

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

24 SEPTEMBER 2015

REPORT OF THE SECTION 151 OFFICER

ANNUAL TREASURY MANAGEMENT REPORT 2014-15

1. Purpose of the Report

- 1.1 The purpose of the report is to update the Audit Committee on the outturn position for Treasury Management activities, Treasury Management and Prudential Indicators for 2014-15 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 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 received training in March 2015 to assist them in their function of scrutinising treasury management, with particular emphasis on investment options available to the Council. During the 2014-15 financial year, in addition to the regular treasury management reports to Cabinet and Council, the Annual Treasury Management Report 2013-14 was presented to Audit Committee in September 2014 and the Half Year Treasury Management Report 2014-15 and the Treasury Management Strategy 2015-16 were both presented to Audit Committee in January 2015.
- 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 is required to operate the overall treasury function with regard to the Code and this was formally adopted by the Council in February 2012. This includes a requirement for the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. Council approved the TMS 2014-15 on 19 February 2014.
- 3.4 The Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010, which requires the Council to approve an Investment Strategy prior to the start of each financial year and this is included in the TMS.

4. Current Situation

- 4.1 The Council has complied with its legislative and regulatory requirements during 2014-15. The Treasury Management Strategy 2014-15 and the Half Yearly Outturn were reported to Council on 19 February 2014 and 12 November 2014 respectively and the Annual Report will be reported to Cabinet in September 2015 and Council in October 2015. In addition, quarterly monitoring reports were presented to Cabinet during 2014-15.
- 4.2 A detailed summary of the Treasury Management Activities for 2014-15 is shown in **Appendix A**. No long or short term borrowing was taken in 2014-15 and no debt rescheduling was undertaken as there were no significant savings to be made, however, the loan portfolio will be reviewed during 2015-16. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2015 was £19.50 million with an average rate of interest of 0.51%. This was an increase from the start of the financial year where investments were £10.50 million but the actual average rate of interest has decreased from a rate of 0.59%. The first table in section 4 in **Appendix A** details the movement of the investments during 2014-15 by counterparty types and shows the average balances and rates for the year.
- 4.3 In 2014-15, the Council operated within the treasury limits and Treasury Management and Prudential Indicators as set out in the agreed Treasury Management Strategy 2014-15 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 (previously the Council's bankers) announced in November 2013 that they did not wish to support local government banking beyond 2015-16 so a bank retendering exercise was undertaken in 2014. The Co-Operative bank contract remained in force during 2014-15, however a new banking contract was awarded to Barclays Bank which commenced on 5 January 2015 so from January to March 2015 the two contracts were in force to aid the transition process to the new contract with Barclays. This process was successfully completed with no adverse impact and the Internal Audit report completed in 2015 for the banking contract identified that "the transition between banking providers was a seamless process" and the audit opinion issued was one of "substantial assurance".
- 4.5 The Treasury Management function was reviewed by the Council's External Auditors, KPMG, during the 2014-15 annual audit. In addition to the External Audit work, Internal Audit undertook an audit of Treasury Management during 2014-15 and the audit identified that "during the Audit strengths and areas of good practice were noted in all areas tested. Based on an assessment of the strengths and weakness of the areas examined, and through testing it has been concluded that the effectiveness of the internal control environment is considered to be sound". 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 2014-15 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 the Committee:

- Note the Annual Treasury Management Activities for 2014-15

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28 August 2015

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Background documents:

Treasury Management Strategy 2014-15
Treasury Management Strategy 2015-16

SUMMARY OF TREASURY MANAGEMENT ACTIVITIES 2014-15

1. The treasury position for 2014-15:

		Principal as at 01-04-14	Average Interest Rate	Principal as at 31-03-15	Average Interest Rate
		£m	%	£m	%
Fixed rate long term funding	PWLB*	77.63	4.70	77.62	4.70
	Market	-	-	-	-
Variable rate long term funding	PWLB*	-	-	-	-
	Market LOBO**	19.25	4.65	19.25	4.65
Total Long Term External Borrowing***		96.88	4.69	96.87	4.69
Other Long Term Liabilities*** (including PFI)		21.60		21.58	
TOTAL GROSS DEBT		118.48		118.45	
Fixed rate investments		4.50	0.63	18.00	0.51
Variable rate investments		6.00	0.55	1.50	0.50
TOTAL INVESTMENTS****		10.50	0.59	19.50	0.51
TOTAL NET DEBT		107.98		98.95	

* 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 trigger dates being July and January) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The current average interest rate for these LOBO's is 4.65% compared to the PWLB Loans average interest rate of 4.70%.

