COUNCIL
28 JANUARY 2016

ITEM NO. 8 (b)

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2015/16

Responsible Cabinet Member –
Councillor Stephen Harker, Efficiency and Resources Portfolio

Responsible Director – Paul Wildsmith
Director of Neighbourhood Services and Resources

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 and asks the Council to note the changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

Summary

2. This report and the Prudential Indicators contained in it were examined by the Audit Committee on 18th December 2015 and it was agreed at that meeting that the report be referred to Council via Cabinet to enable the updated indicators and revised Operational Boundary and Authorised Limit for borrowing to be approved and that the Audit Committee is satisfied with the Council's borrowing and investment activities, the reported indicators and the revised borrowing limits.

3. 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 2015 of the 2015/16 Prudential Indicators and Treasury Management Strategy.

4. 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.

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

    (a) Higher capital expenditure in 2015/16 due to greater slippage than anticipated from 2014/15. This increased the expected capital spend by £11.039M however only half of this resulted increased borrowing need for the year (£5.058M). The additional spend in year being covered by capital grant and unused capital receipts. Further detail is shown at **Appendix 1.**

    (b) The Operational Boundary has remained unchanged at £201.881M this includes some loans to RSL's which have yet to materialise. The Authorised Limit has increased in line with the Capital Financing Requirement by £2.503M to £240.891M

6. The Annual Investment Strategy will now include the use of Certificates of Deposits[1], and Treasury Bills[2]

Recommendation

7. 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) Instruments used to make investments now include Certificates of Deposit and Treasury Bills

    (c) The reduction in the Treasury Management Budget (Financing Costs) of £0.163M shown in Table 11 is noted.

Reasons

8. 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

[1] Certificates of Deposit (CD's) are a negotiable form of fixed deposit ranked the same as fixed deposits. These can be kept to maturity or sold on the secondary market releasing the cash early making them more liquid than fixed term deposits. Some UK institutions only deal in CD's. The maturity length is typically 1 month to 1 year.
[2] Short term securities 1 month to 6 months duration issued by HM Treasury on a discount basis ie issued below 100 , with 100 being received on maturity with the difference equalling the interest return. Again these can be bought and sold in the secondary market.

Director of Neighbourhood Services and Resources

Background Papers

(i) Capital Medium Term Financial Plan 2015/16/17
(ii) Accounting records
(iii) The Prudential Code for Capital Finance in Local Authorities
(iv) Cabinet report, Mid Year Prudential Indicators and Treasury Management Monitoring Report 2015/16, 5 January 2016

Elaine Hufford : Extension 5404

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

9. 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 26 February 2015.

10. This report concentrates on the revised positions for 2015/16. Future year's indicators will be revised when the impact of the MTFP 2016/17 onwards is known.

11. A summary of the revised headline indicators for 2015/16 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 2015 and the means by which it is financed.

Table 1 Headline Indicators

	2015/16 Original Estimate	**2015/16 Revised Estimate**
	£M	£M
Capital Expenditure (Tables 2 and 3)	87.394	98.433
Capital Financing Requirement (Table 4)	238.388	240.891
Operational Boundary for External Debt (Table 4)	201.881	201.881
Authorised Limit for External Debt (Table 6)	238.388	240.891
Ratio of Financing Costs to net revenue stream-General Fund (Table 14)	6.57%	6.37%
Ratio of Financing Costs to net revenue stream-Housing Revenue Account (HRA) Table 14	15.62%	15.62%

12. 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.

13. 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.

14. 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 counterparties, the downside is that investment returns remain low.

