**AUDIT COMMITTEE**
**13 DECEMBER 2013**

**ITEM NO. ......................**

# MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2013/14

## SUMMARY REPORT

### Purpose of the Report

1. This report seeks approval of the revised Treasury Management Strategy, Prudential Indicators and provides a half –yearly review of the Council's borrowing and investment activities. Audit Committee are requested to forward the revised Strategy and indicators to Cabinet and Council for their approval and note changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

### Summary

2. The mandatory Prudential Code, which governs Council's borrowing, requires Council approval of controls, called Prudential Indicators, relating to capital spending and borrowing. Prudential Indicators are set in three statutory annual reports, a forward looking annual treasury management strategy, a backward looking annual treasury management report and this mid year update. The mid year update follows Council's approval in February 2013 of the 2013/14 Prudential Indicators and Treasury Management Strategy.

3. The key objectives of the three annual reports are:

   (a) to ensure the governance of the large amounts of public money under the Council's Treasury Management activities:

      (i) Complies with legislation
      (ii) Meets high standards set out in codes of practice

   (b) To ensure that borrowing is affordable,
   (c) To report performance of the key activities of borrowing and investments

4. The key proposed revisions to Prudential Indicators relate to:

   (a) Higher capital expenditure in 2013/14 due to an increase in capital expenditure slippage from 2012/13 relating to new capital schemes approved late in 2012/13

   (b) The Operational Boundary and Authorised Limit increase to £137.000M and £173.840M respectively.

## Recommendation

5. It is recommended that :

   (a) The revised prudential indicators and limits within the report in Tables 1 to 6, 8 and 14 to 17 are examined.

   (b) The reduction in the Treasury Management Budget (Financing Costs) of £0.105M shown in Table 11 is noted.

   (c) That this report is forwarded to Council via Cabinet with comments from this committee, in order for the updated prudential indicators to be approved.

## Reasons

6. The recommendations are supported by the following reasons :-

   (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities
   (b) To inform Members of the performance of the Treasury Management function
   (c) To comply with the Local Government Act 2003
   (d) To enable further improvements to be made in the Council's Treasury Management function

**Paul Wildsmith**
**Director of Resources**

## Background Papers

(i) Capital Medium Term Financial Plan 2013/14/13
(ii) Accounting records
(iii) The Prudential Code for Capital Finance in Local Authorities

Elaine Hufford : Extension 2447

| | |
|---|---|
| S17 Crime and Disorder | This report has no implications for S17 Crime and Disorder. |
| Health and Well Being | This report has no implications for the Council's Health and Well Being agenda. |
| Carbon Impact | There are no carbon impact implications in this report |
| Diversity | There are no specific implications for the Council's diversity agenda |
| Wards Affected | All Wards |
| Groups Affected | All Groups |
| Budget and Policy Framework | This report must be considered by Council |
| Key Decision | This is not an executive decision |
| Urgent Decision | For the purposes of call in this report is not an urgent decision |
| One Darlington: Perfectly Placed | This report has no particular implications for the sustainable Community Strategy |
| Efficiency | The report refers to actions taken to reduce costs and manage risks. |

## MAIN REPORT

### Information and Analysis

7. This mid-year review report meets the regulatory framework requirement of treasury management. It also incorporates the needs of the Prudential Code to ensure monitoring of the capital expenditure plans and the Council's prudential indicators (PIs) The Treasury Strategy and the PIs were previously reported to Council on 28 February 2013

8. This report concentrates on the revised positions for 2013/14. Future year's indicators will be revised when the impact of the MTFP 2014/15 onwards is known.

9. A summary of the revised headline indicators for 2013/14 is presented in **Table 1** below**.** More detailed explanations of each indicator and any proposed changes are contained in the report. The revised indicators reflect the approved movement in the Capital MTFP since its inception in March 2013 and the means by which it is financed.

**Table 1 Headline Indicators**

| | **2013/14 Original Estimate** | **2013/14 Revised Estimate** |
|---|---|---|
| | £M | £M |
| Capital Expenditure (Tables 2 and 3) | 22.376 | 29.388 |
| Capital Financing Requirement (Table 4) | 170.420 | 173.840 |
| Operational Boundary for External Debt (Table 4) | 134.000 | 137.000 |

| | | |
|---|---|---|
| Authorised Limit for External Debt (Table 6) | 170.420 | 173.840 |
| Ratio of Financing Costs to net revenue stream-General Fund (Table 14) | 7.20% | 7.19% |
| Ratio of Financing Costs to net revenue stream-Housing Revenue Account (HRA) Table 14 | 16.77% | 16.69% |

10. The capital expenditure plans and prudential indicators for capital expenditure are set out initially, as these provide the framework for the subsequent treasury management activity. The actual treasury management activity follows the capital framework and the position against the treasury management indicators is shown at the end.