The long term liabilities figure of £21.58 million at 31 March 2015 includes £19.30 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg) which includes the short term PFI liability of £0.51 million which is included as current financial liabilities in the Council's balance sheet in the Statement of Accounts.

2. Treasury Risk Management

The Treasury Management Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks. The Council's overall treasury risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

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

- Credit risk (i.e. security) – 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;
- 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 so not all the options available to the Council were utilised during 2014-15. The majority of the Council's surplus funds during 2014-15 were

therefore kept in the form of short-term investments and were all placed with UK registered banks and building societies satisfying the appropriate credit criteria, UK local government and the UK Debt Management Office (DMO - executive agency of the UK government) and spread over a number of counterparties. This was deemed a much safer option even though it may be at the expense of extra basis points in interest and more detail is provided below in section 4.

The counterparty limits were constantly reviewed and where market conditions dictated, the limit was dropped below the limits detailed in the Investment Strategy. No breaches of the Council's counterparty criteria occurred during 2014-15 and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2015 that this was likely to crystallise. The second table below in section 4 summarises the credit risk exposures of the Council's investment portfolio by credit rating, based on the lowest long term rating.

3. Borrowing and Debt Strategy 2014-15

The interest rate views, incorporated in the Council's Treasury Management Strategy for 2014-15, 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 2014-15 and it was considered that it could be 2016 before official UK interest rates rise. The Bank Rate started the financial year at 0.50% and remained at that level during 2014-15.

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council took a cautious approach to its treasury strategy. With short-term interest rates currently much lower than long term rates, it is likely to be more cost effective in the short term to either borrow short term loans or use internal resources. Short term and variable rate loans expose the Council to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as shown in the treasury management indicators below in section 8. However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against the potential longer-term costs. The Council's Treasury Management advisers will assist the Council with this 'cost of carry' and breakeven analysis.

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 during 2014-15 and the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity so no rescheduling activity was undertaken as a consequence.

4. Investment Strategy & Outturn 2014-15

Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, balancing the risk of incurring losses from defaults against receiving unsuitably low investment income. The Annual Investment Strategy incorporated in the Council's Treasury Management Strategy 2014-15 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 uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd., Moody's Investors Service Inc. and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality unless an investment specific rating is available. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

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 was one £2 million long term bank deposit taken out during 2014-15 for one year, however, there are none outstanding at 31 March 2015 as this was transferred to short term in the Balance Sheet. No additional longer term investments were taken out during 2014-15 with any UK

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banks and building societies as our time limit durations were reduced following advice from Arlingclose but this will be reviewed in 2015-16.

The table below details these investments by counterparty type:

Investment Counterparty Category	Balance 01-04-14 (A) £m	Investments Raised (B) £m	Investments Repaid (C) £m	Balance 31-03-15 (A+B-C) £m	Average Balance 2014-15 £m	Average Interest Rate 2014-15 %
Government (DMO)	0.50	144.95	145.45	-	3.67	0.25
Local Authorities	-	132.90	123.90	9.00	13.24	0.34
Building Societies	2.00	18.00	15.00	5.00	4.62	0.59
Banks Call Accounts (Instant Access)*	6.00	69.35	73.85	1.50	5.36	0.49
Banks (fixed deposits)	2.00	9.00	7.00	4.00	4.85	0.74
Total	10.50	374.20	365.20	19.50	31.74	0.45

* All these banks are UK registered apart from Svenska Handelsbanken which is a Swedish bank incorporated in the EEA and entitled to accept deposits through a branch in the UK and are classed as a UK Bank in the Government's Borrowing Statistical Return

Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2015 was £19.50 million made up of £11 million short term investments and £8.50 million Cash and Cash Equivalents. The table below summarises the credit risk exposures of the Council's investment portfolio as at 31 March 2015 by credit rating, (based on the lowest long term rating) maturity profile and counterparty type:

Counterparty Category	Credit Rating 31 March 2015	Instant Access Deposit Accounts £m	Deposits Maturing Within 1 Month £m	Deposits Maturing Within 3 Months £m	Deposits Maturing Within 6 Months £m	Total £m
Banks (UK Registered)	A	1.50	2.00	-	2.00	5.50
Building Societies	A	-	-	2.00	-	2.00
Building Societies	A-	-	2.00	1.00	-	3.00
Unrated Local Authorities		-	7.00	2.00	-	9.00
Total		1.50	11.00	5.00	2.00	19.50

5. 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 8) which are predominantly forward looking. One debt performance indicator is where the average portfolio rate of interest is compared to an appropriate average available such as the average PWLB Debt for Welsh and UK Local Authorities.

