Cambridge City Council **Item**

To:	The Leader and Executive Councillor for Strategy: Councillor Tim Bick
Report by:	David Horspool - Director of Resources
Relevant scrutiny committee:	Strategy & Resources Scrutiny Committee 14/10/2013
Wards affected:	All Wards

MID-YEAR FINANCIAL REVIEW - TREASURY MANAGEMENT STRATEGY REPORT 2013/14 TO 2016/17
Key Decision

1. Executive summary

1.1 The Council is required by regulations issued under the Local Government Act 2003, to produce an annual strategy treasury report reviewing treasury management activities.

1.2 This report complies with the CIPFA Code of Practice on Treasury Management (February 2011) and the CIPFA Prudential Code for Capital Finance in Local Authorities (May 2013 edition).

1.3 This report includes any changes to counterparty limits, the use of other financial instruments, capital activity and prudential & treasury indicators, since they were last reported within the Outturn Report for 2012/13, on 8 July 2013.

2. Recommendations

2.1 The Executive Councillor is asked to recommend to Council changes to counterparty limits as set out below (detailed in section 6 and Appendix A):

Increase current single counterparty limits from £10m to £15m;

Increase the counterparty group limit from £15m to £22.5m (1.5 times single counterparty limit);

Increase HSBC Deposit Account limit by £4m to £20m;

Apply a single counterparty Certificates of Deposit limit of £15m; and;

Apply a Money Market Fund limit of £15m per fund.

2.2 The Executive Councillor is also asked to recommend to Council changes to the estimated Prudential & Treasury Indicators for 2013/14 to 2016/17, inclusive, as set out in Appendix E.

3. Background

3.1 Treasury Management Activities

The Council is required to comply with CIPFA Prudential Code (May 2013 edition) and the CIPFA Treasury Management Code of Practice (Revised November 2011). The Council is required to set prudential and treasury indicators, including an authorised limit for borrowing, for a three-year period and should ensure that its capital plans are affordable, prudent and sustainable.

The Council is currently supported in its treasury management functions by specialist advisors who are Sector Treasury Services Ltd. Sector's services include the provision of advice to the Council on developments and best practice in this area and provide information on the creditworthiness of potential counterparties, deposit and borrowing interest rates and the economy.

3.2 Borrowing Policy

Borrowing Policy Statement

The Council is permitted to borrow under the Prudential Framework, introduced with effect from 1 April 2004.

The Council anticipates borrowing £2.804m within the General Fund and £11.619m for the HRA (both during 2014/15). This anticipated borrowing is for the Clay Farm Community Centre and the Affordable Housing Projects, respectively. These schemes are contained within the Council's capital programme. This borrowing requirement may be met through internal borrowing (for example utilising 'earmarked reserves' set aside for future use) rather than using external borrowing.

Minimum Revenue Provision Policy

This provision for the repayment of debt is known as the Minimum Revenue Provision (MRP). Regulations require the authority to determine annually a policy by which MRP will be determined. The

Council plans to borrow £2.804m during 2014/15 for the Clay Farm Community Centre, which is a General Fund capital scheme. The Council has determined that a prudent level of MRP, for this purpose, is £112,000 per annum from 2015/16. This MRP has been calculated using Method 3 (the Asset Life Method), as prescribed within these regulations. However, if the Council decides not to externally borrow, but instead borrows internally, this MRP will not be required.

MRP does not extend to housing assets. However, the Council anticipates borrowing £11.619m during 2014/15 for the HRA (the Affordable Housing Projects) and is required to charge depreciation instead (due to Housing Reform from April 2012) on its housing assets. This will have a revenue impact. Any adverse impacts will be addressed through regulations that will allow the Major Repairs Allowance (MRA) to be used as a proxy for depreciation, for the first five years.

3.3 The Council's Capital Expenditure and Financing 2013/14 to 2016/17

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the Council's borrowing need; or;

- If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.

Details on capital expenditure forms one of the required prudential indicators. The table below shows the proposed capital expenditure and how it was financed. It also includes any re-phasing during 2013/14 and conforms to the agreed Capital Plan.