11. The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Communities and Local Government Investment Guidance which state that Members receive and adequately scrutinise the treasury service.

12. The underlying economic environment remains difficult for Councils; concerns over counterparty risk are still around. This background encourages the Council to continue investing over the shorter term and with high quality UK counterparties, the downside is that investment returns remain low.

**Key Prudential Indicators**

13. This part of the report is structured to update:

    (a) The Council's capital expenditure plans
    (b) How these plans are financed
    (c) The impact of the changes in the capital expenditure plans on the PI's and the underlying need to borrow
    (d) Compliance and limits in place for borrowing activity
    (e) Changes to the Annual Investment Strategy
    (f) The revised financing costs budget for 2013/14

**Capital Expenditure PI**

14. **Table 2** shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget

**Table 2**

| Capital Expenditure by Service | 2013/14 Original Estimate | 2013/14 Revised Estimate |
|---|---|---|
| | £M | £M |
| General Fund | 16.221 | 21.136 |
| HRA | 6.155 | 8.252 |
| Total | 22.376 | 29.388 |

15. The changes to the 2013/14 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget Monitoring process.

16. The main changes are:

(a) The original Prudential Indicators assumed that the majority of the capital funding secured for 2012/13 would be expended in that year. It was expected that £6.344M would slip into future years including 2013/14 however this increased to £27.793M, which included major schemes such as the DfE building and the depot relocation which were approved in the capital programme after the revised estimate was approved before the end of 2012/13. These projects were for future years so increased the slippage figure at the end of 2012/13.

(b) The current capital programme now stands at £60.788M (December 2013 Cabinet Report) but this includes over £31M of schemes which will be spent in future years so it is expected that the total capital expenditure to be incurred in 2013/14 will be £29.388M, a full reconciliation of the capital programme is attached at **Appendix 1**

**Impact of Capital Expenditure Plans**

**Changes to the financing of the Capital Programme**

17. **Table 3** below draws together the main strategy elements of the capital expenditure plans shown above, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element (Borrowing Need) increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements. The increase in borrowing need reflects the increase in borrowing required to finance such schemes as the DfE building etc., financing costs related to these types of schemes will be offset by income ie rent or savings in revenue in future years this will be built into the Medium Term Financial Plan going forward.

**Table 3**

| Capital Expenditure | 2013/14 Original Estimate | 2013/14 Revised Estimate |
|---|---|---|
| | £M | £M |
| Supported | 12.248 | 13.314 |
| Unsupported | 10.128 | 16.074 |
| Total Spend | 22.376 | 29.388 |
| **Financed by** | | |
| Capital Receipts | 0.170 | 0.164 |
| Capital grants | 12.112 | 12.079 |
| Capital Contributions | 0.136 | 1.189 |

| | | |
|---|---:|---:|
| Revenue | 5.642 | 7.517 |
| Total Financing | 18.060 | 20.949 |
| **Borrowing Need** | 4.316 | 8.439 |

**The Capital Financing Requirement (PI), External Debt (PI) and the Operational Boundary**

18. **Table 4** shows the Capital Financing Requirement (CFR), which is the underlying external need to borrow for capital purposes. It shows the expected actual debt position over the period. This is called the Operational Boundary. The increase in the operational boundary from £115M to £118M at the end of 2013/14 is reflected in the revised budget for Financing Charges in the MTFP.

**Prudential Indicator- External Debt/ Operational Boundary**
**Table 4**

| | 2013/14 Original Estimate | 2013/14 Revised Estimate |
|---|---:|---:|
| | £M | £M |
| **Prudential Indicator- Capital Financing Requirement** | | |
| Opening CFR | 171.739 | 171.174 |
| CFR General Fund | 79.062 | 82.310 |
| CFR General Fund PFI/Leasing IFRS | 18.779 | 18.780 |
| CFR - Housing | 72.579 | 72.750 |
| Total CFR | **170.420** | **173.840** |
| Net Movement in CFR | -1.319 | 2.666 |
| **Prudential Indicator – External Debt/ Operational Boundary** | | |
| Borrowing | 115.000 | 118.000 |
| Other long Term Liabilities | 19.000 | 19.000 |
| **Total Debt 31 March- Operational Boundary** | **134.000** | **137.000** |

**Limits to Borrowing Activity**

19. The first key control over the treasury activity is a PI to ensure that over the medium term Gross borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the next two financial years. As shown in table 5 below.

