AUDIT COMMITTEE
19 DECEMBER 2014

ITEM NO. .5.....................

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2014/15

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 2014 of the 2014/15 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 2014/15 due a number of new schemes being released throughout the year, with the bulk of the new spend for Housing schemes. However, these have been offset as the majority of the spend will be in future years. Appendix 1 shows greater detail.

(b) The Operational Boundary has reduced from £150M to £148M. Whilst the Authorised Limit has reduced slightly in line with the Capital Financing Requirement to £183.637M.

5. The Counterparty criteria for investments require a change due to the probable removal of Viability ratings by Fitch and the Financial Strength ratings used by Moody's These ratings will no longer form part of the assessments used by the ratings agencies to rate any financial institution. Such assessments will in future be incorporated within the Long Term ratings and so Viability and Financial Strength no longer needs to be quoted in our counterparty criteria.

Recommendation

6. 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) Approve the changes to the counterparty criteria as outlined in paragraph 34 of the report

   (c) The reduction in the Treasury Management Budget (Financing Costs) of £0.478M shown in Table 11 is noted.

   (d) 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

7. 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 Neighbourhood Services and Resources

Background Papers

(i) Capital Medium Term Financial Plan 2014/15/16
(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

8. 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 27 February 2014

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

10. A summary of the revised headline indicators for 2014/15 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 2014 and the means by which it is financed.

Table 1 Headline Indicators

	2014/15 Original Estimate	2014/15 Revised Estimate
	£M	£M
Capital Expenditure (Tables 2 and 3)	43.548	45.574
Capital Financing Requirement (Table 4)	183.664	183.637
Operational Boundary for External Debt (Table 4)	150.000	148.000
Authorised Limit for External Debt (Table 6)	183.664	183.637
Ratio of Financing Costs to net revenue stream- General Fund (Table 14)	7.77%	7.21%
Ratio of Financing Costs to net revenue stream- Housing Revenue Account (HRA) Table 14	16.92%	16.92%

11. 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.

12. 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.

13. 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

14. 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 2014/15

Capital Expenditure PI

15. **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	2014/15 Original Estimate	2014/15 Revised Estimate
	£M	£M
General Fund	34.521	36.418
HRA	9.027	9.156
Total	**43.548**	**45.574**

16. The changes to the 2014/15 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget Monitoring process.

17. The current capital programme now stands at £67.000M (November 2014 Cabinet Report) but this includes a number of schemes that will be spent over a number of years not just in 2014/15. A reduction of £21.426M has been allowed for schemes which are known will be finalised in future years but it is likely that other schemes will slip into future years. A full reconciliation of the expected capital expenditure for 2014/15 is attached at **Appendix 1**

Impact of Capital Expenditure Plans

Changes to the financing of the Capital Programme

18. 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.

Table 3

Capital Expenditure	2014/15 Original Estimate	2014/15 Revised Estimate
	£M	£M
Supported	17.589	19.666
Unsupported	25.959	25.908
Total Spend	**43.548**	**45.574**
Financed by		
Capital Receipts	1.437	1.437
Capital grants	16.493	17.628
Capital Contributions	1.096	1.992
Revenue Contributions	8.843	9.743
Total Financing	27.869	30.800
Borrowing Need	**15.679**	**14.774**

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

19. **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 decrease in Borrowing need (Table 3) is marginal therefore the operational boundary will reduce by £2.00M to £130.000M.

Prudential Indicator- External Debt/ Operational Boundary
Table 4

	2014/15 Original Estimate	2014/15 Revised Estimate
	£M	£M
Prudential Indicator- Capital Financing Requirement		
Opening CFR	173.840	174.813
Closing CFR		
CFR General Fund	94.075	94.048
CFR General Fund PFI/Leasing IFRS	17.468	17.468
CFR - Housing	72.121	72.121
Total Closing CFR	**183.664**	**183.637**
Net Movement in CFR	9.824	8.824
Borrowing	132.000	130.000
Other long Term Liabilities	18.000	18.000
Total Debt 31 March- Operational Boundary	**150.000**	**148.000**

Limits to Borrowing Activity

20. 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 2014/15 and the next two financial years. As shown in table 5 below.

Table 5

	2014/15 Original Estimate £M	2014/15 Revised Estimate £M	2015/16 Original Estimate £M	2016/17 Original Estimate £M
Gross borrowing	132.000	130.000	129.000	132.000
Plus Other Long Term Liabilities	18.000	18.000	17.000	16.000
Total Gross borrowing	150.000	148.000	146.000	148.000
CFR* (year end position)	183.664	183.637	183.310	176.998

* includes on balance sheet PFI schemes and finance leases

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

22. 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.

