BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

THURSDAY 25 SEPTEMBER 2014

REPORT OF THE SECTION 151 OFFICER

ANNUAL TREASURY MANAGEMENT REPORT 2013-14

1. Purpose of the Report

1.1 The purpose of the report is to update Audit Committee on the outturn position for Treasury Management activities, Treasury Management and Prudential Indicators for 2013-14 and to highlight the compliance with the Council's policies and practices before they are reported to Cabinet and Council.

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

2.1 The work of the Audit Committee supports corporate governance and assists in the achievement of all corporate and service objectives. Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council make best use of financial resources and hence assist achievement of Corporate Priorities.

3. Background

3.1 Audit Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies as stated in the Treasury Management Strategy.

3.2 The Council's Treasury Management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, develops the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

3.3 The Council formally adopted the Code in April 2004 (and subsequently also adopted the changes to the Code in the 2011 revised edition) and works within the regulatory requirements which limit the level of risk associated with its treasury management activities. Its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management Strategy 2013-14 means that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

3.4 A primary requirement of the Code is the formulation and the agreement by the Council of a Treasury Management Policy Statement which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. Council approved the Treasury Management Strategy 2013-14 which contained the Treasury Management Policy Statement 2013-14 on 27 February 2013 prior to the start of the financial year. Treasury management in this context is defined as:
"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3.5 To ensure effective scrutiny of treasury management in accordance with the Treasury Management Strategy, Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. Audit Committee and the Cabinet Member Resources received training in March 2013 to assist them in their function of scrutinising treasury management, which included the Treasury Management Strategy 2013-14. During the 2013-14 financial year, in addition to the regular treasury management reports to Cabinet and Council, the Annual Treasury Management Report 2012-13 and the Treasury Management Strategy 2014-15 were presented to Audit Committee in November 2013 and January 2014 respectively.

4. Current Situation

4.1 The Council has complied with its legislative and regulatory requirements during 2013-14. The Treasury Management Strategy 2013-14 and the Half Yearly Outturn were reported to Council on 27 February 2013 and 13 November 2013 respectively and the Annual Report will be reported to Cabinet and Council in October 2014. In addition, quarterly monitoring reports were presented to Cabinet during 2013-14.

4.2 A detailed summary of the Treasury Management Activities for 2013-14 is shown in **Appendix A**. No long or short term borrowing was taken in 2013-14 and no debt rescheduling was undertaken as there were no significant savings to be made, however, the loan portfolio will be reviewed during 2014-15. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2014 was £10.50 million with an average rate of interest of 0.59%. This was a reduction from the start of the financial year where investments were £15.70 million but the actual average rate of interest has increased from a rate of 0.51%.

4.3 In 2013-14, the Council operated within the treasury limits and Treasury Management and Prudential Indicators as set out in the agreed Treasury Management Strategy 2013-14 and also complied with its Treasury Management Practices. Details of all these indicators are shown in the attached Appendix A in section 8.

4.4 The Co-operative Bank is currently the Council's bank following a competitive tender exercise in 2012. They are currently rated below the minimum credit rating identified in the Investment Strategy however a bank retendering exercise is currently being done with a view to starting contract implementation from 1 October 2014 with new banking services effective from 1 January 2015. The Council operates a pooling system on all accounts and the balance is kept as close to zero as possible and does not currently place any investments with them so this mitigates any potential risk associated with their drop in credit ratings.

Also, contingency arrangements were put in place in December 2013 with Barclays bank to ensure that the Council could continue making and receiving payments if the Co-Operative bank had ceased operations but the threat of this seems to have weakened. Also as a precautionary measure a "sweeping" process has been in operation since March 2014 in order to mitigate risk to ensure that no one account in the pool of accounts had a high value credit balance at close of business each Friday as a weekend is the most likely time for regulatory action to occur.