**Table 5**

| | 2013/14 Original Estimate £M | 2013/14 Revised Estimate £M | 2014/15 Original Estimate £M | 2015/16 Original Estimate £M |
|---|---:|---:|---:|---:|
| Gross borrowing | 115.000 | 118.000 | 113.000 | 113.000 |
| Plus Other Long Term Liabilities | 19.000 | 19.000 | 17.467 | 16.500 |
| Total Gross borrowing | 134.000 | 137.000 | 130.467 | 129.500 |
| CFR* (year end position) | 170.420 | 173.840 | 168.355 | 163.751 |

* includes on balance sheet PFI schemes and finance leases

20. The Director of Resources reports that no difficulties are envisaged for the current and future years in complying with this PI.

21. A further PI controls the overall level of borrowing, this is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit is set by increasing the Operational Boundary by an amount equal to the amount that the authority is currently under borrowed. Whilst it is not expected that borrowing would be at these levels this would allow additional borrowing to take place should market conditions change suddenly and swift action was required. This is a Statutory limit determined under section 3 (1) of the Local Government Act 2003.

22. It is proposed to move the Authorised Limit in **Table 6** in line with the movement in the overall Capital Financing Requirement.

**Table 6**

| **Authorised Limit for External Debt** | 2013/14 Original Indicator £M | 2013/14 Revised Indicator £M |
|---|---|---|
| Operational Boundary | 134.000 | 137.000 |
| Additional headroom to Capital Financing Requirement | 36.420 | 36.840 |
| Total Authorised Limit for External Debt | 170.420 | 173.840 |

**Economic Outlook for the coming months to March 2014 (Supplied by Capita Asset Services)**

23. Economic forecasting remains difficult with so many external influences weighing on the UK. Volatility in bond yields is likely during 2013/14 as investors fears and confidence ebb and flow between favouring more risky assets i.e. equities and safer bonds. Downside risks to UK gilt yields and PWLB rates include:

    (a) A return to weak economic growth in the US,UK and China causing major disappointment to investor and market expectations
    (b) The potential for a significant increase in negative reactions to populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
    (c) The Italian political situation is frail and unstable; the coalition government fell on 29th September.
    (d) Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
    (e) Monetary policy action failing to simulate sustainable growth in western economies, especially the Eurozone and Japan.

(f) Weak growth or recession in the UK's main trading partners – the EU and US, depressing economic recovery in the UK.
(g) Geopolitical risks e.g. Syria Iran ,North Korea, which could trigger safe haven flows back into bonds.

24. Upside risks to UK gilt yields and PWLB rates, especially for the longer term PWLB rates include:-

(a) UK inflation being significantly higher than in the wider EU and US, causing an increase in inflation premium inherent to gilt yields
(b) Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of Quantative Easing operations in the US, causing a further flow of funds out of bonds and into equities
(c) A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
(d) In the longer term – a reversal of QE in the UK: this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright of sale of gilts currently held.
(e) Further down grading by credit rating agencies of the credit worthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to GDP to rise to levels that provoke major concern.

25. The overall balance of risks to the economic recovery in the UK is now weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last, and it remains exposed to a number of vulnerabilities in a number of key areas. The longer run trend is for gilt yields and PWLB rates to rise, due to high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, there is some residual risk of further QE if there is a strong dip in growth or if the MPC were to decide to take action to combat the markets expectations of an early first increase in Bank Rate. If the MPC does takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years, such action could cause gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The tension in the US over passing a Federal budget for the new financial year starting 1st October and raising the debt ceiling in mid October could also see bond yields temporarily dip until agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Federal Bank will cause Bond yields to rise.