23. 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	2014/15 Original Indicator £M	2014/15 Revised Indicator £M
Operational Boundary	150.000	148.000
Additional headroom to Capital Financing Requirement	33.664	35.637
Total Authorised Limit for External Debt	183.664	183.637

Medium Term Interest Rate Forecasts Provided by Capita Asset Services

Table 7

	Bank Rate	**PWLB rates for borrowing purposes***			
		5 year	10 year	25 year	50 year
	%	%	%	%	%
2014/15					
Dec 2014	0.50	2.50	3.20	3.90	3.90
March 2015	0.50	2.70	3.40	4.00	4.00
2015/16					
June 2015	0.75	2.70	3.50	4.10	4.10
Sept 2015	0.75	2.80	3.60	4.30	4.30
Dec 2015	1.00	2.90	3.70	4.40	4.40
March 2016	1.00	3.00	3.80	4.50	4.50
2016/17					
June 2016	1.25	3.10	3.90	4.60	4.60
Sept 2016	1.25	3.20	4.00	4.70	4.70
Dec 2016	1.50	3.30	4.10	4.70	4.70
March 2017	1.50	3.40	4.10	4.80	4.80
2017/18					
June 2017	1.75	3.50	4.20	4.80	4.80
Sept 2017	2.00	3.50	4.20	4.90	4.90
Dec 2017	2.25	3.50	4.30	4.90	4.90
March 2018	2.50	3.50	4.30	5.00	5.00

***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.

24. Capita Asset services undertook a review of its interest rate forecasts on 24th October. During September and October, a further rise in geopolitical concerns , principally over Ukraine but also over the Middle East, plus fears around Ebola and an accumulation of dismal growth news in most of the ten largest economies of the world and also on the growing risk of deflation in the Eurozone had sparked a flight from equities into safe havens like gilts and depressed PWLB rates. However, there is much volatility in rates as news ebbs and flows in positive and negative ways. The latest forecast includes the first increase in Bank Rate in quarter 2 of 2015.

25. PWLB forecasts are based around a balance of risks. However, there are potential upside risks, especially for longer term PWLB rates as follows

    (a) A further surge in investor confidence that robust economic world growth is firmly expected, causing a flow of funds out of bonds and into equities.

    (b) UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to guilt yields

    downside risks include:

    (c) The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.

    (d) Fears generated by the potential impact of Ebola around the world

    (e) UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.

    (f) A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.

    (g) Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.

    (h) A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.

    (i) A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.

(j) Recapitalisation of European banks requiring more government financial support.

(k) Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

(l) Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.

(m) France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.

(n) Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

(o) Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.

(p) There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This is a return to a similar environment to the one which led to the 2008 financial crisis.

Treasury Management Strategy 2014/15 and Annual Investment Strategy Update

Debt Activity during 2014/15

26. The expected net borrowing need is set out below

Table 8

	2014/15 Original Estimate £M	2014/15 Revised Estimate £M
CFR (year end position)	183.664	183.637
Less other long term liabilities PFI and finance leases	-17.468	-17.468
Net adjusted CFR (net year end position)	166.196	166.169
Expected Total Borrowing	132.000	130.000
(Under)/ Over borrowing	(34.196)	(36.169)
Expected Net movement in CFR	9.824	8.824
Expected Net Movement in CFR represented by		
Net financing need for the year from table 3	15.679	14.774
MRP/VRP	-4.543	-4.638
MRP relating to finance leases including PFI	-1.312	-1.312
Movement in CFR (Net Borrowing Need)	9.824	8.824

27. 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 4.00%) There is an interest rate risk, as longer term borrowing rates may rise, this position is being carefully monitored

28. New borrowing of £5m has been taken to date this year, All short term loans ie those up to 1 years duration will be replaced with a similar loans.

Annual Investment Strategy 2014/15

Changes to the Investment Counterparty Criteria

29. The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during this financial year. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

30. It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of support that has been built into ratings through the financial crisis. The eventual removal of implied Government support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

31. Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term

ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

32. Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

33. As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

34. It is recommended that the following changes are applied to the counterparty criteria.

    (a) Banks 1 - good credit quality – the Council will only use banks which:

        (i) are UK banks; and have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):
        (ii) Short term – F1
        (iii) Long term – A-

(b) Banks 2 – Non UK banks based on the following very high quality criteria using a lowest common denominator approach and only AAA sovereigns.

    (i) Short term – F1+
    (ii) Long term – AA-

35. Banks 3 and Banks 4 will remain unchanged as previously approved along with other institutions such as Building Societies.

