Plymouth City Council

Subject:	Annual Report on Treasury Management Activities for 2013/14
Committee:	Audit Committee
Date:	25th September 2014
Cabinet Member:	Councillor Lowry
CMT Member:	Malcolm Coe
Author:	David Northey, Head of Corporate Strategy
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Ref:	djn0914
Key Decision	No
Part:	I

Purpose of the report:

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its treasury management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the treasury management activities for financial year 2013/14; it also includes the final position on the statutory Prudential Indicators.

This report:

a) is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
b) presents details of capital financing, borrowing, debt rescheduling and investment transactions for the year 2013/14;
c) provides an update on the risk inherent in the portfolio and outlines actions taken by the authority during the year to minimise risk;
d) gives details of the outturn position on Treasury Management transactions in 2013/14;
e) confirms compliance with treasury limits and Prudential Indicators (PIs) and outlines the final position on the PI's for the year

In line with the recommendations in the Code of Practice, this report is submitted to Audit Committee as the committee responsible for scrutiny of the treasury management function.

In accordance with Treasury Management Practices note 6, the report is required to be presented to Full Council.

The Brilliant Co-operative Council Corporate Plan 2013/14 – 2016/17:

In July 2013, the Council adopted a new Corporate Plan, to be a Brilliant Co-operative Council. Treasury management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

Into the medium and longer term the Council is facing significant pressures due to the national economic situation, which has led to a reduction in resources for local authorities over the Government's latest spending period. Effective Treasury Management will be essential in ensuring the Council's cash flows are used to effectively support the challenges ahead.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management, Equality, Diversity and Community Cohesion:

There is an inherent risk to any Treasury Management activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved investment strategy, and keeping the counterparty list under constant review.

Recommendations & Reasons for recommended action:

1. Audit Committee note the Treasury Management annual report for 2013/14.
2. Refer the report to Full Council to note as required by the CIPFA Treasury Management Code of Practice (TMP note 6).

Alternative options considered and reasons for recommended action:

None - it is requirement to report to Council on the treasury management activities for the year.

Background papers:

- Treasury Management Strategy report to Audit Committee 25 February 2013
- Mid-Year Review report to Audit Committee 12 December 2013
- Financial Outturn report for 2013-14 to Cabinet 30 June 2014

Sign off:

Fin	mc1415.44	Leg/ Dem& Gov	DVS/21167	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											
Has the Cabinet Member(s) agreed the content of the report? Yes											

Annual Report on Treasury Management Activities for 2013/14

1. Introduction

1.1 Treasury Management (TM) in Local Government is underpinned by the CIPFA Code of Practice on Treasury Management in the Public Services (The Code) and in this context is "*the management of the Council's investments and cash flows, its banking, money market and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*".

1.2 As a Council, we are required to set an annual TM Strategy and formally report our activities to Full Council, as a minimum, twice each year.

1.3 This report outlines the TM activities in 2013/14, providing information on progress and outcomes against the approved strategy, and builds on the mid year report presented to Audit Committee on 12th December 2013 and Full Council on 25th February 2014.

1.4 The responsibility for implementing and monitoring our Treasury Management Policies and Practices, and for the execution and administration of treasury management decisions, is delegated by the Council to the Section 151 (S151) Officer – the Assistant Director for Finance. All activities are overseen by a Strategic Treasury Management Board consisting of the S151 Officer, the Deputy S151 Officer (the Head of Corporate Strategy), the Cabinet Member for Finance plus the Shadow Member for Finance.

1.5 The day to day operation of the Treasury Management activity is carried out in accordance with detailed Treasury Management Practices (TMPs). These are required to be updated annually; the 2013/14 practices were approved by Audit Committee at its meeting of 26th June 2014.

1.6 The Council works closely with its independent Treasury Management advisers Arlingclose who assist the Council in formulating views on interest rates when determining the Treasury Management Strategy, providing regular updates on economic conditions and interest rate expectations and advice on specific borrowing and investment decisions.

2. The Council's Strategy for 2013/14

2.1 The Council's Treasury Management Strategy was approved by Full Council on 25 February 2013. As an overriding principle, the strategy proposed that the Council would continue to minimise risk contained within its current debt and investment portfolios by establishing an integrated debt management and investment policy which balanced certainty and security, with liquidity and yield.

2.2 The borrowing strategy was to be based on affordability and subject to credit conditions throughout the year. In adverse credit conditions the strategy was to use internal balances to cover any borrowing requirement, enabling the Authority to minimise borrowing costs and reduce overall counterparty and credit risk by reducing the level of external investment balances. In improved credit conditions the Director for Corporate Services would consider externalising borrowing using short-term or long-term loans as part of a balanced maturity profile within the approved Prudential Indicators.