The average long term borrowing rate for 2014-15 and at 31 March 2015 was 4.69% (the same rate as at 31 March 2014) and 80% of this was made up of Public Works Loan Board (PWLB) loans with an average rate of 4.70% (the same rate as at 31 March 2014). Comparable performance indicators are shown below:

Bridgend CBC Average Rate of PWLB Debt at 31-03-15	Welsh Unitary Local Authorities Average Rate for outstanding PWLB Debt at 31-03-15	All UK Authorities Average Rate for outstanding PWLB Debt at 31-03-15
4.70%	5.37%	4.45%
	-0.67%	+0.25%

The average rate on investments for 2014-15 was 0.45% and at 31 March 2015 was 0.51% (compared to 0.43% for 2013-14 and 0.59% at 31 March 2014). Comparable performance indicators for benchmarking purposes are the average 1 month LIBID (London Inter Bank Bid) rate and the average Bank Rate. The tables below shows the investments average interest rate for 2014-15 and the actual rate as at 31 March 2015 against the two benchmarking rates:

Bridgend CBC Average Rate of Return on Investments 2014-15	Average 1 month LIBID (London Inter-Bank Bid rate) 2014-15	Average Bank Rate 2014-15
0.45%	0.43%	0.50%
	+0.02%	-0.05%
Bridgend CBC Average Rate of Return on Investments as at 31-03-15	1 month LIBID (London Inter-Bank Bid rate) as at 31-03-15	Bank Rate as at 31-03-15
0.51%	0.43%	0.50%
	+0.08%	+0.01%

6. Review of the Treasury Management Strategy 2014-15

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 Changes to the main parts of the Treasury Management Strategy 2014-15, 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. The Council meeting of 12 November 2014 approved the revisions as a result of this half year review of the Treasury Management Strategy.

7. Reporting Arrangements 2014-15

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 as detailed in paragraph 3.1 of the main report.

8.0 Treasury Management & Prudential Indicators 2014-15

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 2014-15 as detailed in the Treasury Management Strategy (TMS) 2014-15 approved by Council 19 February 2014, the revised projection (where applicable) as set

out in the Treasury Management Strategy 2015-16 approved by Council 25 February 2015, and the actual indicators for 2014-15.

During the financial year 2014-15, 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 2014-15

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 below the net borrowing position for fixed and variable rates was within the limits set.

o.		Treasury Management Strategy 2014-15 Upper £m	Revised Projection TMS 2015-16 £m	Actual Outstanding 31-03-15 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2015	101.87	96.87	96.87
	Total Projected Principal Outstanding on Investments 31 March 2015	9.00	9.00	19.50
	Net Principal Outstanding	92.87	87.87	77.37
1.	Upper Limit on fixed interest rates (net principal) exposure	130.00	n/a	
2.	Upper Limit on variable interest rates Exposure (net principal) exposure	50.00	n/a	
	Fixed interest rate Exposure (net principal) 31-03-15			59.62
	Variable interest rate Exposure (net principal) 31-03-15			17.75

A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and is the amount of projected borrowing that is fixed

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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 19.87% in the table below relates to £19.25 million Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of their maturity date of 2054, as detailed in section 1 above. 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 after 31 March 2015 which is July 2015. The lender did not exercise their option in July and due to current low interest rates, the Council is not anticipating that this will occur during 2015-16 (the next date being January 2016) so the maturity date is actually uncertain but is shown in the "Under 12 months" category as per the Code.