**Medium Term Interest Rate Estimates**
**Table 7**

| | **Bank Rate** | **Money rates for investment purposes** | | | **PWLB rates for borrowing purposes*** | | | |
|---|---|---|---|---|---|---|---|---|
| | | 3 month | 6 month | 1 year | 5 year | 10 year | 25 year | 50 year |
| | % | % | % | % | % | % | % | % |
| **2013/14** | | | | | | | | |
| Actual to date | 0.50 | 0.39% | 0.47% | 0.75% | 2.50 | 3.70 | 4.40 | 4.50 |
| Dec 2013 | 0.50 | 0.50% | 0.60% | 0.80% | 2.50 | 3.70 | 4.40 | 4.40 |
| March 2014 | 0.50 | 0.50% | 0.60% | 0.80% | 2.50 | 3.70 | 4.40 | 4.40 |
| **2014/15** | | | | | | | | |
| June 2014 | 0.50 | 0.50% | 0.60% | 0.80% | 2.60 | 3.70 | 4.40 | 4.40 |
| Sept 2014 | 0.50 | 0.50% | 0.60% | 0.80% | 2.70 | 3.80 | 4.50 | 4.50 |
| Dec 2014 | 0.50 | 0.50% | 0.60% | 0.80% | 2.70 | 3.80 | 4.50 | 4.60 |
| March 2015 | 0.50 | 0.50% | 0.60% | 0.80% | 2.80 | 3.90 | 4.60 | 4.70 |
| **2015/16** | | | | | | | | |
| June 2015 | 0.50 | 0.50% | 0.60% | 0.80% | 2.80 | 4.00 | 4.70 | 4.80 |
| Sept 2015 | 0.50 | 0.50% | 0.60% | 0.90% | 2.90 | 4.10 | 4.80 | 4.90 |
| Dec 2015 | 0.50 | 0.50% | 0.60% | 1.00% | 3.00 | 4.20 | 4.90 | 5.00 |
| March 2016 | 0.50 | 0.50% | 0.70% | 1.20% | 3.20 | 4.30 | 5.00 | 5.10 |
| **2016/17** | | | | | | | | |
| June 2016 | 0.50 | 0.60% | 0.80% | 1.40% | 3.30 | 4.40 | 5.10 | 5.20 |
| Sept 2016 | 0.75 | 0.70% | 1.00% | 1.60% | 3.50 | 4.50 | 5.10 | 5.20 |
| Dec 2016 | 1.00 | 0.90% | 1.20% | 1.80% | 3.60 | 4.60 | 5.10 | 5.20 |
| March 2017 | 1.25 | 1.00% | 1.40% | 2.00% | 3.70 | 4.60 | 5.20 | 5.30 |

*PWLB rates above are for certainty rates (which are provided for those authorities that have disclosed their borrowing/capital plans to the government. Darlington Borough Council will be able to access these certainty rates which are 0.2% below PWLB's normal borrowing rates.

26. Expectations for the first change in Bank rate in the UK are now dependant on how to forecast when unemployment is likely to fall to 7%. Financial markets have taken a very contrary view to the Monetary Policy Committee and have aggressively raised short term interest rates and gilt yields due to their view that the strength of the economic recovery is now so rapid that unemployment will fall much faster than the Bank of England forecasts. They therefore expect the first increase in the Bank Rate to be in quarter 4 of 2014. Capita Assets Services disagrees with this view, as the economic downturn since 2008 was remarkable for the way in which unemployment did not rise to anywhere near the extent likely, unlike previous recessions. This meant that labour was retained, productivity fell and now, as the MPC expects, there is a major potential for unemployment to fall only slowly as existing labour levels are worked more intensively and productivity rises back up again. The size of the work force is also expected to increase relatively rapidly and there are many self-employed or part time employed workers who are seeking full time employment. Capita Asset services take the view that the unemployment rate is not likely to come down as quickly as the financial markets are currently

expecting and that the MPC view is more realistic. The prospects for any increase in Bank Rate before 2016 are therefore seen to be limited. However, some forecasters are forecasting that even that Bank of England forecast is too optimistic as to when the level of 7% unemployment will be reached and so do not expect the first increase in the Bank Rate until Spring 2017.

**Treasury Management Strategy 2013/14 and Annual Investment Strategy Update**

**Debt Activity during 2013/14**

27. The expected borrowing need is set out below

**Table 8**

| | **2013/14 Original Estimate £M** | **2013/14 Revised Estimate £M** |
|---|---|---|
| CFR (year end position) | 170.420 | 173.840 |
| Less other long term liabilities PFI and finance leases | -18.779 | 18.780 |
| Net adjusted CFR (net year end position) | 151.641 | 155.060 |
| Expected Total Borrowing | 113.000 | 118.000 |
| (Under)/ Over borrowing | (38.461) | (37.060) |
| Expected Net movement in CFR | -1.319 | 2.666 |
| **Expected Net Movement in CFR represented by** | | |
| Net financing need for the year from table 3 | 4.316 | 8.439 |
| MRP/VRP | -4.117 | -4.258 |
| MRP relating to finance leases including PFI | -1.518 | -1.515 |
| **Movement in CFR** | -1.319 | 2.666 |