Key Prudential Indicators

15. 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 2015/16

Capital Expenditure PI

16. **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	2015/16 Original Estimate	2015/16 Revised Estimate
	£M	£M
General Fund	17.863	35.892
HRA	19.531	12.541
Estimated Capital Expenditure	**37.394**	**48.433**
Loans to Registered Social Landlords	50.000	50.000
Total	**87.394**	**98.433**

17. The changes to the 2015/16 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget Monitoring process.

18. The current capital programme now stands at £69.390M (November 2015 Cabinet Report) but this includes a number of schemes that will be spent over a number of years not just in 2015/16. A reduction of £20.957M 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 2015/16 is attached at Appendix 1

Impact of Capital Expenditure Plans

Changes to the financing of the Capital Programme

19. Table 3 below draws together the main strategy elements of the capital expenditure plans shown above, highlighting the original 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	2015/16 Original Estimate	2015/16 Revised Estimate
	£M	£M
General Fund	17.863	35.892
HRA	19.531	12.541
Capital expenditure	37.394	48.433
Loans to Registered Social Landlords	50.000	50.000
Total Spend	**87.394**	**98.433**

Financed by		
Capital Receipts- Housing	0.192	0.000
Capital Receipts –General Fund	0.000	2.594
Capital grants	9.194	19.806
Capital Contributions	0.000	2.882
Revenue Contributions	19.339	9.424
Total Financing	28.725	34.706
Borrowing Need	**58.669**	**63.727**

20. Members will recall that the Original Estimate included some potential loans to Registered Social Landlords (RSL's) this has yet to materialise in 2015/16, however the amount of £50.000m has been kept in the estimate for now as further progress may be made on these loans in the coming months. These are outside of the Treasury Management Strategy but would form part of the Capital Programme. Interest rates would be based on appropriate Public Works Loans Board rates with a further % added dependant on risk and State Aid considerations. Loans would be secured on the assets of the RSL, any loans would be subject to due diligence tests.

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

21. **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 Borrowing Need (Table 3) is around £5.000M but that can be accommodated within the original operational boundary therefore no changes will be made to the Operational Boundary which will remain the same at £201.881M

Prudential Indicator- External Debt/ Operational Boundary
Table 4

	2015/16 Original Estimate	2015/16 Revised Estimate
	£M	£M
Prudential Indicator- Capital Financing Requirement		
Opening CFR (Post Audit of Accounts)	184.692	182.296
Closing CFR	238.388	240.896
CFR General Fund	150.665	153.169
CFR General Fund PFI/Leasing IFRS	16.231	16.230
CFR - Housing	71.492	71.492
Total Closing CFR	**238.388**	**240.891**
Net Movement in CFR	53.696	58.595
Borrowing	185.650	185.650
Other long Term Liabilities	16.231	16.231
Total Debt 31 March 2016- Operational Boundary	**201.881**	**201.881**

Limits to Borrowing Activity

22. 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 2015/16 and the next two financial years. As shown in table 5 below.

Table 5

	2015/16 Original Estimate £M	2015/16 Revised Estimate £M	2016/17 Original Estimate £M	2017/18 Original Estimate £M
Gross borrowing	185.650	185.650	181.450	176.450
Plus Other Long Term Liabilities	16.231	16.231	15.018	13.826
Total Gross borrowing	201.881	201.881	196.468	190.276
CFR* (year end position)	238.388	240.891	234.227	229.206

* includes on balance sheet PFI schemes and finance leases

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

24. 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.

25. 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	2015/16 Original Indicator £M	2016/17 Revised Indicator £M
Operational Boundary	201.881	201.881
Additional headroom to Capital Financing Requirement	36.507	39.010
Total Authorised Limit for External Debt	238.388	240.891

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
	%	%	%	%	%
2015/16					
Dec 2015	0.50	2.40	3.00	3.60	3.60
March 2016	0.50	2.50	3.20	3.80	3.80
2016/17					
June 2016	0.75	2.60	3.30	3.90	3.90
Sept 2016	0.75	2.80	3.40	4.00	4.00
Dec 2016	1.00	2.90	3.50	4.10	4.10
March 2017	1.00	3.00	3.70	4.20	4.20
2017/18					
June 2017	1.25	3.10	3.80	4.30	4.30
Sept 2017	1.50	3.20	3.90	4.40	4.40
Dec 2017	1.50	3.30	4.00	4.50	4.50
March 2018	1.75	3.40	4.10	4.60	4.60
2018/19					
June 2018	1.75	3.50	4.20	4.60	4.60

*****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. Capita Asset services undertook a review of its interest rate forecasts on 11th August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds sparked a flight from equities to safe haven such as gilts and so caused PWLB rates to fall below the forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure in equity prices. This latest forecast includes a first increase in Bank rate in quarter 2 of 2016.

27. Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in the Bank Rate, and the eventual unwinding of Quantative Easing (QE). Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

28. The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long the current period of strong economic growth will last, it remains exposed to vulnerabilities in a number of key areas.

29. The disappointing US non farm payroll figures and UK PMI (Monthly Economic Surveys) services figures out at the beginning of October have served to reinforce

a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This therefore has markedly increased concerns, both in the US and the UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start reversing such aggressive monetary policy until such a time as strong growth rates are more firmly established and confidence increases that inflation is going to get back around 2% within a 2-3 year horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

30. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:-

(a) Geopolitical risks in Eastern Europe, the Middle East and Asia increasing safe haven flows.
(b) UK economic growth turns significantly weaker than we currently anticipate.
(c) Weak growth or recession in the UK's main trading partners- the EU, US and China.
(d) A resurgence of the Eurozone sovereign debt crisis.
(e) Recapitalisation of European banks requiring more government financial support.
(f) Emerging country economies, currencies and corporates destabilised by falling commodity prices and/ or the start of Fed rate increases, causing flight to safe havens.

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

(a) Uncertainty around the risk of a UK exit from the EU.
(b) The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the Eurozone.
(c) The commencement by the US Federal reserve of increases in the Fed funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds and equities.
(d) UK inflation returning significantly higher levels than in the wider EU and US causing an increase in the inflation.

Treasury Management Strategy 2015/16 and Annual Investment Strategy Update

Debt Activity during 2015/16

32. The expected net borrowing need is set out below

Table 8

	2015/16 Original Estimate £M	**2015/16 Revised Estimate £M**
CFR (year end position)	238.388	240.891
Less other long term liabilities PFI and finance leases	16.231	16.231
Net adjusted CFR (net year end position)	222.157	224.660
Expected Borrowing	185.650	185.650
(Under)/ Over borrowing	36.507	39.010
Expected Net movement in CFR	53.696	58.595
Expected Net Movement in CFR represented by		
Net financing need for the year from table 3	58.669	63.727
MRP General Fund	-3.107	-3.266
MRP Housing	-0.629	-0.629
MRP relating to finance leases including PFI	-1.237	-1.237
Movement in CFR (Net Borrowing Need)	53.696	58.595

33. 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.

34. New borrowing of £5m over 2 years at 0.8% has been taken this year to replace short term loans falling out over the coming months. Other short term loans falling due shortly will be replaced with similar loans of a short duration.

Annual Investment Strategy 2015/16

Changes to the Investment Counterparty Criteria

35. Last year we reported that the main ratings agencies Fitch, Moody's and Standard & Poor's would start removing some of the ratings "uplifts" that have been in place due to implied sovereign support since the beginning of the financial crisis. Indeed all three agencies' have begun to do this and the timing of the process is dependent on the regulatory progress at national level in the countries where the counterparties reside. The consequence of the new methodologies is that they have lowered the importance of the Fitch Support and Viability ratings and removed the Financial Strength rating used by Moody's.

36. Our counterparty criterion now only looks at the Short and Long term ratings of counterparties as we had always done with Standard & Poor's ratings. However we continue to overlay Capita's colour methodology which determines the maximum

amount of time that we would invest with our counterparties. By using this colour overlay we continue to access other assessments that Capita use namely, Ratings Watch and Outlook information as well as the Credit Default Swap prices.

37. 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.

Financial Instruments used

38. The use of Certificates of Deposits and Treasury Bills will be considered when depositing with counterparties if these are more appropriate instruments than fixed term cash deposits. The use of these additional instruments will be limited to those institutions already on our counterparty list.

Treasury Management Activity from 1st April 2015 to 31st October 2015

39. Current investment position – The Council held £35.870M of investments at 31/10/2015 and this is made up of the following types of investment.