Treasury Management Activity from 1st April 2014 to 30th September 2014

36. Current investment position – The Council held £40.127M of investments at 30/09/2014 and this is made up of the following types of investment.

Table 9

Sector	Country	Up to 1 year	Up to 2 years
		£M	**£M**
Banks	UK	17.000	5.000
Building Societies	UK	4.000	
Banks	Sweden	3.000	
AAA Money Market Funds	Sterling Fund	11.127	
Total		**35.127**	**5.000**

Short Term Cashflow Investments

37. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. A total of 154 investments were made in the period 1st April 2014 to 30th September 2014 totalling £193.981M these were for periods of between 1 and 364 days and earned interest of £84,300 on an average balance of £28.560M which equated to an average interest rate of 0.5904%

Longer Term Capital Investments

38. The Council's reserves and capital receipts are invested for varying periods up to the maximum permitted time period which is currently 2 year for part Nationalised banks and 12 months for other counterparties. The investments have been at an average level of £9.560 M. Some individual loans have matured and been renewed during this period The longer term investments have earned interest of £40,800 for the first six months of 2014/15 at an average rate of 0.855%.

Investment returns measured against the Service Performance Indicators

39. 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**	**0.86**
External Comparators		
Local Authority – 2 Day	0.30	-
Local Authority – 7 Day	0.30	-
Local Authority -6 months	-	0.67
Local Authority – 12 months	-	1.00
London Inter Bank bid Rate - 7day	0.35	0.35
Average External Comparators	**0.32**	**0.67**

Treasury Management Budget

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

    (a) Long term capital investments interest earned – a cash amount of c£10.000M 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) 2014/15

	£M	£M
Original Treasury Management Budget 2014/15		**4.428**
Less Reduced Repayment of Principal	92,400	
Less Reduced Interest payments paid on debt	300,500	
Less increased interest earned on Investments	85,100	
Revised Treasury Management Budget 2014/15		**3.950**

41. The repayment of principal is reduced because of the timing of capital expenditure is later than expected due to slippage in the capital programme and the interest payable has reduced because new debt will be taken later in the year than expected and over a shorter period than initially anticipated. Interest earned increased because of slightly higher interest rates were paid on investments than were expected and larger balances to invest.

42. This statement concludes that the Treasury Management budget is forecast to achieve an improvement of £0.478M in 2014/15, these savings in finance costs will be returned to Council balances.

Risk Benchmarking

43. 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.

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

45. **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

46. There is an increase in the risk of default in October above the benchmark ,as shown in table 12. this relates to a £5.000M 2 year investment with the Royal Bank of Scotland which is part owned by the government. This calculated risk percentage will reduce as time passes towards the maturity date in September 2016

Table12

Maximum	Benchmark 2014/15	Actual June	Actual August	Actual October
Year 1	0.077%	0.014%	0.018%	0.106%

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

48. **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

49. 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	0.16	0.20	0.76

50. The figures are for the whole portfolio so include both longer term fixed investments currently up to 2 years 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

51. **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. In both cases the reduction in % relates to reduced financing costs for General Fund £0.478M and HRA £0.161M.

Table 14

	2014/15 Original Indicator	2014/15 Revised Indicator
General Fund	**7.77%**	**7.21%**
HRA	**16.92%**	**16.19%**

Treasury Management Prudential indicators

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

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

54. 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 2014/15 the Council will have 2 variable rate loans amounting to £27.25M which represents 23% of the Councils debt portfolio.

Table 15

	2014/15 Original Indicator	**2014/15 Revised Indicator**
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	40%

55. **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

	2014/15 Original indicator	**2014/15 Actual to Date**	**2014/15 Revised Indicator**
Under 12 months	25%	6%	10%
12 months to 2 years	40%	2%	40%
2 years to 5 years	60%	0	60%
5 years to 10 years	80%	6%	80%
10 years and above	100%	86%	100%

56. **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. 1 investment of £5M has been made for longer than 1 year (2 years) during 2014/15.

Table 17
Principal Funds Invested

	2014/15 Original Indicator	2014/15 Revised Indicator
Maximum principal sums invested greater than 1 year	£10M	£10M

Treasury Management Advisors

57. The Council continues to receive Treasury Management advice from Capita Asset Services; the contract runs until October 2016.

Conclusion

58. The prudential indicators have been produced to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) has decreased by £2M to £148M. The Councils return on investments has been good, exceeding both of the targets. Based on the first six months of 2014/15 the Council's borrowing and investments is forecast to achieve an improvement of £0.478M on the approved 2014/15 budget

59. 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

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