Review of the Council's Performance 2013/14

3. Treasury Portfolio

3.1 Table 1 shows the Council's overall Treasury Portfolio at the end of 2013/14 compared to 2012/13.

Table 1

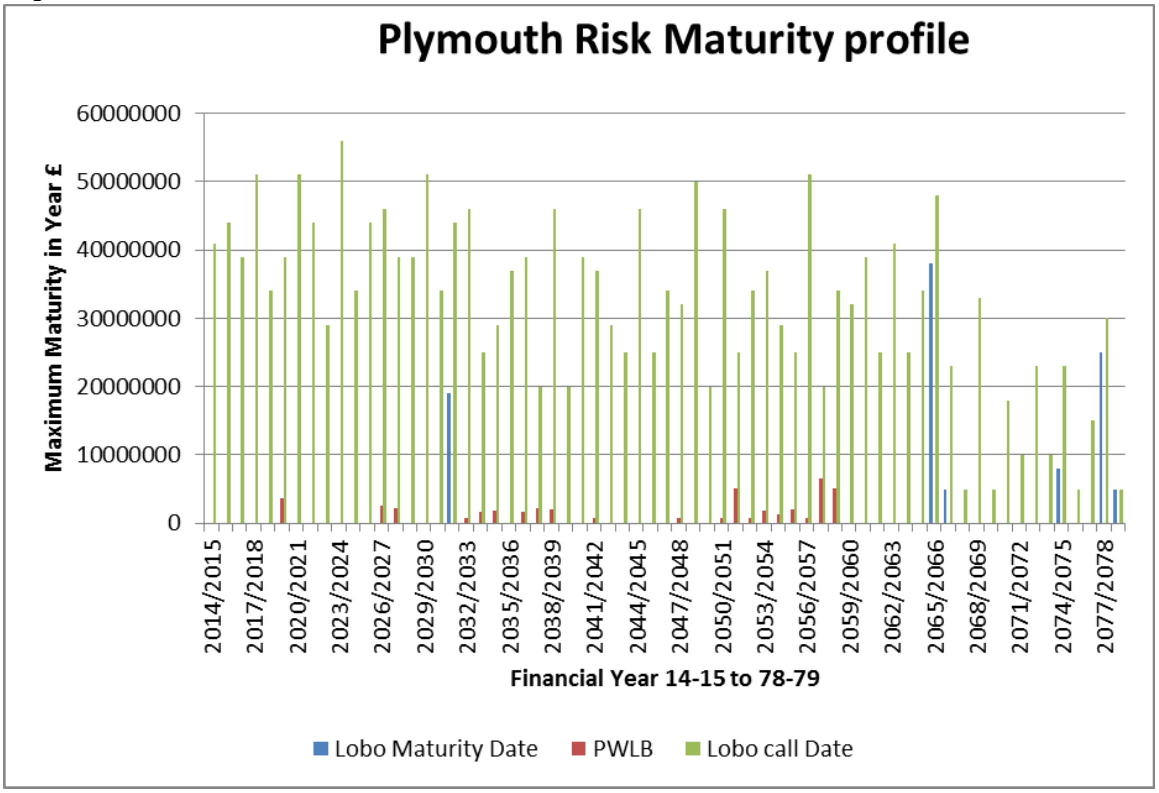
31/3/2013 £m	Average Interest rate %		31/3/2014 £m	Average Interest rate %
		External Borrowing Long-term:		
61.315	5.4001	PWLB	44.252	5.7925
130.000	4.4202	Market	100.000	4.3813
0.087	1.0007	Bonds	0.087	0.6582
34.800	0.2809	Temporary Borrowing	80.800	0.2969
226.202	**4.0477**	**Total PCC Borrowing**	**225.139**	**3.1855**
		Long-term liabilities		
30.246	8.7300	PFI Schemes	29.440	8.7300
2.189	n/a	Finance leases	1.937	n/a
9.156	n/a	Tamar Bridge & Torpoint Ferry	8.889	n/a
41.591		**Total Long term Liabilities**	**40.266**	
267.793		**Total External Debt**	**265.405**	
		Investments:		
(77.374)	0.8889	Deposits	(70.812)	0.7017
(5.000)	Variable	Property Fund	(7.500)	Variable
		Other external Funds	(5.025)	Variable
(82.374)		**Total Investments**	(83.337)	
185.419		**Net Borrowing/(Net Investment) Position**	**182.068**	

3.2 The total external debt as shown above includes long-term liabilities in respect of PFI schemes or finance leases. These liabilities are seen as a credit arrangement thus increasing the Council's total debt and must be taken into account within the statutory borrowing limits. The Tamar Bridge & Torpoint Ferry balance relates to 50% of the debt on the Joint Committee balance sheet.

4. Borrowing

4.1 Figure 1 below shows the maturity profile of the long-term debt for the Council as at 31 March 2014.

Figure 1



4.2 The debt portfolio includes £100m of LOBO (market) loans, shown above in green. LOBO loans

- have various option call dates where the banks have the ability to amend the loan terms;
- at which point the Council could choose to repay the loan if the terms are changed adversely.

4.3 During the year £44m of LOBO loans entered the period where they could have been called, but options were not exercised by the relevant banks.

4.4 However, LOBOs are expensive, and there is inherent risk of the banks amending the loan terms. During 2013/14 the Council was approached by one of the main lenders, Barclays Bank, who wished to explore the possibility of cancelling the arrangements on £30m of LOBO.

4.5 After lengthy discussions and negotiations, and to reduce our exposure to risk, plus the strategy to reduce the cost of our overall borrowing, we entered into a contract with Barclays.

4.6 Under the terms of the buy-out, Barclays Bank agreed to waive their profit element. We further negotiated a significant reduction in the premium attached.

4.7 The full year revenue saving impact from the discharge of the £30m of LOBO loans is just under £1m.

4.8 Under Section 3 of the Local Government Act 2003 and supporting regulations the Council must determine and keep under review how much it can afford to borrow. The Council is required to set two limits:

- The Authorised Limit – This is the statutory limit which should not be breached. This can only be amended with the approval of Full Council.
- The Operational Boundary – This is based on the same estimate as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

4.9 The borrowing limit for 2013//14, originally approved by Council on 25 February 2013 were as follows:

- Authorised Limits £310m
- Operational Boundary £289m

The revised prudential indicators, as approved by Council on 24 February 2014 reduced the limits to fall in line with the Council's updated capital programme and reduction in the forecast borrowing requirement. The approved updated limits are as follows:

- Authorised Limits £297m
- Operational Boundary £282m

4.10 The Section 151 Officer confirms that there were no breaches to the authorised limit during the year. The maximum debt outstanding during 2013/14 was £289.296m on 24 September 2013 (including £41.591m for the PFI, finance lease liabilities and the Tamar Bridge loan). This was within the authorised limit but in excess of the operational boundary due to cashflow requirements. There were other occasions throughout the year where debt was above the operational boundary however by 31 March total debt had fallen to £265.405m (including £40.266m for PFI, finance lease liabilities and the Tamar Bridge loan) well within both of the borrowing limits.

4.11 Table 2 shows the movement in the borrowing portfolio during the year.

Table 2 **Movement in Borrowing Portfolio**

	Balance on 01/04/13 £000s	Debt Maturing £000s	Debt Repaid £000s	New Borrowing £000s	Balance on 31/03/14 £000s	Increase/ (Decrease) in Borrowing
Short-term Borrowing	34,800	(310,225)		356,225	80,800	46,000
Long-term Borrowing	191,402	(952)	(47,063)	952	144,339	(47,063)
Total Borrowing	**226,202**	**(311,177)**	**(47,063)**	**357,177**	**225,139**	**(1,063)**

4.12 The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31 March 2014 was estimated at £264.753m (including PFI, finance leases and Tamar Bridge & Torpoint Ferry debt).