4.5 The Treasury Management function was reviewed by the Council's External Auditors, KPMG, during the 2013-14 annual audit. In addition to the External Audit work, Internal Audit undertook an audit of Treasury Management during 2013-14 and the audit identified "the response to the control risk self-assessment and follow up in selected areas demonstrated strengths and areas of good practice in all of the areas examined. The key positives noted included experienced staff, adherence to policies and procedures and an evidenced 'cautious' approach to treasury management. No areas of concern were identified during the current review". The audit opinion issued was one of 'substantial assurance' and of the areas selected for examination, no control weaknesses were identified therefore no recommendations were made.

4.6 The Council's Treasury Management Advisers are currently Arlingclose and the services provided to the Council include:-

- advice and guidance on relevant policies, strategies and reports,

- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

5. Effect upon Policy Framework & Procedure rules

5.1 As required by Financial Procedure Rule 17.3, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Strategy 2013-14 as approved by Council.

6. Equality Impact Assessment

6.1 There are no equality implications.

7. Financial Implications

7.1 The financial implications are reflected within the report.

8. Recommendation

8.1 It is recommended that Members:

- Note the Annual Treasury Management Activities for 2013-14

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5 September 2014

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Background documents:

Treasury Management Strategy 2013-14
Treasury Management Strategy 2014-15

SUMMARY OF TREASURY MANAGEMENT ACTIVITIES 2013-14

1. The treasury position for 2013-14:

		Principal as at 01-04-13 £m	Average Rate %	Principal as at 31-03-14 £m	Average Rate %
Fixed rate long term funding	PWLB*	77.65	4.70	77.63	4.70
	Market	-	-	-	-
Variable rate long term funding	PWLB*	-	-	-	-
	Market LOBO**	19.25	4.65	19.25	4.65
Total External Borrowing* **		**96.90**	**4.69**	**96.88**	**4.69**
Other Long Term Liabilities*** (including PFI)		21.30		21.60	
TOTAL GROSS DEBT		**118.20**		**118.48**	
Fixed rate investments		6.70	0.32	4.50	0.63
Variable rate investments		9.00	0.66	6.00	0.55
TOTAL INVESTMENTS** **		**15.70**	**0.51**	**10.50**	**0.59**
TOTAL NET DEBT		**102.50**		**107.98**	

* Public Works Loan Board (PWLB)

** Lender's Option Borrower's Option (LOBO)

*** Long term borrowing/liabilities include all instruments with an initial term of 365 days or more so includes the short term Liability relating to long term borrowing/liabilities included as "Current Liabilities" in the Council's balance sheet in the Statement of Accounts.

**** The investment totals include instant access deposit accounts which are included as "Cash" in the Council's balance sheet in the Statement of Accounts and also investments shown as "Cash Equivalents" in the Council's balance sheet that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. A breakdown of the movement during the year is shown in Section 5.

Fixed rate in the above table includes instruments which are due to mature in the year

It should be noted that the accounting practice required to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures shown in the above table and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or are stated at fair value in different instances.

The £19.25 million showing as maturing in 2054, relates to Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the next trigger date being January 2015) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty.

The long term liabilities figure of £21.60 million at 31 March 2014 includes £19.78 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg). Included in this figure is the short term liability of £0.68 million which is included as current financial liabilities in the Council's balance sheet in the Statement of Accounts.

2. Borrowing and Debt Strategy 2013-14

The interest rate views, incorporated in the Council's Treasury Management Strategy for 2013-14, were based upon officers' views supported by a selection of City forecasts provided by Arlingclose, our Treasury Management Advisers. This view was seeing the Bank Rate remaining at 0.50% for 2013-14 which it did and it was considered that it could be 2016 before official UK interest rates rise. The Council assumed long term borrowing rates of 5.00% in the Treasury Management Strategy for 2013-14.

The agreed strategy approved by Council based on the above forecast was that due to the growing uncertainty over interest rates, the risks associated with treasury activity were increased. As a result, the Council took a cautious approach to its treasury strategy and with short-term interest rates currently much lower than long term rates, it was decided that during 2013-14 it would be more cost effective in the short term to either borrow short term loans, variable rate loans or to not borrow and reduce the level of investments held.

The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board at long term fixed rates of interest.No long or short term borrowing was taken in 2013-14 or any loan rescheduling as in conjunction with Arlingclose the loan portfolio was reviewed for any potential savings and there were no significant savings to be made.