	2013/14 Probable Outturn £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
General Fund Capital Expenditure	15,963	11,642	3,789	3,352
HRA Capital Expenditure	35,970	33,387	18,462	15,337

	2013/14 Probable Outturn £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Total Capital Expenditure	**51,933**	**45,029**	**22,251**	**18,689**
Resourced by:				
• Capital receipts	6,718	2,112	817	821
• Other contributions	45,215	28,494	21,434	17,868
Total available resources for financing capital expenditure	**51,933**	**30,606**	**22,251**	**18,689**
Un-financed capital expenditure	**0**	**14,423***	**0**	**0**

* £2.804m (Clay Farm Community Centre) & £11.619m (Affordable Housing Projects)

3.4 **The Council's overall borrowing need**

The Council's Authorised Borrowing Limit is set at £250m, with a HRA 'cap' of £230.839m. This leaves a 'headroom' figure of £17.267m (£230.839m less current HRA debt of £213.572m) for prudential borrowing on the HRA and £19.161m on the General Fund, if needed.

4. The PWLB Certainty Rate

The Government's 2012 Budget announced that the Government would introduce from 2012/13, inclusive, a 0.20% discount on loans from the PWLB under the prudential borrowing regime for those local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans.

Eligibility to this discount rate was available to English, Scottish and Welsh local authorities operating the CIPFA Prudential Code (such as this Authority) and the discount rate would be available from 1 November 2012 until 31 October 2014 on 'new' borrowing.

Further to this Council's application, the Department for Communities and Local Government (DCLG) has approved our eligibility, and therefore we can use the preferential PWLB interest rate during the dates as highlighted, above.

5. Changes to the Council's Prudential and Treasury Management Indicators

The Council's Prudential and Treasury Management Indicators, are as follows:-

Capital Financing Requirement & Cumulative External Borrowing Requirement	**2013/14 Probable Outturn £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
General Fund Capital Financing Requirement	858	3,662	3,550	3,438
HRA Capital Financing Requirement	214,748	226,367	226,367	226,367
Total Capital Financing Requirement	**215,606**	**230,029**	**229,917**	**229,805**
Estimated Deposits	(76,206)	(72,687)	(76,896)	(80,786)
Cumulative Net External Borrowing Requirement	**139,400**	**157,342**	**153,021**	**149,019**
Movement in the Capital Financing Requirement	0	14,423*	(112)**	(112)**
Estimated External Gross Debt/Borrowing (Including HRA Reform)	213,572	227,995	227,995	227,995
Authorised Limit for External Debt	250,000	250,000	250,000	250,000
Operational Boundary for External Debt	215,606	230,029	229,917	229,805

* £2.804m (Clay Farm Community Centre) & £11.619m (Affordable Housing Project)

** General Fund MRP

6. Future Treasury Management Plans

6.1 Introduction

The Council takes a relatively cautious approach (when it deposits funds) within its Treasury Management Strategy. The current strategy has limited the available counterparties at the Council's disposal. Therefore, there are limited options available to the Council, of where to deposit its funds, at reasonable rates of interest (the interest earned on deposits contributes to providing essential Council services).

Furthermore, Mark Carney (the Governor of the Bank of England), as Chair of the Monetary Policy Committee of the Bank of England, has given a firm commitment that interest rates would not rise for 3 years until September 2016, at the earliest. This, however, is subject to unemployment rates remaining above 7%, nationally.

6.2 Predicted Interest Receipt Reductions

Continued low interest rates have resulted in pressure on the Council achieving the budgeted levels of interest receipts. The table below gives a prediction of the effect of low interest rates upon the Council.

	2013/14 £'000	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**
Budget Interest Rate Assumption (Feb 2013 BSR)	0.82%	0.82%	1.00%	1.00%
Net Budget (Feb 2013 BSR)	(705)	(858)	(881)	(881)
Latest Projection	(568)	(595)	(955)	(970)
Based on Current Average Interest Rates Achieved	0.64%	0.64%	1.25%	1.25%
Predicted Interest Receipt Reduction/ (Increase)	137	263	(74)	(89)

The predicted under-achievement during 2013/14 has been caused by a reduction in interest rates generally. This has affected the Council's average yield during the year, which is currently around 0.64% - compared with the BSR assumption of 0.82% for the same period.