4.13 New borrowing in year

The use of short-term borrowing has been the most cost effective means of financing capital expenditure and cashflow requirements. Matching short-term borrowing with the availability of liquid deposits held in bank call accounts lowered overall treasury risk by allowing flexibility to reduce debt and investment levels at short notice should credit conditions deteriorate during the year.

At the start of the year the Council had £34.8m of short-term loans. These are generally taken for periods of one to three months and repaid and replenished with new loans, subject to availability and favourable rates, during the year. At the end of the year the Council had £80.8m of short-term loans.

The average period of new loans taken in the year was for 53.25 days at an average interest rate of 0.2854%. This is below the bank base rate. Short-term loans are generally taken from other local authorities.

4.14 Debt Repayment/Rescheduling

Following consultation with the Council's Treasury Management advisers, Arlingclose, and discussions with Council officers and Members, the opportunity was taken to repay some longer-term debt to improve the balance of the Council's debt maturity profile and to achieve revenue savings.

£17.063m of PWLB debt was repaid on 21st October 2013. The remaining maturity period on this debt ranged from 49 to 53 years at rates between 4.39% and 4.55%.

£30m of market debt was repaid on 19th March 2014. This was Lobo debt at a rate of 4.55% with a maximum maturity period of 63 years. These loans were replaced by a mix of short-term borrowing at rates below 0.3% and running down investments in call accounts paying 0.4%. The maturity profile of the Council's debt will be reviewed with short-term debt replaced with longer-dated maturities at the appropriate time to minimise cost over the short and longer term.

4.15 Overall Debt Performance for the year

The average interest rate on the Council's borrowing has decreased over the course of the year from 4.04778% to 3.1855%. This rate reflects the position at the end of each financial year (i.e. 31 March 2013 and 2014). The reduction in rates is due to the increase in low rate short-term loans taken in periods maturing beyond the year end. Loan transactions were taken at various times throughout the year at various rates and, taking all transactions in the year, the overall average borrowing rate for 2013/14 was 3.8517% compared with a rate of 4.2079% for 2012/13. This increase is a result of a much higher average of short-term borrowing taken in 2013-14 compared to 2012-13 and the repayment of long-term debt outlined in 5.9.

5. Investments

5.1 Figure 2 below shows the actual split of deposits by country/sector as 31 March 2014. Table 4 provides more detail on the actual deposits by counterparty group.

Figure 2

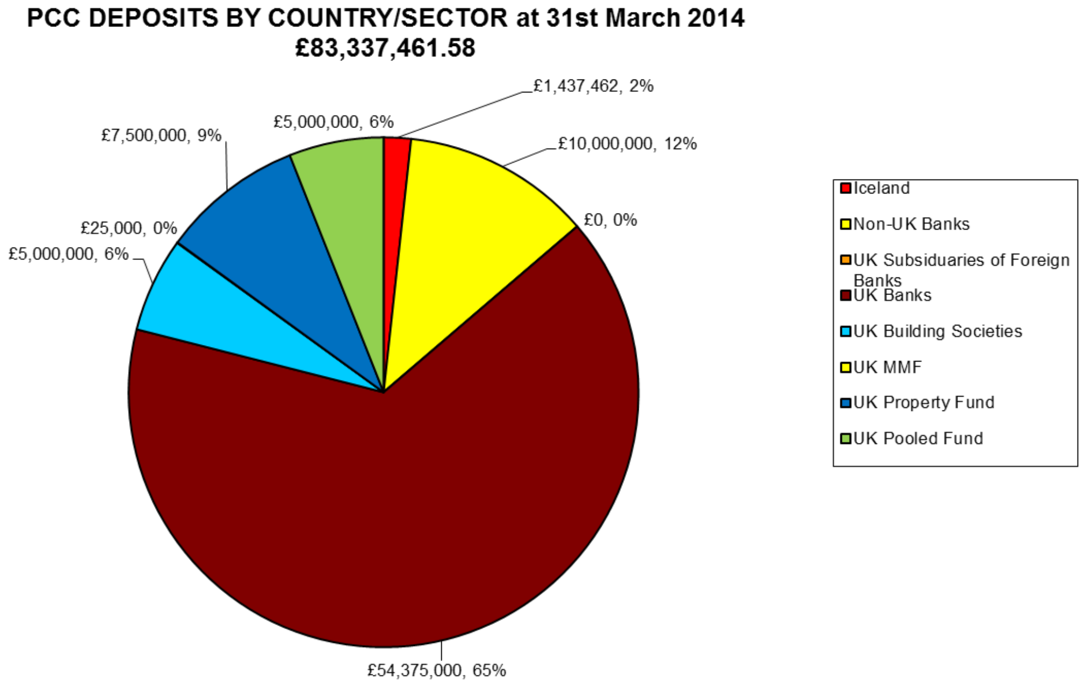


Table 4

Group	Bank/Institution	Total deposits £m
Lloyds Banking Group	Bank of Scotland	10.000
	Lloyds TSB	10.000
Barclays Banking Group	Barclays	14.375
Svenska Handelsbanken Group	Svenska Handelsbabken	10.000
HSBC Group	HSBC	15.000
Nationwide Building Society	Nationwide Building Society	5.000
Close Brothers	Close Brothers	5.000
Icelandic deposits	Heritable Bank	0.179
	Islandsbanki (Escrow ex Glitnir)	1.258
Total Deposits @ 31 March 2014		**70.812**
Pooled Investment:	CCLA Lamit Property Fund	7.500
	CCLA Public Sector Deposit Fund	0.025
	Ignis Sterling Short Duration Cash Fund	1.000
	Federated Prime Rate Cash Plus Fund	1.000
	Investec Short Bond Fund	1.000
	Investec Target Return Fund	1.000
	Payden & Rygel Sterling Reserve Fund	1.000
Total Investments @ 31 March 2014		**83.337**