3. Investment Strategy & Outturn 2013-14

The purpose of the Annual Investment Strategy incorporated in the Council's Treasury Management Strategy 2013-14 is to set out the policies for giving priority to the security (protecting the capital sum from loss) and liquidity (keeping the money readily available for expenditure when needed) of the Council's investments. The Strategy deals with the credit ratings defined for each category of specified investments, the prudential use of non-specified investments and the liquidity of investments. The Council has regard to the Welsh Government's Guidance on Local Government Investments 2010 and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code") 2011 Edition.

The Council uses credit ratings published by Fitch Ratings Ltd, Standard & Poor's and Moody's Investors Service to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the selection of suitable counterparties includes other factors, for example whether the counterparty has any explicit or implicit government support. This has been endorsed by the revised edition of the CIPFA TM Code and the Welsh Government's Guidance on Local Authority Investments which states that authorities should not place an over-reliance on credit ratings. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

The Council's primary objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its surplus cash is therefore held as short term investments with the UK Local Authorities and highly rated banks and building societies. Other investments are also placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits. The interest rates offered by this facility are usually lower than some other counterparties but this is commensurate with the high level of security and reduced risk offered. It provides another option when examining potential investments and ensures compliance with the Council's investment objective that security takes priority over yield. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity.

On a day to day basis the Council potentially has surplus cash balances arising from the cash-flow e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in instant access business reserve accounts. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy. There were no long term investments (duration of 12 months or more) in 2013-14 as all the investments were short term and the table below details these investments by counterparty type:

Investment Counterparty Category	Balance 01-04-13 £m	Investments Raised £m	Investments Repaid £m	Balance 31-03-14 £m	Average Rate for Whole year 2013-14 %
UK Government (DMO)	0.50	163.15	163.15	**0.50**	**0.25**
UK Local Authorities	6.20	110.10	116.30	**0.00**	**0.30**
Building Societies Short Term	0.00	29.50	27.50	**2.00**	**0.43**
Banks Call Accounts (Instant Access)	9.00	65.56	68.56	**6.00**	**0.59**
Banks Short Term	0.00	17.50	15.50	**2.00**	**0.61**
Total	**15.70**	**385.81**	**391.01**	**10.50**	**0.43**

Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2014 was £10.50 million made up of £4 million short term investments and £6.50 million Cash and Cash Equivalents. The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating, (based on the lowest long term rating) maturity profile and counterparty type. Included in this figure is £0.60 million invested on behalf of Bridgend Football club to provide alternative facilities which is held in an Escrow account (money held in trust pending the fulfilment of conditions in a contract).

Counterparty Category	Credit Rating 31 March 2014	Instant Access Deposit Accounts £m	Deposits Maturing Within 1 Month £m	Deposits Maturing Within 6 Months £m	Total £m
Bank (Sweden) *	AA-	3.00	0.00	0.00	**3.00**
Banks (UK registered)	A	3.00	0.00	2.00	**5.00**
Building Societies	A	0.00	0.00	2.00	**2.00**
Central Govt (DMO)	AAA**	0.00	0.50	0.00	**0.50**
Total		**6.00**	**0.50**	**4.00**	**10.50**

* Bank incorporated in the European Economic Area(EEA) but entitled to accept deposits via a branch in the UK
** Assumed credit rating as DMO is an executive agency of UK Government

4. Reporting Arrangements 2013-14

CIPFA's Code of Practice for Treasury Management requires that the Council reports on its treasury management as an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close all to Full Council. The Council also produces quarterly monitoring reports that go to Cabinet as Information Reports. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's Treasury Management Strategy and CIPFA's Standard of Professional Practice on Treasury Management.

In addition to the Code of Practice, the Welsh Government has issued Guidance on Local Government Investments which require local authorities to report their Annual Investment Strategy.