28. The Council is currently under-borrowed (total actual borrowing is less than the balance sheet requires (CFR)) to address counter party risk and the cost of carry on investments (investments return up to 1.0% and long term borrowing costs for the Council are currently 3.46%) There is an interest rate risk, as longer term borrowing rates may rise, this position is being carefully monitored

29. No new borrowing or replacement borrowing has taken place yet this year, although a £3.5M variable rate loan comes up for repayment in February 2014 and it is expected that this will be replaced with a similar loan. In addition the new build for the DfE will commence in the new year and it is expected that new borrowing of at least £5m will be taken to finance outgoings for that and other capital projects before the end of 2013/14.

**Annual Investment Strategy 2013/14**

30. No changes to the Annual Investment Strategy for 2013/14 which was approved in February by Council are proposed at this time.

## Treasury Management Activity from 1st April 2013 to 30th September 2013

31. Current investment position – The Council held £21.060M of investments at 30/09/2012 and this is made up of the following types of investment.

**Table 9**

| **Sector** | **Country** | **Up to 1 year** |
|---|---|---|
| | | **£M** |
| Banks | UK | 15.000 |
| Building Societies | UK | 1.000 |
| AAA Money Market Funds | Sterling Fund | 5.060 |
| **Total** | | **21.060** |

### Short Term Cashflow Investments

32. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. A total of 64 investments were made in the period 1st April 2013 to 30th September 2013 totalling £101.265M these were for periods of between 1 and 364 days and earned interest of £71,820 on an average balance of £24.600M which equated to an average interest rate of 0.585%

### Longer Term Capital Investments

33. The Council's reserves and capital receipts are invested for varying periods up to the maximum permitted time period which is currently 1 year for part Nationalised banks and 3 months for other counterparties. The investments have been at an average level of £8.000M. Some individual loans have matured and been renewed during this period The longer term investments have earned interest of £45,600 for the first six months of 2013/14 at an average rate of 1.14%.

### Investment returns measured against the Service Performance Indicators

34. The target for our investment returns is to better or at least match a number of external comparators, this performance indicator is also known as yield benchmarking. As can be seen from Table 10, the short and long term investment achievements are above market expectations.

**Table 10**

| | Short Term Cashflow Investments % | Long term Capital Investments % |
|---|---|---|
| **Darlington Borough Council - Actual** | **0.59** | **1.14** |
| **External Comparators** | | |
| Local Authority – 2 Day | 0.26 | - |
| Local Authority – 7 Day | 0.26 | - |
| Local Authority -6 months | - | 0.59 |
| Local Authority – 12 months | - | 0.89 |
| London Inter Bank bid Rate - 7day | 0.36 | 0.36 |
| **Average External Comparators** | **0.29** | **0.61** |

**Treasury Management Budget**

35. There are three main elements within the Treasury Management Budget:-

(a) Long term capital investments interest earned – a cash amount of c£8.000M which earns interest and represents the Councils revenue balances, unused capital receipts, reserves and provisions.
(b) Cash flow interest earned – since becoming a unitary council in 1997, the authority has consistently had a positive cash flow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipt of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.
(c) Debt serving costs – this is the principal and interest costs on the Council's long term debt to finance the capital programme.

**Table 11-Changes to the Treasury Management Budget (Financing Costs) 2013/14**

| | £M | £M |
|---|---|---|
| **Original Treasury Management Budget 2013/14** | | **3.899** |
| Less Reduced Repayment of Principal | -0.004 | |
| Less Reduced Interest payments paid on debt | -0.089 | |
| Less increased interest earned on Investments | -0.012 | |
| **Revised Treasury Management Budget 2013/14** | | **3.794** |
| | | |

36. The repayment of principal is reduced because of the timing of capital expenditure is later than expected and the interest payable has reduced because new debt will be taken later in the year than expected. Interest earned increased because of slightly higher interest rates were paid on investments than were expected.

37. This statement concludes that the Treasury Management budget is forecast to achieve an improvement of £0.105M in 2013/14, these savings in finance costs will be returned to Council balances.

**Risk Benchmarking**

38. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance and these are shown in Table 10. Discrete security and liquidity benchmarks are also requirements of member reporting.