5.2 The movement in the investment portfolio during the year was as follows:

Table 5 Movement in Investment Portfolio

Investments	Balance on 31/3/13 £000	Investments Made £000	Maturities/ £000	Balance on 31/03/14 £000	Avg Rate % / Avg Weighted Life to maturity (days)
Short-term Investments (less than 1 year)	77,374	716,651	(723,188)	70.837	0.78/ 115 days
Long-term Investments (over 1 year)	0	0		0	
Pooled Funds	5,000	7,500		12,500	Variable
Total Investments	**82,374**	**724,151**	**(723,188)**	**83,337**	

5.3 The majority of the short-term deposits were held in call or short-term notice accounts. In line with the Council's approved investment strategy for 2013/14 the following longer term deposits were taken in the year:

Amount	Start Date	End Date	Term (days)	Rate %
£5.0m	21/05/13	21/11/13	184	0.80
£5.0m	17/03/14	16/03/15	364	0.82
£5.0m	17/03/14	17/09/14	184	0.70
£5.0m	27/03/14	26/03/15	364	0.95
£5.0m	27/03/14	24/12/14	272	0.80

5.4 The above deposits were taken at rates close to or above the bank base rate and help increased the return on investments in 2013/14. The maximum approved term for new deposits in 2013/14 was 1 year.

5.5 In line with the Council's approved strategy, to diversify investment away from purely cash deposits, a further £2.5m investment was made in the CCLA Lamit Property Fund on 31 March 2013 increasing the total sum invested to £7.5m. This is a pooled investment fund meeting the criteria in SI 2004 No 534 and subsequent amendments. This is an available for sale investment that can be sold if required. However this is seen as a long-term investment to generate additional income and realise a capital gain for the Council. In 2013-14 this fund produced a return of 5.668% and capital growth of £0.313m.

Further diversification was achieved, during the year, by investing £1m in each of 5 externally managed funds. These are also pooled investments meeting the criteria in SI 2004 No 534 and subsequent amendments as approved in the Councils strategy. These are seen as an alternative to bank call accounts producing an additional return by utilising a range of securities whist still enabling withdrawals at between 1 and 4 days' notice. The average return achieved in 2013-14 was 0.75%.

5.6 Managing Investment Risk

5.6.1 The Guidance on Local Government Investments in England gives priority to security and liquidity of investments and the Council's aim is to achieve a yield commensurate with these principles.

5.6.2 Security
Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14.

Investments made during the year were restricted to:

- Deposits with the Debt Management Office.
- Call Accounts and deposits with UK Banks and Building Societies systemically important to the UK banking system.
- Pooled funds (collective investment schemes) meeting the criteria in SI 2004 No 534 and subsequent amendments.

5.7 Credit Risk

5.7.1 Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institutions operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty rating determined for the 2013-14 treasury strategy was A-/A-/A3 across rating agencies Fitch, S&P and Moody's.

5.7.2 Credit conditions remained stable throughout the year. The main issue restricting maturity and counterparty limits was the prospect of the withdrawal of government support to bail out failing banks. The main impact of this was on the credit rating of RBS. Back in July Moody's placed the bank on review for downgrade. At this time new deposits were limited to overnight/call and notice was given on the Council's 30 and 95 day notice accounts. Following completion of the review in March the long-term rating for RBS was cut to BBB+. This was below the minimum A- required and therefore all funds were withdrawn and the RBS group (RBs and NatWest) were suspended from the Councils list of approved counterparties for investments.

5.8 Credit Score Analysis

5.8.1 The Council's treasury advisers, Arlingclose, have developed a matrix to score the credit risk of an authority's investment portfolio. The matrix allocates a numerical score based on the credit rating of an institution, with an AAA rated institution scoring 1 and a D rated institution scoring 15. This is then weighted to reflect both the size of the deposit and the maturity term of the deposit. The aim is to achieve an overall score of 7 or lower on both weighted averages to reflect an investment approach based on security: the lower the score the better the security of the deposit.

5.8.2 Table 6 shows the rating currently attached to the Council's portfolio and its movement during the year using this matrix.

Table 6 **Credit Risk Matrix**

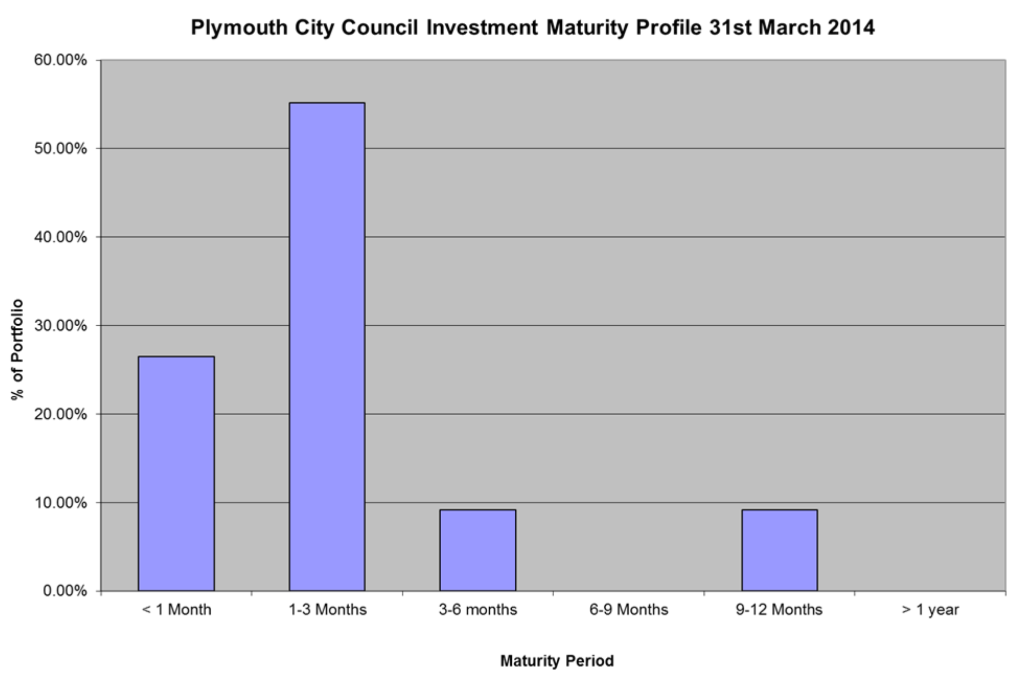
Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2013	6.00	A	6.25	A
30/06/2013	6.12	A	6.16	A
30/09/2013	5.73	A	4.67	A+
31/12/2013	5.23	A+	5.01	A+
31/03/2014	5.32	A+	5.73	A

Note: These scores exclude any deposits with Icelandic banks.