The revised projections for interest receipts has been built into the review completed as part of the Mid-Year Financial Review (MFR), which was reported to the Strategy & Resources meeting on 30 September 2013.

This report gives consideration to the potential for increasing interest rate returns through increasing current counterparty limits, using other financial instruments available to the Council or a combination of the two. In identifying potential changes the implications in terms of any additional risk this would represent is also considered to provide a balanced evaluation.

Increasing counterparty limits and / or the use of other financial instruments would not be a departure from the Council's overall attitude to risk; as demonstrated in the evaluations below.

6.3 Increasing Counterparty Limits

The following table provides comparative estimated outturn rates for current deposit types:-

Treasury Interest % Rates - Estimates for 2013/14	
Deposit Type	**Estimated % Return for Year**
Debt Management Account Deposit Facility	0.25%
HSBC Deposit A/c	0.30%
Deposits with Local/Fire/Police Authorities	0.30%
Deposits with UK Banks & Building Societies	0.75%

Whilst placements with UK Banks and Building Societies offer the best estimated returns, the limited number of counterparties in this category means that money has to be placed with other categories throughout the year as well.

The Council could consider adding additional counterparties within this category, but this would require a change to the level of credit rating that was deemed acceptable. An alternative approach would be to increase the maximum level of funds that the Council could place with individual counterparties, or groups. Whilst the former would constitute a material increase in the level of associated risk, at this time, it is felt that the latter approach would involve a limited increase in risk.

The overall impact of increasing the individual counterparty limit from £10m to £15m is difficult to determine with absolute accuracy, mainly because of the current volatility of the mid to long-term interest rates offered by the UK Banks & Building Societies. These rates have reduced significantly in the past few months across all deposit periods, and it is anticipated that there will be further pressure on them in the coming months.

It should be noted that these rate reductions are not being influenced by any change in the bank base rate (as this has remained static for a number of years), but are primarily due to the increased alternative funding that has been made available to the UK Banks by Central Government, thus reducing the need for the UK Banks to borrow from local authorities.

6.4 **Other Financial Instruments**

There are a range of other financial instruments available to the Council, but it is felt that, at this time, consideration should be given to use of Certificates of Deposit (CDs) - together with an evaluation of Custodian of Funds (as these are required when undertaking CDs) - and Money Market Funds (MMF).

Custodian of Funds

The Council's Treasury Advisor's (Sector) have recommended Custodian Fund Managers which could be used. A fee is normally charged for this service (typically a one-off payment of c £10k). However, through negotiation, at least one firm have indicated that this would be waived. Customers can purchase gilts, treasury bills and certificates of deposit from them, and obtain a better interest return, whilst not compromising the risk of using these financial products. This Council would only deal with Custodian's that are AAA rated, in line with its existing policies.

Certificates of Deposit (CDs)

These are certificates issued by a bank to raise funds, and are basically evidence of a deposit with a specified bank of building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before its maturity date. They offer a higher rate of return at relatively low risk, particularly if deposits are longer term.

Money Market Funds (MMF)

These are funds managed by Fund Managers for a range of counterparties, which serve to spread the risk for any single investor. The resources available to the MMF are pooled (thus increasing cash available for investing), which offers the opportunity to obtain a higher rate of interest return than other deposits. The Council would only deposit in MMFs that are rated AAA.

Sector, the Council's Treasury Advisor, recommends the following MMFs:-

- Churches, Charities and Local Authorities MMF (CCLA), (current rates being 0.34%);

- JP Morgan (current rates being 0.46%);

- Morgan Stanley MMF (current rates being 0.43%);

- Sungard Portal.

The average yield available on Money Market Funds (MMFs) is lower than that expected from deposits with banks (whether by cash or Certificate of Deposit), therefore it is likely that funds would only be deposited with MMFs if the Council's limits have been reached with these banks.

