 years~~
Finland	Nordea Bank Finland	£12m (£18m)	**Up to 1 year** ~~2 years~~
Finland	Pohjola	£12m (£18m)	**Up to 100 days** ~~2 years~~
France	BNP Paribas	£12m (£18m)	**Up to 100 days** ~~2 years~~
France	Credit Agricole CIB (Credit Agricole Group)	£12m (£18m)	**Up to 100 days** ~~2 years~~
France	Credit Agricole SA (Credit Agricole Group)	£12m (£18m)	**Up to 100 days** ~~2 years~~
France	Société Générale	£12m (£18m)	**Up to 100 days** ~~2 years~~
Germany	Deutsche Bank AG	£12m (£18m)	**Up to 1 year** ~~2 years~~
Netherlands	ING Bank NV	£12m (£18m)	**Up to 100 days** ~~2 years~~
Netherlands	Rabobank	£12m (£18m)	**Up to 1 year** ~~2 years~~
Netherlands	Bank Nederlandse Gemeenten	£12m (£18m)	**Up to 1 year** ~~2 years~~
Singapore	DBS Bank Ltd	£12m (£18m)	**Up to 100 days** ~~2 years~~
Singapore	Oversea-Chinese Banking Corporation (OCBC)	£12m (£18m)	**Up to 100 days** ~~2 years~~
Singapore	United Overseas Bank (UOB)	£12m (£18m)	**Up to 100 days** ~~2 years~~
Sweden	Svenska Handelsbanken	£12m (£18m)	**Up to 1 year** ~~2 years~~
Switzerland	Credit Suisse	£12m (£18m)	**Up to 100 days** ~~2 years~~
US	JP Morgan	£12m (£18m)	**Up to 1 year** ~~2 years~~

1. There is a limit of £18m on banks within the same banking group.
2. The time limits in the above list relate to term deposits. Negotiable/tradable instruments such as CD's are subject to a 5 year limit. Current recommended duration limits are considerably lower than this, but the limits outlined above provide flexibility to react to the possiblity of continued stabilisation or improvement in credit and economic conditions in 2013/14.
3. This list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened.

NON-SPECIFIED INVESTMENTS

Instrument	Maximum maturity	Max £m of portfolio	Capital expenditure?	*Examples*
Term deposits with banks and building societies which meet the specified investment criteria	2 years	£12m per counterparty	No	
Term deposits with local authorities	2 years	£12m per counterparty	No	
CD's and negotiable instruments with banks and building societies which meet the specified investment criteria*	5 years	£12m per counterparty	No	
Investments with banks, building societies and other organisations which do not meet the specified investment criteria* (subject to and external credit assessment) (with authority of s151 officer)	3 months	£5m per counterparty	No	*Bank falling below criteria specified e.g. Co-op* *Small and medium enterprises (SME's)*
	1 year	£1m per counterparty	No	
	5 years	£100k per counterparty	Yes / No	
		Subject to a maximum of £20m overall		
Deposits with registered providers	5 years	£5m	No	*Housing Associations, Registered Social Landlords*
Gilts	6 years	No limit	No	*DMO*
Bonds issued by multilateral development banks	6 years	£12m	No	*EIB Bonds, Council of Europe Bonds etc.*
Sterling denominated bonds by non-UK sovereign governments	6 years	£12m	No	
Money Market Funds and Collective Investment Schemes	Daily liquidity	£8m per name £37.5m in total.	Yes	*Ignis Sterling Liquidity Fund, Federated Prime Rate Sterling Liquidity Fund, RBS Global Treasury Funds etc.* *Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Fund*
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	2 years	£5m	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in WSI 2004 No 1010 (W.107) or WSI 2007 No 1051 (W.108)	These funds do not have a defined maturity date	£5m	Yes / No	*Way Charteris Gold Portfolio Fund; Lime Fund*
Deposits with other organisations in relation to mortgage deposit schemes (with authority of s151 officer in consulation with the Council's treasury advisor).	7 years	£1m	No	*LAMS*
Business loans to local companies **	10 years	£3m	Yes / No	

* Investment in these instruments will be on advice from the Council's treasury advisor.

** Advancement of these loans will be approved by the procedure detailed in the Treasury Management Strategy Statement. Evaluation of the Business Loans is not part of the advice or services from the Council's treasury advisor.

The Council will have a maximum of 75% of its investment portfolio in non-specified investments.