Based on the scoring methodology, the Council's counterparty credit quality has increased over the course of the year. This is in the main due to credit ratings remaining stable over the year with restrictions in deposits with the lower rate banks (RBS) and increasing deposits with higher rated banks such as HSBC and the Swedish Bank Svenska Hadelsbanken. This has resulted in a credit risk score well with the 7 score set in the Council's Treasury Management Strategy for 2013-14. Council officers are currently looking at opportunities to invest in some other highly rated banks, as part of the strategy to diversify investments, using certificates of deposit and AAA rated securities to further reduce the credit score of the Council's investment portfolio.

5.9 Liquidity

Figure 3



5.9.1 In keeping with the CLG's guidance on investments, the Council's maintained a sufficient level of liquidity through the use of overnight deposits and the use of call accounts.

5.9.2 The maturity profile of the Councils deposits is represented in Figure 3. This shows a large proportion of deposits maturing in less than three month, reflecting the deposits in call and notice accounts giving the liquidity to cover cash flow requirements.

5.10 Yield- Investment performance for the year

5.10.1 The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year.

5.10.2 Investments were made short-term to cover cashflow and liquidity requirements and longer-term to maximise and guarantee future income. Excluding the longer-term investments covered in 5.5 during 2013/14 the Council deposited funds for a range of periods from overnight to 12 months, dependent on the Council's cash flows, officers' interest rate view, the interest rates on offer and the economic climate/credit risk.

5.10.3 The Council's treasury management officers work to a benchmark rate of return, the 7 day London Interbank Bid (LIBID) rate – which is the rate which can be achieved on the London interbank market for cash deposits of 7 days and is regarded as the standard benchmark. The 7 day rate is calculated on a daily basis and averaged for the year. Table 7 below compares the average return achieved by the in-house team with the benchmark. An average rate of 0.7753% was achieved for new investments in the year against a target of 0.8%.

A major impact on deposit returns in 2013-14 was the Funding for Lending Scheme (FFLS) implemented by the Bank of England to provide cheaper funding to Banks and Building Societies to be passed on through mortgages and loans. This resulted in reductions in deposit rates available to the Council.

Table 7

	Weighted Average Investment	Benchmark Rate %	Actual Return %
Internally Managed:	£101.653m	0.35	0.7753

The table shows that the internal performance exceeded the benchmark for the year, despite the impact of FFLS.

5.11 Breach of Counterpart Limit with Santander UK Plc

5.11.1 Council officers work within approved counterpart limits. This was set at a maximum of £30m for approved UK banks and building societies, included on the council's lending list, meeting the credit criteria set out in 5.7.1.

An error occurred on 18 November 2014 when all records were updated to show a deposit to the council's Santander Call account of £5.565m. A payment sheet was prepared for this Santander deposit and passed to an officer for payment. When this was input on the Council's online banking system the wrong bank was selected. On authorisation by a Group Accountant this error was not picked up and the funds were deposited with RBS.

This led to a balance in our RBS call account of £5.625m more than recorded on the cashflow, dealing record and reconciliation sheets. Due to this error the balance in the RBS account reached £35.415m. This was picked up on 20 November, the Section 151 Officer and Internal Audit were informed, and an immediate withdrawal made to bring the account balance back below £30m.

5.11.2 All the records in relation to these deposits were correct and the error was due to problems with the input and authorisation process. Officers have been informed of their importance in this process and the need to check all payments thoroughly.

5.12 Benchmarking

5.12.1 As outlined above, Arlingclose have developed a set of benchmarking criteria to enable comparisons on investment performance to be made on data provided by all their clients.

To ensure a like with like comparison, the graphs compare our investment performance with other unitary authorities. This is based on data provided to 31 March 2014. The results of the benchmarking are discussed at regular Strategic Treasury Management meetings with our advisers. The benchmarking has to be taken in the context of risk appetite and the legacy investments that the Council has in its portfolio.

The graphs used for comparison attached as **Appendix 1** to this report are:

1. Average rate of investments against average maturity period
2. Average rate of investments against value weighted average credit risk score
3. Average rate of investments against time weighted average credit risk score

6. Icelandic Banks Update

6.1 The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

Bank	Original Deposit £m	Comment	Balance March 2014 £m
Heritable Bank	3.000	dividends 16.74p in the £ in 2013/14 94.02% recovered	0.189
Glitnir	6.000	79.15% recovered (see 6.6 below)	1.328
Lansbanki	4.000	dividends 5.03p in the £ in 2013/14 - 52.22% recovered; made decision to sell the remainder of the outstanding claim, This resulted in an additional receipt of £1.645m	0.000
Total	**13.000**		**1.517**

6.6 Further recoveries

The Council currently has approximately £1.2m in Icelandic Krona (ISK) remaining in Escrow in Iceland from the Glitnir Bank settlement. The Council is currently working with the LGA, Bevan Brittan and other affected authorities to research ways of converting the ISK element of the impaired Icelandic deposit into Foreign Exchange i.e. British Pounds.

7. Revenue Implications of Treasury Management

7.1 The expenditure arising from the Council's borrowing and lending accrues to the revenue accounts. This includes interest payable and receivable, the minimum revenue provision (for debt repayment) and premiums and discounts written out to revenue from previous debt rescheduling. Some of the interest receivable is passed onto specific accounts where this interest has accrued from the investment of surplus balances for these services. The balance (net cost) is met by the General Fund. Table 8 below shows the income and expenditure arising from these transactions in 2013/14.