If MMFs are unavailable for placement of funds then the likely alternative would be to deposit with a Local Authority (LA). The average yield from an MMF is 0.38% compared to 0.30% for LAs. Every £1m deposited with an MMF instead of an LA would yield an additional £800 per annum. Therefore a £15m limit would generate an additional £12,000 p.a. when compared to LA deposits.

6.5 Financial Implications

Evaluation of the financial implications of using either / both of these additional options is shown in Appendix A (together with sensitivity analysis), and summarised below:

Treasury Interest Receipts – Indicative Returns for a full-year	**Counterparty Limit**	**Inclusive Range of Interest Rates**	**Average Interest Rate**	**Projected Interest Receipts**
Feb 2013 BSR			0.82%	£705,000
Oct 2013 MFR	Remains at £10m	0.30% - 1.10%	0.64%	£568,000
Option 1 (Extend counterparty limits	Increase to £15m	0.30% - 1.10%	0.97%	£738,000
Option 2 (extend counterparty limits and include other financial instruments)	Increase to £15m	0.30% - 1.40%	0.98%	£747,800

The potential to increase the returns from the Council's investments would therefore be (assuming an implementation date of 1 November 2013):

	2013/14 £'000	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**
Effect of changing current limits	(71)	(170)	(170)	(170)
Effect of changing limits and instruments	(75)	(180)	(180)	(180)

This would serve to contribute towards meeting the Net Savings Requirements for 2014/15 identified in the October 2013 MFR.

It should also be noted that increasing the limits as recommended, would give the Council greater scope to invest its funds if these were to be in excess of its current predicted cash balances of £76m.

The option of increasing the counterparty limits further to £20m has been discounted at this stage, as this would represent around 26% of the total deposit portfolio. This level has therefore been assessed to present the Council with a materially higher counterparty risk scenario.

Details of the Council's recommended updated counterparty list are shown at Appendix B.

As a result of the evaluation undertaken, it is recommended that the Council:

1. ***Increase the limit for the HSBC Deposit Account from £16m to £20m;***
2. ***Increase the single counterparty limit from £10m to £15m;***
3. ***Increase the counterparty group limit from £15m to £22.5m;***
4. ***Apply a single counterparty Certificates of Deposit limit of £15m (this to include the Custodian of Funds); and;***
5. ***Apply a Money Market Fund limit of £15m in total per fund, based on those approved by Sector.***

7. Deposits

The Council's balances, both earmarked and un-earmarked, have generally increased during the last year mainly as a result of the new HRA Self-Financing scheme. One of the features of this change is that the HRA will be building-up funding to repay the borrowing that it undertook at the start of the new system.

It is anticipated, however, that reserves, such as the Asset Renewals Fund, will be utilised to fund the Council's strategic plans.

The latest analysis of the sources of the Council's deposits is shown at Appendix C.

8. Interest Rates and Treasury Limits

8.1 Interest Rate Update provided by Sector

Sector Treasury Services Ltd is the Council's independent treasury advisor. In support of effective forecasting the Council needs to be aware of the potential influence of interest rates on treasury management issues for the Council. Sector's opinion on interest rates is presented at Appendix D, as currently predicted.

8.2 **Compliance with Treasury Limits**

During this financial year the Council has operated within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the Council's Treasury Management Strategy Statement. The anticipated prudential & treasury indicators are shown in Appendix E.

9. Implications

(a) **Financial Implications**
Contained in the paragraphs above.

(b) **Staffing Implications**
None.

(c) **Equal Opportunities Implications**
No negative impacts identified.

(d) **Environmental Implications**
None.

(e) **Procurement**
None.

(f) **Consultation and communication**
None required.

(g) **Community Safety**
No community safety implications.