Table 9

Sector	**Country**	**Up to 1 year**
		£M
Banks	UK	22.000
Building Societies	UK	4.000
Banks	Sweden	3.000
AAA Money Market Funds	Sterling Fund	6.870
Total		**35.870**

Short Term Cashflow Investments

40. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. A total of 63 investments were made in the period 1st April 2015 to 31st October 2015 totalling £87.536M these were for periods in a number of call accounts and Money Market Funds and earned interest of £0.037m on an average balance of £15.486M which equated to an average interest rate of 0.41%

Longer Term Capital Investments

41. 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 £22.200M to date. Some individual loans have matured and been renewed during this period The longer term investments have earned interest of £0.126m for the first seven months of 2015/16 at an average rate of 0.97%.

Investment returns measured against the Service Performance Indicators

42. 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

	Cashflow Investments %	Longer term fixed Investments %
Darlington Borough Council - Actual	**0.41%**	**0.97%**
External Comparators		
London Interbank Bid Rate Overnight	0.36%	
London Interbank Bid Rate 7 day	0.36%	
London Interbank Bid Rate 1 Month	0.38%	
London Interbank Bid Rate -3 months	0.45%	0.45%
London Interbank Bid Rate-6 month		0.60%
London Interbank Bid Rate one year		0.90%
Average External Comparators	**0.39%**	**0.65%**

Treasury Management Budget

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

    (a) Longer term capital investments interest earned – a cash amount of c£22.000M 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) 2015/16

	£M	£M
Original Treasury Management Budget 2014/15		**3.230**
Add Increased Repayment of Principal	0.004	
Less Reduced Interest payments paid on debt	-0.135	
Less increased interest earned on Investments	-0.032	
Revised Treasury Management Budget 2014/15		**3.067**

44. The interest payable has reduced because new debt will be taken later in the year than expected and at a reduced interest rate than initially anticipated. Interest earned increased because of slightly higher interest rates were paid on investments than were expected and larger balances were invested.

45. This statement concludes that the Treasury Management budget is forecast to achieve an improvement of £0.163M in 2015/16, these savings in finance costs will be returned to Council balances.

Risk Benchmarking

46. 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.

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

48. **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

Table12

Maximum	**Benchmark 2015/16**	**Actual June**	**Actual September**
Year 1	0.077%	0.021%	0.034%

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

50. **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

51. 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 2015/16	**Actual June**	**Actual September**
Weighted Average Life	0.4 – 1 year	0.29 years	0.33 years

52. 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

53. **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. The reduction in % relates to reduced financing costs for General Fund £0.163M.

Table 14

	2015/16 Original Indicator	2015/16Revised Indicator
General Fund	**6.57%**	**6.37%**
HRA	**15.62%**	**15.62%**

Treasury Management Prudential indicators

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

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

56. 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 2015/16 the Council will have 2 variable rate loans amounting to £27.250M which represents 22% of the Councils debt portfolio.

Table 15

	2015/16 Original Indicator	2015/16Revised Indicator
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	40%

57. **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

	20151/16 Original indicator	**2015/16 Actual to Date**	**2015/16 Revised Indicator**
Under 12 months	25%	11.28%	25%
12 months to 2 years	40%	0	40%
2 years to 5 years	60%	5.44%	60%
5 years to 10 years	80%	0	80%
10 years and above	100%	83.28%	100%

58. **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. All investments held at 31st October 2015 have less than 1 year to run.

Table 17
Principal Funds Invested

	2015/16 Original Indicator	**2015/16 Revised Indicator**
Maximum principal sums invested greater than 1 year	£10M	£10M

Treasury Management Advisors

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

Conclusion

60. The prudential indicators have been produced to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) remains the same at £201.881M. The Councils return on investments has been good, exceeding both of the targets. Based on the first seven months of 2015/16 the Council's borrowing and investments is forecast to achieve an improvement of £0.163M on the approved 2015/16 budget

61. 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

62. No consultation was undertaken in the production of this report, however this report was examined by Audit Committee at its meeting on 18th December 2015 and its recommendations are outlined in paragraph 2 of this report.