To ensure effective scrutiny of treasury management in accordance with the Treasury Management Strategy, Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. Audit Committee and the Cabinet Member Resources received training in March 2013 to assist them in their function of scrutinising treasury management, which included the Treasury Management Strategy 2013-14. In addition to the regular treasury management reports to Cabinet and Council, the Annual Treasury Management Report 2012-13 and the

Treasury Management Strategy 2014-15 were presented to Audit Committee in November 2013 and January 2014 respectively.

5. Review of the Treasury Management Strategy 2013-14

Cipfa's Code of Practice for Treasury Management requires all local authorities to conduct a mid-year review of its treasury management policies, practices and activities. As a result of this review it was not deemed necessary to make any major changes to the main parts of the Treasury Management Strategy 2013-14, however, it was beneficial for the Council to make some minor revisions to the Investment Strategy included within this Statement. This was done to enable increased flexibility in an ever changing financial market and increase the investment opportunities available to the Council whilst still maintaining security. A minor revision was also made to the Treasury Management Roles of Officers within Financial Services and all these changes were approved by Council on 13 November 2013.

6. Treasury Risk Management

The Council's overall treasury risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice Treasury Management in the Public Services and the Welsh Government's Guidance on Local Government Investments. The Council formally adopted the Code in April 2004 (and the changes to the Code in the 2011 revised edition) and the regulatory requirements which limit the level of risk associated with its treasury management activities.

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing and Maturity risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

The Council's primary objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its surplus cash is therefore mainly placed for shorter periods in suitably rated financial institutions and government entities as detailed above in section 3. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity.

The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board at long term fixed rates of interest.

7. Performance Measurement

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators as opposed to the Treasury Management and Prudential Indicators (shown below in section 10) which are predominantly forward looking.
One debt performance indicator is where the average portfolio rate of interest is compared to an appropriate average available. The average long term borrowing rate for 2013-14 and at 31 March 2014 was 4.69% and at 31 March 2014, 80% of this was made up of Public Works Loan Board (PWLB) loans with an average rate of 4.70%. Comparable performance indicators are shown below:

Bridgend CBC Average Rate of PWLB Debt at 31-03-14	Welsh Unitary Local Authorities Average Rate for outstanding PWLB Debt at 31-03-14	All UK Authorities Average Rate for outstanding PWLB Debt at 31-03-14
4.70%	5.58%	4.53%
	-0.88%	**+0.17%**

The average rate on investments for 2013-14 was 0.43% and at 31 March 2014 was 0.59%. Comparable performance indicators for benchmarking purposes are the average 7 day, 1 month and 3 month LIBID (London Inter Bank Bid) rates and also the average Bank Rate. The tables below shows the investments average interest rate for 2013-14 and the actual rate as at 31 March 2014 against the four benchmarking rates:

Bridgend CBC Average Rate of Return on Investments 2013-14	Average 7 day LIBID (London Inter-Bank Bid rate) 2013-14	Average 1 month LIBID (London Inter-Bank Bid rate) 2013-14	Average 3 month LIBID (London Inter-Bank Bid rate) 2013-14	Average Bank Rate 2013-14
0.43%	0.41%	0.41%	0.45%	0.50%
	+0.02%	**+0.02%**	**-0.02%**	**-0.07%**

Bridgend CBC Average Rate of Return on Investments as at 31-03-14	7 day LIBID (London Inter-Bank Bid rate) as at 31-03-14	1 month LIBID (London Inter-Bank Bid rate) as at 31-03-14	3 month LIBID (London Inter-Bank Bid rate) as at 31-03-14	Bank Rate as at 31-03-14
0.59%	0.39%	0.42%	0.46%	0.50%
	+0.20%	**+0.17%**	**+0.13%**	**+0.09%**

8.0 Treasury Management & Prudential Indicators 2013-14

The Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management and Prudential Indicators. Details are shown below of the estimated indicators for 2013-14 as detailed in the Treasury Management Strategy (TMS) 2013-14 approved by Council 27 February 2013, the revised projection (where applicable) as set out in the Treasury Management Strategy 2014-15 approved by Council 19 February 2014, and the actual indicators for 2013-14.

During the financial year 2013-14, the Council operated within the treasury limits and prudential indicators set out in the Council's Treasury Management Strategy 2014-15.