10. Background Papers

10.1 None were used in preparing this report.

11. Appendices

11.1 Appendix A – Sensitivity Analysis of Options 1 & 2
Appendix B – The Council's proposed Counterparty list
Appendix C – Sources of the Council's Deposits
Appendix D – Sector's opinion on UK Forecast Interest Rates
Appendix E – Prudential and Treasury Management Indicators
Appendix F – Glossary of Terms and Abbreviations

12. Inspection of Papers

12.1 If you have any queries about this report please contact:

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Appendix A

Financial Implications of Changes to Investment Strategy for MFR 2013 (Sensitivity Analysis)

	Current Average Rates (allowing for current varying maturity dates)	
UK Debt Management Office Rate	0.25%	
HSBC Deposit Account Rate	0.30%	
Money Market Funds	0.38%	
Certificates of Deposit	0.56%	
Average Deposits with Local Authorities	0.30%	
Average Deposit with UK Banks & Other Building Societies	1.10%	
Nationwide Building Society	0.50%	
Difference between Current Interest Rate and Budget Assumption Rate	-0.18%	The BSR assumed that the average investment rate would be 0.82%, the Oct 2013 MFR revised this projection to average rates currently @ 0.64%

Counterparty Limits	Current Limit	Notes
	£	
Local Authorities	10,000,000	
Nationwide Building Society	10,000,000	
Barclays	10,000,000	
HSBC*	16,000,000	
Money Market Funds	0	
Certificates of Deposit	0	
Lloyds TSB Group	15,000,000	
Royal Bank of Scotland Group	15,000,000	
Current Deposits Assumed in Budget 2013/14	**76,000,000**	
Estimated Annual Reduction in Deposit Income (in Oct 2013 MFR)	**-137,000**	
Original Interest Budget 2013/14	**705,000**	Includes Icelandic Impaired Investments
Revised Interest Budget (Full-Year)	**568,000**	
Variance (caused by reduced interest rates)	**-137,000**	
* Deposits with HSBC all assumed to be with Deposit Account		

Example showing estimated yields using current counterparty limits

	Current Counterparty Limits	Current Interest Rates	Interest Yield (Using Current Interest Rates)
	£		**£**
Local Authorities	10,000,000	0.30%	**30,000**
Nationwide	10,000,000	0.50%	**50,000**
Barclays	10,000,000	1.10%	**110,000**
HSBC	16,000,000	0.30%	**48,000**
Lloyds TSB Group	15,000,000	1.10%	**165,000**
Royal Bank of Scotland Group	15,000,000	1.10%	**165,000**
Current Deposits Assumed in Budget	**76,000,000**		**568,000**
Estimated Income 2013/14	**568,000**		

OPTION 1:

Amended Investment Strategy (Excluding Certificates of Deposit & Money Market Funds)

	Estimated Counterparty Balances	**Current Interest Rates**	**Interest Yield**
	£		**£**
Local Authorities*	0	0.30%	**0**
Nationwide	15,000,000	0.50%	**75,000**
Barclays	15,000,000	1.10%	**165,000**
HSBC*	1,000,000	0.30%	**3,000**
Money Market Funds	0	0.38%	**0**
Certificates of Deposit	0	0.56%	**0**
Lloyds TSB Group	22,500,000	1.10%	**247,500**
Royal Bank of Scotland Group	22,500,000	1.10%	**247,500**
Current Deposits Assumed in Budget	**76,000,000**		**738,000**
Indicative Annual Income using proposed limits:-	**738,000**	**Indicative Additional Income for Option 1 (Est. less Indic.):-**	**170,000**
*Estimated Annual Balance			**FULL-YEAR EFFECT**

OPTION 2:

Amended Investment Strategy (Including Certificates of Deposit & Money Market Funds)

	Estimated Counterparty Balances	Current Interest Rates	Interest Yield
	£		£
Local Authorities*	0	0.30%	**0**
Nationwide*	0	0.50%	**0**
Barclays	15,000,000	1.10%	**165,000**
HSBC*	0	0.30%	**0**
Money Market Funds*	1,000,000	0.38%	**3,800**
Certificates of Deposit	15,000,000	0.56%	**84,000**
Lloyds TSB Group	22,500,000	1.10%	**247,500**
RBS Group	22,500,000	1.10%	**247,500**
Current Deposits Assumed in Budget	**76,000,000**		**747,800**
Indicative Annual Income using proposed limits	**747,800**	**Variance (Est. less Indic.)**	**179,800**
*Estimated Annual Balance			**FULL-YEAR EFFECT**

Appendix B

Treasury Management Annual Investment Strategy

Current Counterparty List (Recommendations shown in bold)

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. The changes recommended are shown in bold.