7.2 The net cost of capital financing to the General Fund in 2013/14 reduced by £0.658m from the 2013/14 budget due to a reduction in MRP of £0.541m, reduced treasury management costs of £0.738m and other cost increases of £0.621m. The MRP is a statutory charge to revenue based on the Council's capital expenditure financed from borrowing. The reduction is due to a review and reallocation of the financing of capital expenditure. The reduction in treasury management costs is due to the repayment of long-term loans and the use of low rate short-term borrowing, as an alternative to the use of long-term borrowing or internal balances, to fund capital expenditure.

Summary of Capital Financing Costs 2013/14

Table 8

	2013/14 Budget £000	2013/14 Outturn £000	Variance £000
External interest payments	9,610	8,820	(790)
External interest received	(1,133)	(1,207)	(74)
Interest transferred to other accounts	15	80	65
Premiums / Discounts written out to Revenue	(189)	(141)	48
Debt Management Expenses	126	139	13
Treasury Management Cost	**8,429**	**7,691**	**(738)**
Minimum Revenue Provision	8,101	7,560	(541)
Recharges for unsupported borrowing	(4,267)	(3,660)	607
Recovered from trading Accounts	(2,805)	(2,791)	14
Net Cost to General Fund	**9,458**	**8,800**	**(658)**

8. Compliance with Prudential Indicators

Under the arrangements set out in the Prudential Code for Capital Finance in Local Authorities, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the Code, and for establishing a range of Prudential Indicators covering borrowing limits and other treasury management measures.

The compliance of borrowing within the Authorised Limit and Operational Boundary is confirmed in section 4.5 of this report. The Prudential Indicators for 2013/14 were approved by Council on 25 February 2013 and updated on 24 February 2014 as part of the approved Treasury Management Strategy for 2014/15. The performance against these approved indicators is set out in **Appendix 2.**

9. External Service Providers

9.1 Arlingclose is appointed as the Council's treasury management adviser. The Council is clear as to the services it expects and is provided under the contract. The service provision is comprehensively documented. The Council paid a sum of £24,000 in 2013/14 for this service. The contract with Arlingclose ends on 31 December 2014. Officers are currently in the process of retendering for this service. Officers will update on the out-come of this process in a future report.