8.1 Treasury Management Indicators 2013-14

The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks.

The Council needs to set the upper limits to its **Interest Rate Exposure** for the effects of changes in interest rates. There are two treasury management indicators that relate to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk and are shown in the table below.

The Section 151 Officer managed interest rate exposure between these limits during the year and as shown above the net borrowing position for fixed and variable rates was within the limits set.

No.		Treasury Management Strategy 2013-14 Upper £m	Actual Outstanding 31-03-14 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2014	108.88	**96.88**
	Total Projected Principal Outstanding on Investments 31 March 2014	12.00	**10.50**
	Net Principal Outstanding	**96.88**	**86.38**
1.	**Upper Limit on fixed interest rates (net principal) exposure**	131.00	
2.	**Upper Limit on variable interest rates Exposure (net principal) exposure**	45.00	
	Fixed interest rate Exposure (net principal) 31-03-14		**73.13**
	Variable interest rate Exposure (net principal) 31-03-14		**13.25**

A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk. The Code requires the maturity of LOBO loans to be shown as the earliest date on which the lender can require payment, i.e. the next call date of July 2014 and January 2015 (which is shown below), however it is not expected that the loans will repaid on that date.

No.	Maturity structure of fixed rate borrowing during 2013-14	Treasury Management Strategy 2013-14 Upper limit	Treasury Management Strategy 2013-14 Lower limit	Actual Outstanding 31-03-14
3.	Under 12 months	50%	0%	**20%**
	12 months and within 24 months	25%	0%	**0%**
	24 months and within 5 years	50%	0%	**0%**
	5 years and within 10 years	60%	0%	**0%**
	10 years and above	100%	40%	**80%**

The **Upper Limit for Total Principal Sums invested over 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		Treasury Management Strategy 2013-14 £m	Actual Principal Invested During 2013-14 £m
4.	**Upper Limit for Total Principal Sums Invested for more than 364 days**	15	**0**

The actual for all three treasury management indicators above are within the accepted range.

8.2 Prudential Indicators 2013-14

The Prudential Indicators are required to be set and approved by Council. Council is also required to formally adopt CIPFA's Treasury Management Code and the revised edition of the 2011 Code was adopted by Council on 22 February 2012.

Prudential Indicators for Prudence

The following Prudential Indicators are based on the Council's capital programme which is subject to change. The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure was funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence 2013-14	Estimate Treasury Management Strategy 2013-14 £'000	Revised Projection £'000	Actual 2013-14 £'000
1	**Estimates of Capital Expenditure** (Non-HRA)	39,183	42,462	**37,795**
	Total Capital Expenditure	**39,183**	**42,462**	**37,795**
	Financed by :-			
	Capital Grants and Contributions	14,681	14,935	**14,778**
	Capital Receipts	9,375	6,245	**2,453**
	Revenue	300	820	**1,271**
	Net Financing Need for Year	**14,827**	**20,462**	**19,293**

The capital expenditure figures have changed from the Treasury Policy Statement 2013-14 as the capital programme approved by Council on 27 February 2013 has been amended to incorporate slippage of schemes identified as part of the capital monitoring and a change in the profile of prudential borrowing.

The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council and is shown in the table below. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to finance capital expenditure and forms the basis of the charge to the General Fund under the Prudential Code system.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP).The actual MRP charge needs to be prudent - the Council deemed this to be set at 4% of the opening Capital Financing Requirement after adjustments for 2013-14. The MRP requirement for the PFI Scheme, Finance Leases, Innovation Centre and Halo Leisure Contract will be equivalent to the write down of the liability for the year and is met from existing budgets. In addition to this, for all unsupported borrowing exercised under the Prudential Code (used to fund the purchase of assets for directorates) the MRP policy is based on the Asset Life Method. The Voluntary Revenue Provision (VRP) will be at equal annual instalments over the life of the asset which is again met from existing revenue budgets. The first charge will be delayed until the asset is operational.