Name	Council's Current Deposit Period	Category	Limit
All UK Local Authorities	N/A	Local Authority	**£15m**
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	**£15m**
All UK Police Authorities	N/A	Police Authority	**£15m**
All UK Fire Authorities	N/A	Fire Authority	**£15m**
All UK Nationalised Industries	N/A	Nationalised Industry	**£15m**
Debt Management Account Deposit Facility	N/A	DMADF	None
Barclays Bank Plc	100 days	UK Bank	**£15m**
HSBC Bank Plc	1 year	UK Bank	**£20m**
Standard Chartered Bank	1 year	UK Bank	**£15m**
Bank of Scotland Plc	1 Year	UK Nationalised Bank	**£15m**
Lloyds TSB Bank Plc	1 Year	UK Nationalised Bank	**£15m**
National Westminster Bank Plc	1 Year	UK Nationalised Bank	**£15m**
The Royal Bank of Scotland Plc	1 Year	UK Nationalised Bank	**£15m**

Name	Council's Current Deposit Period	Category	Limit
Ulster Bank Ltd	1 Year	UK Nationalised Bank	**£15m**
Members of a Bank Group	1 Year	UK Nationalised Bank	**£22.5m**
Nationwide Building Society	100 days	UK Building Society	**£15m**
Money Market Funds – AAA mmf	**Liquid Rolling Balance**	**Financial Instrument**	**£15m (in total, per fund)**
Certificate of Deposits (CDs) – AAA	**Liquid Rolling Balance**	**Financial Instrument**	**£15m (per single counterparty)**
Custodian of Funds - AAA	**Requirement for Undertaking CDs**	**Fund Managers**	**£15m (per single counterparty)**

Sources of the Council's Deposits.

Local authorities are free to deposit surplus funds not immediately required in order to meet the costs of providing its services. The Council deposits amounts set aside in its general reserves and earmarked reserves, for example the funds set aside for major repairs to and the replacement of its property, vehicles and equipment.

The interest earned on these deposits is credited to the General Fund and Housing Revenue Account respectively and helps to fund the cost of providing services. This currently amounts to around £0.7m each year based on current deposit and interest rate levels.

At 1 April 2013, the Council had deposits of £68.562m. The table below provides a sources breakdown of the funds deposited at that date:-

Funds Deposited as at 1 April 2013	**£'000**	**£'000**
Working capital		10,411
General Fund:		
General Reserve	7,995	
Asset Renewal Reserves	14,153	
Other Earmarked Reserves	6,203	28,351
Housing Revenue Account (HRA):		
General Reserve	5,495	
Asset Renewal Reserves	2,149	
Major Repairs Reserve	5,112	
Other Earmarked Reserves	1,715	
Capital Financing Requirement (Including HRA Reform)	(215,606)	
PWLB Borrowing for HRA Reform	213,572	12,437
Capital:		
Capital Contributions Unapplied	4,154	
Usable Capital Receipts	13,209	17,363
Total Deposited		**68,562**

Appendix D

Sector's Opinion on Forecast UK Interest Rates – As Currently Predicted

Introduction

The paragraphs that follow reflect the views of the Council's Treasury Management advisors (Sector) on UK Interest Rates as currently predicted.