39. The following reports the current position against the benchmarks originally approved.

40. **Security** – The Council's maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables were set as follows;

**0.077% historic risk of default when compared to the whole portfolio**

41. The Director of Resources can report that the investment portfolio was maintained within this overall benchmark during this year to date as shown in Table 12

**Table12**

| Maximum | Benchmark 2013/14 | Actual June | Actual August | Actual October |
|---|---|---|---|---|
| Year 1 | 0.077% | 0.023% | 0.021% | 0.030% |

42. The counterparties that we use are all high rated therefore our actual risk of default based on ratings attached to counterparties is very low.

43. **Liquidity** – In respect of this area the Council set liquidity facilities/ benchmark to maintain

    (a) Bank overdraft - £0.100M
    (b) Liquid short term deposits of a least £3.000M available within a weeks notice
    (c) Weighted Average Life benchmark is expected to be 0.4 years with a maximum of 1 year

44. The Director of Resources can report that liquidity arrangements have been adequate for the year to date as shown in Table 13

**Table 13**

| | Benchmark | Actual June | Actual August | Actual October |
|---|---|---|---|---|
| **Weighted Average Life** | 0.4 – 1 year | 0.25 years | 0.23 years | 0.34 years |

45. The figures are for the whole portfolio so include both longer term fixed investments currently up to one year as well as cash flow investments deposited with Money Market funds on a call basis (i.e. can be drawn on without notice).

**Treasury Management Indicators**

46. **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

**Table 14**

| | 2013/14 Original Indicator | 2013/14 Revised Indicator |
|---|---|---|
| **General Fund** | **7.20%** | **7.19%** |
| **HRA** | **16.77%** | **16.69%** |

47. The changes to the General Fund reflect the reduction in financing costs shown in Table 11 but also include payments of interest and repayments of principal associated with finance leases and the PFI scheme. Whilst the changes to the HRA

reflect the slightly higher total costs for the HRA set against constant financing costs budget.

**Treasury Management Prudential indicators**

48. **Upper Limits on Variable Rate Exposure –** This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

49. **Upper Limits on Fixed Rate Exposure –** Similar to the previous indicator this cover a maximum limit on fixed interest rates

50. Historically for a number of years this Council has used these percentages; together they give flexibility to the treasury management strategy allowing the Council to take advantage of both fixed and variable rates in its portfolio whilst ensuring that its exposure to variable rates is limited. At the end of 2013/14 the Council will have 2 variable rate loans amounting to £20.5M which represents 23% of the Councils debt portfolio.

**Table 15**

| | **2013/13 Original Indicator** | **2013/14 Revised Indicator** |
|---|---|---|
| Limits on fixed interest rates | 100% | 100% |
| Limits on variable interest rates | 40% | 40% |

51. **Maturity Structures of Borrowing -** These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest for the duration of the instrument) falling due for refinancing. The higher limits for longer periods reflect the fact that longer maturity periods give more stability to the debt portfolio.

**Table 16**
**Maturity Structures of Borrowing**

| | **2013/14 Original indicator** | **2013/14 Actual to Date** | **2013/14 Revised Indicator** |
|---|---|---|---|
| Under 12 months | 25% | 3.25%- | 10% |
| 12 months to 2 years | 40% | - | 30% |
| 2 years to 5 years | 60% | - | 60% |
| 5 years to 10 years | 80% | 6.25% | 80% |
| 10 years and above | 100% | 90.5% | 100% |

52. **Total Principal Funds Invested –** These limits are set having regard to the amount of reserves available for longer term investment and show the limits to be placed on investments with final maturities beyond 1 year. This limit allows the authority to invest for longer periods if they give better rates than shorter periods. It

also allows some stability in the interest returned to the Authority.  No investments have been made for longer than 1 year during 2013/14.

**Table 17**
**Principal Funds Invested**

| | 2013/14 Original Indicator | 2013/14 revised Indicator |
|---|---|---|
| Maximum principal sums invested greater than 1 year | £10M | £10M |

## Treasury Management Advisors

53. The Council continues to receive Treasury Management advice from Sector (recently renamed Capita Asset Services); the contract has recently been retendered and re- awarded to them.

## Conclusion

54. The prudential indicators have been produced to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) has increased by £3M to £137M. The Councils return on investments has been good, exceeding both of the targets. Based on the first six months of 2013/14 the Council's borrowing and investments is forecast to achieve an improvement of £0.105M on the approved 2013/14 budget

55. The Council's treasury management activities comply with the required legislation and meet the high standards set out in the relevant codes of practice.

## Outcome of Consultation

56. No consultation was undertaken in the production of this report.