Borrowing in Comparison to the Capital Financing Requirement
Estimates of the Council's cumulative maximum external borrowing requirement for 2013/14 to 2015/16 are shown in the table below:

	31/03/2013 Actual £000s	31/03/2014 Estimate £000s	31/03/2015 Estimate £000s	31/03/2016 Estimate £000s
Gross CFR	165,924	169,003	171,984	181,318
Less: Other Long Term Liabilities	(29)	(15)	0	0
Borrowing CFR	**165,895**	**168,988**	**171,984**	**181,318**
Less: Existing Profile of Borrowing	(113,248)	(112,469)	(116,267)	(121,267)
Gross Borrowing Requirement/Internal Borrowing	**52,647**	**56,519**	**55,717**	**60,051**
Usable Reserves	(65,725)	(60,587)	(53,077)	(50,860)
Long term provision	(9,865)	(8,162)	(8,102)	(8,082)
Net Borrowing Requirement/(Investment Capacity)	**(22,943)**	**(12,230)**	**(5,562)**	**1,109**

In the Prudential Code Amendment (November 2012), it states that the chief finance officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2013 Actual £000s	31/03/2014 Estimate £000s	31/03/2015 Estimate £000s	31/03/2016 Estimate £000s
CFR	165,924	169,003	171,984	181,318
Gross Debt	(113,227)	(112,484)	(116,267)	(121,267)
Difference	**52,647**	**56,519**	**55,717**	**60,051**
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**	**No**

Usable Reserves
Estimates of the Council's level of Usable Reserves for 2013/14 to 2015/16 are as follows:

	31/03/2013 Actual £000s	31/03/2014 Estimate £000s	31/03/2015 Estimate £000s	31/03/2016 Estimate £000s
Usable Reserves	67,725	(60,587)	(53,077)	(50,860)

Prudential Indicator Compliance

(a) Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority 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.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

The Head of Finance reports that the Council had no difficulty meeting this requirement in 2012/13 and 2013/14 (to date), nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

(b) Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

	2013/14 Approved £m	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Capital Expenditure	**50.70**	**49.17**	**38.92**	**33.10**

Capital expenditure will be financed or funded as follows:

Capital Financing	**2013/14 Approved £m**	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Capital receipts	1.07	1.53	1.29	1.68
Government Grants	25.68	23.12	20.70	11.10
Revenue contributions	13.46	14.30	7.40	4.60
Total Financing	**40.21**	**38.95**	**29.39**	**17.38**
Supported borrowing	4.17	4.17	4.17	4.17
Unsupported borrowing	6.33	6.05	5.36	11.55
Total Funding	**10.49**	**10.22**	**9.53**	**15.72**
Total Financing and Funding	**50.70**	**49.17**	**38.92**	**33.10**

The table above shows that the capital expenditure plans of the Council can be funded entirely from sources other than external borrowing.

(c) 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. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

	2013/14 Approved %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %
Ratio of Financing Costs to Net Revenue Stream	5.24	5.24	5.24	5.37

(d) Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital Financing Requirement	160.39	169.00	171.98	181.31

(e) Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2013/14 £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax	0	0	0

The Council's capital plans, as estimated in forthcoming financial years, have a neutral impact on council tax. This reflects the fact that capital expenditure is predominantly financed from internal resources (grants, contributions, revenue and capital receipts) and that any increase in the underlying need to borrow is supported through the Revenue Support Grant system.

(f) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

The Head of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2013/14; borrowing at its peak was £113.3m.

	Authorised Limit (Approved) as at 31/03/2014 £000s	**Operational Boundary (Approved) as at 31/03/2014 £000s**	**Actual External Debt as at 30/09/2013 £000s**
Borrowing	195,000	175,000	112,402
Other Long-term Liabilities	0	0	29
Total	**195,000**	**175,000**	**112,431**

(g) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Full Council meeting on 3rd March 2011.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

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

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limits for 2013/14 %	Maximum during 2013/14 %
Upper Limit for Fixed Rate Exposure	100	100
Compliance with Limits:		Yes
Upper Limit for Variable Rate Exposure	50	0
Compliance with Limits:		Yes

(i) Maturity Structure of Fixed Rate Borrowing

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

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 30/9/2013 £000s	% Fixed Rate Borrowing as at 30/9/2013	Compliance with Set Limits?
under 12 months	25	0	1,124	1.01	Yes
12 months and within 24 months	25	0	0	0	Yes
24 months and within 5 years	50	0	20,309	18.19	Yes
5 years and within 10 years	75	0	5,896	5.28	Yes
10 years and within 20 years	100	0	34,410	30.83	Yes
20 years and within 30 years	100	0	22,533	20.19	Yes
30 years and within 40 years	100	0	0	0	Yes
40 years and within 50 years	100	0	27,352	24.50	Yes
50 years and above	100	0	0	0	Yes

(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date)

(j) Upper Limit for Total principal sums invested for periods longer than 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

	2013/14 Approved £000s	30/09/13 Actual £000s	31/03/14 Estimate £000s	31/03/15 Estimate £000s
Upper Limit for total principal sums invested over 364 days	35,000	0	35,000	35,000