9.2 The Council is also clear that overall responsibility for Treasury Management remains with the Council.

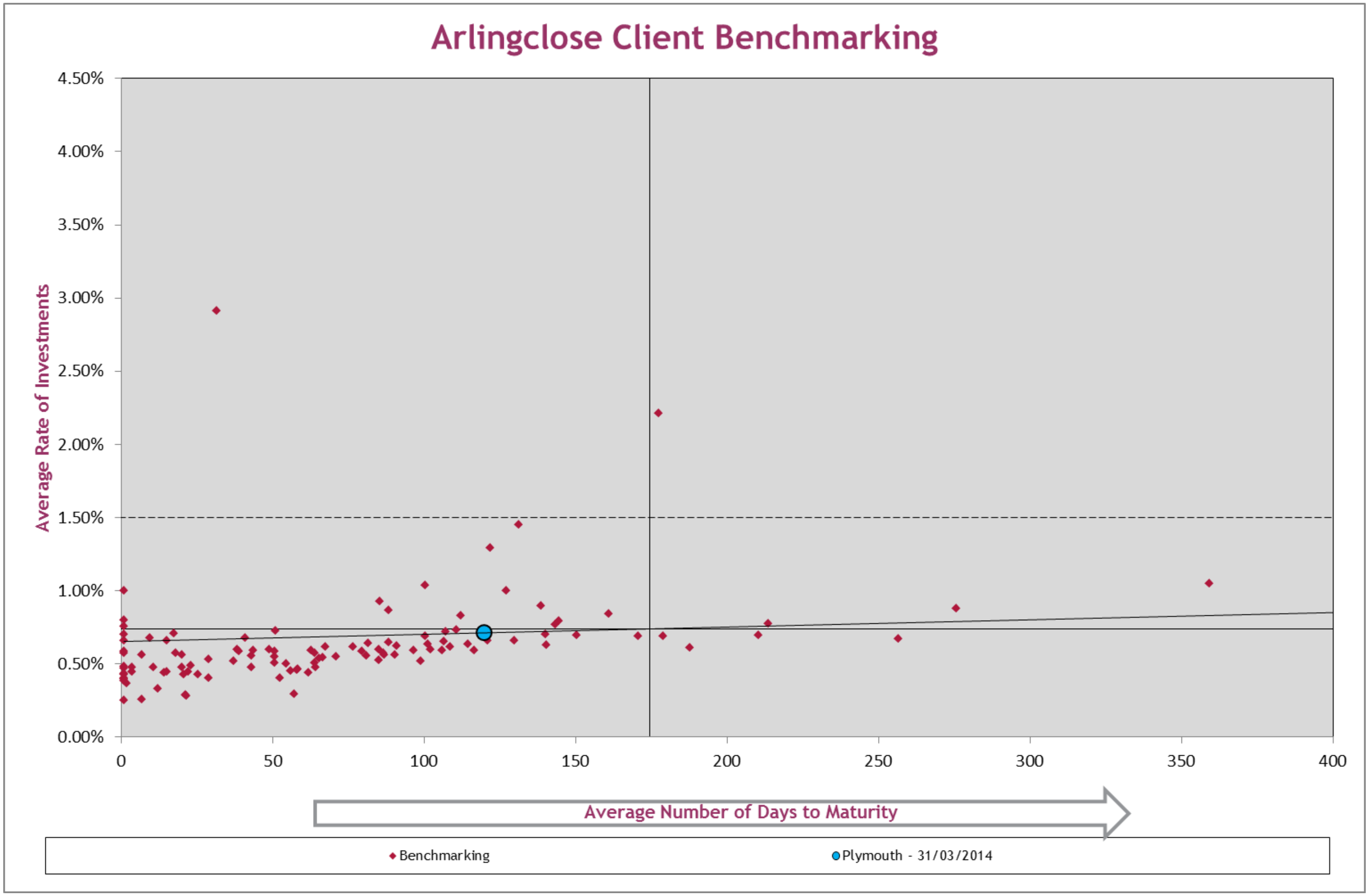
10. Training

10.1 CIPFA's revised Code requires the Section 151 Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

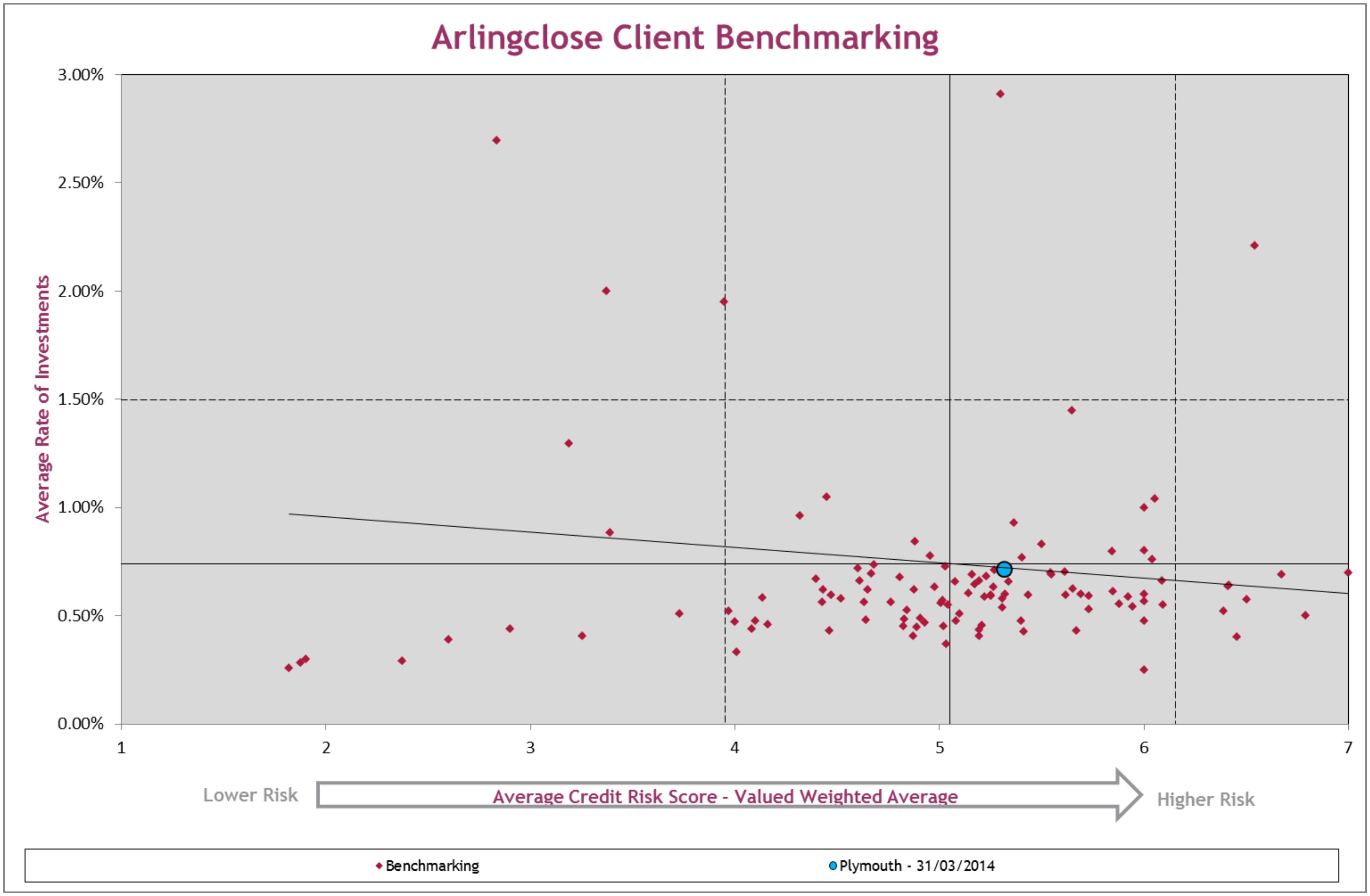
10.2 The CLG's revised investment guidance also recommends that a process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.