Interest rates

Members of the Bank of England Monetary Policy Committee (MPC) kept the bank rate at 0.5% and Quantitative Easing (QE) at £375bn during 2013/14 to the majority of 2015/16. Going-forward, the Council's treasury advisor, Sector, provides the following interest rate forecasts:

	Now	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Mar-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%
3 month LIBID	0.39%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.60%	0.80%	1.00%
6 month LIBID	0.47%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.90%	1.10%	1.30%
12 month LIBID	0.74%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	1.20%	1.60%	1.80%	2.00%
5yr PWLB rate	2.20%	2.20%	2.20%	2.20%	2.20%	2.30%	2.40%	2.90%	3.20%	3.30%	3.40%
10yr PWLB rate	3.40%	3.30%	3.30%	3.30%	3.30%	3.40%	3.50%	4.10%	4.30%	4.40%	4.50%
25yr PWLB rate	4.30%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	5.00%	5.10%	5.10%	5.20%
50yr PWLB rate	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	5.10%	5.20%	5.20%	5.30%

Sector's interest forecast is for the first increase in the bank rate to be in December 2016. With low growth predictions for the U.K, and financial markets views of un-resolved Eurozone sovereign debt crises, we are likely to continue to experience high levels of volatility during 2013/14 to 2016/17, inclusive.

Appendix E

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Probable 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000
PRUDENTIAL INDICATORS				
Capital expenditure				
- General Fund	15,963	11,642	3,789	3,352
- HRA	35,970	33,387	18,462	15,337
Total	**51,933**	**45,029**	**22,251**	**18,689**
Incremental impact of capital deposit decisions on:				
Band D Council Tax (City element)	0.00	0.00	0.00	0.00
Average weekly housing rent	0.00	0.00	0.00	0.00
Capital Financing Requirement (CFR) as at 31 March				
- General Fund	858	3,662	3,550	3,438
- HRA	214,748	226,367	226,367	226,367
Total	**215,606**	**230,029**	**229,917**	**229,805**
Deposits at 31 March	(76,206)	(72,687)	(76,896)	(80,786)
Net borrowing Requirement	**139,400**	**157,342**	**153,021**	**149,019**
Change in the CFR	0	14,423	(112)	(112)
External Gross Debt	213,572	227,995	227,995	227,995
Ratio of financing costs to net revenue stream				
-General Fund	(3.19%)	(3.27%)	(5.25%)	(5.29%)
-HRA	19.69%	20.44%	19.18%	18.16%
Total	**16.50%**	**17.17%**	**13.93%**	**12.87%**

PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Probable 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000
TREASURY INDICATORS				
Authorised limit				
for borrowing	250,000	250,000	250,000	250,000
for other long term liabilities	0	0	0	0
Total	**250,000**	**250,000**	**250,000**	**250,000**
HRA Debt Limit	230,839	230,839	230,839	230,839
Operational boundary				
for borrowing	215,606	230,029	229,917	229,805
for other long term liabilities	0	0	0	0
Total	**215,606**	**230,029**	**229,917**	**229,805**
Upper limit for total principal sums deposited for over 364 days	5,000	5,000	5,000	5,000
Upper limit for fixed & variable interest rate exposure				
Net interest on fixed rate borrowing/deposits	6,942	7,384	7,347	7,273
Net interest on variable rate borrowing/deposits	(23)	(23)	(23)	(23)
Maturity structure of new fixed rate borrowing during 2012/13		Upper Limit	Lower Limit	
10 years and above (PWLB borrowing for HRA Reform)		100%	100%	

Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
CIPFA	Chartered Institute of Public Finance and Accountancy
Counter-parties	Financial Institutions with which funds may be placed
Counterparty Risk	Risk of default by either counterparty
DCLG	Department for Communities & Local Government
Eurocurrency	Currency deposited by the national government or corporations in banks outside their 'home' market. This applies to any currency and to banks in any country
General Fund	A revenue reserve used to fund day to day Council expenditure which is outside of the HRA
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Inter-bank Bid Rate (LIBID)	The average estimated interest rate leading banks in London are willing to pay for eurocurrency deposits
London Inter-bank Offered Rate (LIBOR)	The average interest rate estimated by leading banks in London would be charged if borrowing from other banks
Liquidity	A measure of how readily available an investment is

Term	Definition
MCP	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Major Repairs Allowance (MRA)	A provision set aside to pay for HRA repairs and maintenance
MRP	Minimum Revenue Provision – An amount set aside to repay debt
Net Borrowing Requirement	External borrowing less deposits
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Security	A measure of the creditworthiness of a counter-party
Yield	Interest, or rate of return, on an investment