No.	Prudential indicators For Prudence	Est. Treasury Management Strategy 2013-14 £'000	Revised Projection TMS 2014-15 £'000	Actual 2013-14 £'000
2	**Capital Financing Requirement (CFR)**			
	Opening CFR (1 April 2013) excluding PFI	148,906	144,279	144,279
	Opening PFI CFR	20,217	20,218	20,218
	Opening Finance Lease CFR	95	95	95
	Opening Innovation Centre	845	845	845
	Opening HALO	-	144	144
	Total Opening CFR	**170,063**	**165,581**	**165,581**
	Movement in CFR excluding PFI & other liabilities	8,805	12,812	11,150
	Movement in PFI CFR	(442)	(442)	(442)
	Movement in Finance Lease CFR	(54)	(54)	(54)
	Movement in Innovation Centre CFR	(28)	(28)	(28)
	Movement in HALO CFR	-	1,123	826
	Total Movement in CFR	**8,281**	**13,411**	**11,452**
	Closing CFR (31 March 2013)	**178,344**	**178,992**	**177,033**
	Movement in CFR represented by :-			
	Net Financing Need for Year (above)	14,827	20,462	19,293
	Minimum and Voluntary Revenue Provisions	(6,546)	(7,051)	(7,841)
	Total Movement	**8,281**	**13,411**	**11,452**

Limits to Borrowing Activity

The Council's borrowing at the 31 March 2014 was £96.88 million as detailed above in section 1, the Treasury Position. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. Because the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.

The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown in the table below. The reason for the reduction from the estimated indicator is because there was no new borrowing taken during 2013-14.

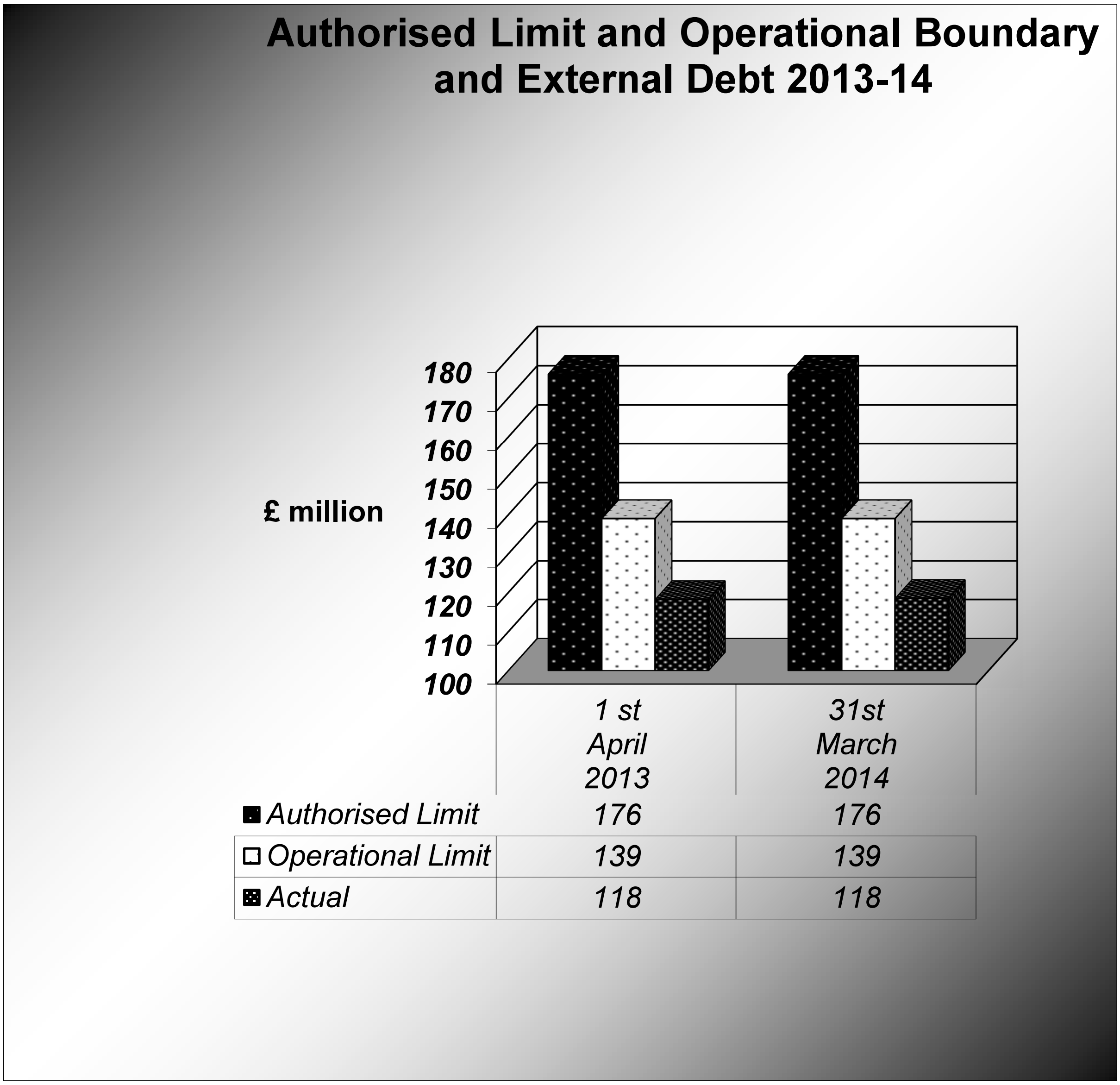
No.	Prudential indicators For Prudence Gross Debt 2013-14	Estimate Treasury Management Strategy 2013-14 £'000	Revised Projection (as per Treasury Management Strategy 2014-15) £'000	Actual 2013-14 £'000
3	External Borrowing	108,883	96,883	**96,883**
	Long Term Liabilities	20,633	21,900	**21,604**
	Total Gross Debt	**129,516**	**118,783**	**118,487**

Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, debt will only be for a capital purpose. The Council needs to ensure that the external debt does not, except in the short term, exceed the Capital Financing Requirement for 2013-14. The table below shows that the Council has complied with this requirement.

No.	Prudential indicators For Prudence 2013-14	Estimate Treasury Management Strategy 2013-14 £'000	Revised Projection (as per Treasury Management Strategy 2014-15) £'000	Actual 2013-14 £'000
4	**Gross Debt & the CFR**			
	Total Gross Debt	129,516	118,783	**118,487**
	Closing CFR (31st March)	**178,344**	**178,992**	**177,033**

A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure. **The Authorised Limit** for External Debt– this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members. **The Operational Boundary** for External Debt – this is not an actual limit and actual borrowing can vary around this boundary during the year. It is based on the probable external debt during the course of the year.

The chart below details the actual level of debt (borrowing and long term liabilities) at the 1 April 2013 and 31 March 2014 in comparison to the Authorised Limit and Operational Boundary for External Debt set when the Treasury Management Strategy 2013-14 was prepared. As shown the Council remained well within both limits.



Prudential Indicators for Affordability

The Prudential Code Indicators Numbered 1 to 6 above cover the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

The indicator **Ratio of Financing Costs to Net Revenue Stream** demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by the Assembly in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on Treasury Management activities and the Minimum Revenue Provision charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers.

No.	Prudential Indicators for Affordability 2013-14	Estimate Treasury Management Strategy 2013-14 %	Revised Projection Treasury Management Strategy 2014-15 %	Actual 2013-14 %
7.	**Ratio of Financing Costs to Net Revenue Stream**			
	Ratio	5.00	5.02	**5.39**

The indicator of the **Incremental Impact of Capital Investment Decisions on Council Tax** identifies the estimate of the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements that have occurred since the Capital Programme was approved for the year. This is a purely notional calculation designed to show the effect of changes in capital investment decisions.

No.	Incremental Impact of Capital Investment Decisions on Council Tax	Estimate Treasury Management Strategy 2013-14 £	Revised Projection Treasury Management Strategy 2014-15 £	Actual 2013-14 £
8.	**Increase in Band D Council Tax as per Capital Programme**	1.64	1.65	**1.61**