No.	Maturity structure of fixed rate borrowing during 2014-15	Treasury Management Strategy 2014-15 Upper limit	Treasury Management Strategy 2014-15 Lower limit	Actual Outstanding 31-03-15
3.	Under 12 months	50%	0%	19.87%
	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%	5.76%
	10 years and above	100%	40%	74.37%

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 2014-15 £m	Actual Principal Invested During 2014-15 £m
4.	Upper Limit for Total Principal Sums Invested for more than 364 days	12
		2

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

8.2 Prudential Indicators 2014-15

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 2014-15	Estimate Treasury Management Strategy 2014-15 £'000	Revised Projection TMS 2015-16 £'000	Actual 2014-15 £'000
1	Estimates of Capital Expenditure (Non-HRA)	32,060	31,069	28,462
	Total Capital Expenditure	32,060	31,069	28,462
	Financed by :-			
	Capital Grants and Contributions	11,393	11,821	17,643
	Capital Receipts	12,005	9,962	2,019
	Revenue	0	910	1,803
	Net Financing Need for Year	8,662	8,376	6,997

The capital expenditure figures have changed from the Treasury Management Strategy 2014-15 as the capital programme approved by Council on 19 February 2014 has been amended to incorporate slippage of schemes 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 as detailed in the Council's MRP policy in the TMS 2014-15. The MRP requirement for the PFI Scheme, Finance

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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.

No.	Prudential indicators For Prudence	Est. Treasury Management Strategy 2014-15 £'000	Revised Projection TMS 2015-16 £'000	Actual 2014-15 £'000
2	Capital Financing Requirement (CFR)			
	Opening CFR (1 April 2013) excluding PFI	157,092	155,429	155,429
	Opening PFI CFR	19,776	19,776	19,776
	Opening Finance Lease CFR	41	41	41
	Opening Innovation Centre	816	816	816
	Opening HALO	1,267	971	971
	Total Opening CFR	178,992	177,033	177,033
	Movement in CFR excluding PFI & other liabilities	1,778	1,648	(449)
	Movement in PFI CFR	(476)	(476)	(476)
	Movement in Finance Lease CFR	(41)	(41)	(41)
	Movement in Innovation Centre CFR	(47)	(47)	(47)
	Movement in HALO CFR	(117)	180	(9)
	Total Movement in CFR	1,097	1,264	(1,022)
	Closing CFR (31 March 2013)	180,089	178,297	176,011
	Movement in CFR represented by :-			
	Net Financing Need for Year (above)	8,662	8,376	6,997
	Adjustment for Halo	-	296	-
	Minimum and Voluntary Revenue Provisions	(7,565)	(7,408)	(8019)
	Total Movement	1,097	1,264	(1,022)

*Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and includes MRP for the Public Finance Initiative (PFI), Finance Leases, Innovation Centre and HALO

Limits to Borrowing Activity

The Council's borrowing at the 31 March 2015 was £96.87 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 2014-15.

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No.	Prudential indicators For Prudence Gross Debt 2014-15	Estimate Treasury Management Strategy 2014-15 £'000	Revised Projection (as per Treasury Management Strategy 2015-16) £'000	Actual Outstanding 31-03-15 £'000
3	External Borrowing	101,867	96,867	96,867
	Long Term Liabilities	21,219	21,219	21,578
	Total Gross Debt	123,086	118,086	118,445

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 2014-15. The table below shows that the Council has complied with this requirement.

No.	Prudential indicators For Prudence 2014-15	Estimate Treasury Management Strategy 2014-15 £'000	Revised Projection (as per Treasury Management Strategy 2015-16) £'000	Actual Outstanding 31-03-15 £'000
4	Gross Debt & the CFR			
	Total Gross Debt	123,086	118,086	118,445
	Closing CFR (31 March)	180,089	178,297	176,011

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.

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These are detailed below and confirm that the Council is well within the limit set:

No.	Prudential indicators For Prudence	Treasury Management Strategy 2014-15 £m	Actual 31-03-15 £m
5	Authorised limit for external debt -		
	Borrowing	140	
	Other long term liabilities	30	
	Total	170	
6	Operational Boundary		
	Borrowing	115	
	Other long term liabilities	25	
	Total	140	
	Borrowing		96.87
	Other long term liabilities		21.58
	Total		118.45

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 WG 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.

APPENDIX A

No.	Prudential Indicators for Affordability 2014-15	Estimate Treasury Management Strategy 2014-15 %	Revised Projection Treasury Management Strategy 2015-16 %	Actual 2014-15 %
7.	Ratio of Financing Costs to Net Revenue Stream	5.34	5.00	5.91

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 2014-15 £	Revised Projection Treasury Management Strategy 2015-16 £	Actual 2014-15 £
8.	Increase in Band D Council Tax as per Capital Programme	3.28	3.28	2.77