10.3 The Council continues to keep its training requirement under review.

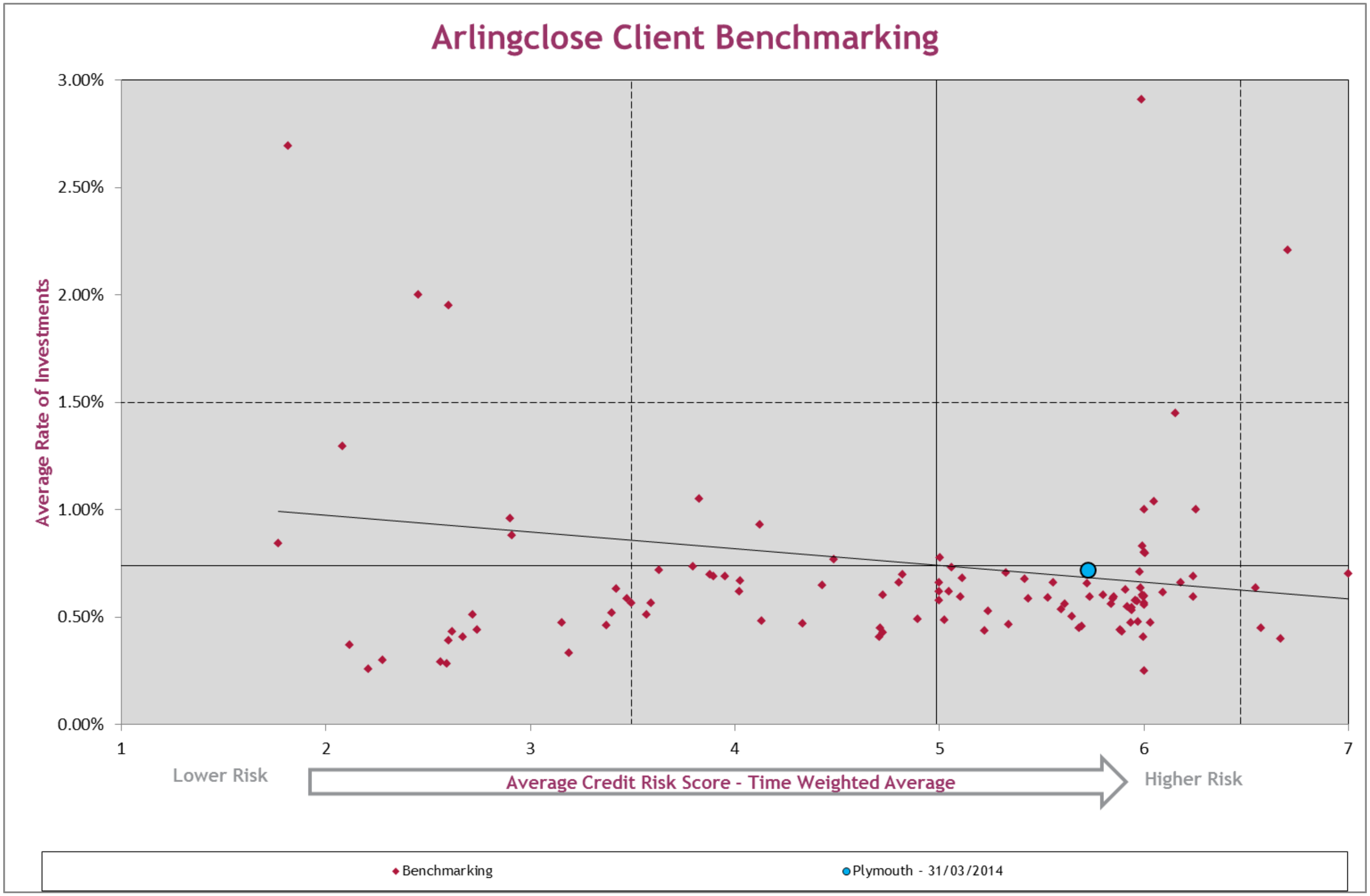
Appendix A Investment Benchmarking March 2014 – Average Rate of Return v Maturity



Appendix A Investment Benchmarking March 2014 – Average Rate of Return v Credit Risk



Appendix A Investment Benchmarking March 2014 – Average Rate of Return v Credit Risk Time Weighted



Prudential Indicator Compliance

1. Upper Limit for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2013/14 %	Maximum during 2013-14 %
Upper Limit for Fixed Interest Rate Exposure	200	193.11
Compliance with Limits:		Yes
Upper Limit for Variable Interest Rate Exposure	50	26.16
Compliance with Limits		Yes

2. Maturity Structure of Fixed Rate Borrowing

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

Maturity Structure of Fixed Rate borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing in 2013/14		Compliance with Set Limits?
			High %	Low %	
under 12 months	40	0	30.45	7.88	Yes
12 months and within 24 months	60	0	50.48	30.48	Yes
24 months and within 5 years	40	0	22.99	8.60	Yes
5 years and within 10 years	25	0	4.56	1.94	Yes
10 years and within 20 years	25	0	4.04	2.86	Yes
20 years and within 30 years	25	0	6.88	5.19	Yes
30 years and within 40 years	30	0	7.44	4.67	Yes
40 years and within 50 years	35	0	17.18	9.36	Yes
50 years and above	25	0	0		Yes

The maturity profile of fixed rate borrowing allows for the maturity of Lobo loans to the earliest date on which the lender can require payment, i.e. the next call date.

3. Actual External Debt

- This indicator is obtained directly from the Authority's balance sheet. It is the closing balance for actual gross borrowing (short and long-term) plus other deferred liabilities.

Actual External Debt as at 31/03/2014	£m
Borrowing	225.139
Other Long-term liabilities	40.266
Total	**265.405**

4. Capital Expenditure

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

Capital Expenditure	**2013/14 Approved £m**	**2013/14 Revised £m**	**2013/14 Actual £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Total	**68.922**	**57.576**	**47.217**	**79.266**	**48.575**

Capital expenditure has been and is forecast to be financed or funded as follows:

Capital Financing	**2013/14 Approved £m**	**2013/14 Revised £m**	**2013/14 Actuals £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Capital Receipts	6.454	2.806	**3.114**	10.957	8.861
Grants and Contributions	44.264	40.019	**35.130**	44.463	25.890
Section 106/Tariff	0.750	1.091	**0.539**	10.182	4.650
Revenue/Fund	2.936	3.416	**3.889**	2.500	0.750
Total Financing	**54.404**	**47.332**	**42.672**	**68.102**	**40.151**
Borrowing:					
Supported Borrowing					
Unsupported Borrowing	14.518	10.244	**4.545**	11.164	8.424
Total Funding	**14.518**	**10.244**	**4.545**	**11.164**	**8.424**
Total Financing and Funding	**68.922**	**57.576**	**47.217**	**79.266**	**48.575**

The table shows the capital expenditure plans of the Authority could not be funded entirely from sources other than external borrowing.

5. Ratio of Financing Costs to Net Revenue Stream

- This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Approved %	2013/14 Revised %	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %
	7.78	7.26	**7.17**	7.47	7.88

6. Incremental Impact of Capital Investment Decisions

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

Incremental Impact of Capital Investment Decisions	2013/14 Approved £m	2013/14 Revised £m	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m
Increase in Band D Council Tax	1.17	0.83	**0.17**	4.81	13.90

7. Upper Limit for Total Principal Sums Invested Over 364 Days

Upper Limit for total principal sums invested over 364 days	2013/14 Approved £m	2013/14 Revised £m	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m
	30	**30**	**12.5**	**40**	**40**

The Council's investment policy for 2013/14 was to keep deposit maturities to a maximum of 12 months. No deposits were made beyond 364 days. As stated in section 6.5 of this report a further £2.5m was invested in a Property fund, bringing the total investment to £7.5m, and £5m was invested in 5 externally managed funds. All these investments were viewed as long-term and will be held for periods beyond 364 days in order to diversify the Council's investment portfolio and achieve additional returns.