Appendix A - Borrowing and Investment Activities

The Borrowing Requirement and Debt Management

The Council's capital expenditure is financed by external funding, revenue contributions or capital receipts. The Council is allowed to borrow to fund any shortfall in financing, provided the level of borrowing is prudent and sustainable. The Council increases its borrowing requirement when incurring any capital expenditure which is not financed by grants, contributions, capital receipts or revenue contributions. In addition to paying interest on debt, local authorities are required to set cash aside annually to repay the principal General Fund debt balance by means of a Minimum Revenue Provision (MRP). The borrowing requirement is reduced by the amount of any in year MRP

Borrowing Activity in 2012/13

	Balance on 01/04/2012 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2013 £m
CFR	374.6				399.4
Short Term Borrowing[1]	5.0	5.0	0	0	**7.6**
Long Term Borrowing	315.6	0	0	0	**308.0**
TOTAL BORROWING	320.6	0	0	0	**315.6**
Other Long Term Liabilities	18.4	0.9	0	0	**17.5**
TOTAL EXTERNAL DEBT	339.0	5.9	0	0	**333.1**

The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31/3/2013 was estimated at £399.4m.

The Council did not fund any of its capital expenditure through new borrowing in 2012/13. All borrowing requirements were meet by internal resources. The PWLB remained the Council's preferred source of borrowing given the transparency and control that its facilities continue to provide. The Council has access to borrowing at the PWLB Certainty rate which was introduced by the PWLB in November 2012, allowing the authority to borrow at a reduction of 20bps on the Standard Rate.

Internal Borrowing

Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio. The differential between the cost of new longer-term debt and the return generated on the Council's temporary investment returns was significant between 2% - 3%. The use of internal resources in lieu of borrowing was judged to be the most cost effective means of

[1] Loans with maturities less than 1 year.

funding capital expenditure. This has, for the time being, lowered overall treasury risk by reducing both external debt and temporary investments. Whilst this position is expected to continue in 2013/14, it will not be sustainable over the medium term. It is estimated that there will be a need to borrow for capital purposes during 2014/15

Lender's Option Borrower's Option Loans (LOBOs)

The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date. This change is reflected in Appendix B, paragraph (c). LOBO loans with a principal of £13.5m are included in the £17.9m value of loans disclosed as reaching maturity in less than 12 months.

Debt Rescheduling / Restructuring

No debt rescheduling or restructuring was undertaken in 2012/13.

Investment Activity

CLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

Investment Activity in 2012/13

Investments	Balance on 01/04/2012 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2013 £m
Short Term Investments*	47.0	563.2	573.5	36.7
Long Term Investments	0	0	0	0
Investments in Pooled Funds	4.7	0		4.7
TOTAL INVESTMENTS	51.7	563.2	573.5	41.4

*includes liquidity account and cash equivalent.

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13. Investments during the year included:

- Investments in AAA-rated Constant & Variable Net Asset Value Money Market Funds
- Call accounts and deposits with Banks and Building Societies systemically important to the UK's banking system.

Credit Risk

Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2012/13 treasury strategy was A-/A-/A3 across rating agencies Fitch, S&P and Moody's.

In June Moody's downgraded a number of banks with global capital market operations, including the UK banks on the Council's lending list - Barclays, HSBC, Royal Bank of Scotland/Natwest, Lloyds TSB Bank/Bank of Scotland, Santander UK plc - as well as several non UK banks, but none of the ratings fell below the Council's minimum A-/A3 credit rating threshold.

Liquidity

In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds/overnight deposits/call accounts.

Yield

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

The Council considered an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments. Short term money market rates also remained at very low levels (as shown in table 1 in Appendix C which had a significant impact on investment income, as investments were placed overnight.

The Council's budgeted investment income for the year had been estimated at £0.9m. Actual interest earned by the council was just over £0.9m on investments the council long term investment in the Lime Fund provided some cushioning against the low interest rate environment.

The average cash balances representing the Council's reserves, contributions/ grants in advance, and working balances, were £69.7m during the period.

Compliance

To support financial strategic planning and decision making the Council approves annually a series of prudential indicators (Appendix B) which are regularly monitored. The Capital Expenditure Prudential Indicator for 2012/13 of £70.9m was based on the assumption of an 20% annual deferral of approved capital budgeted gross expenditure. The outturn capital spend of £73.4m at 31 March 2013 reflected a lower rate of actual scheme deferral of 14.9%.

As a result primarily of the higher than estimated level of capital expenditure the outturn positions for two other indicators are marginally above the approved indicators. Specifically the indicators in respect of the Capital Financing Requirement (approved £396.1m, actual £399.4m) and the ratio of financing cost to net revenue stream for the general fund (approved 6.1%, actual 6.2%).

The Council's borrowing did not exceed the various limits determined by the Treasury Management Strategy and specific Prudential Indicators. Full details of performance in respect of all of the prudential indicators for 2012/13 are set out in Appendix B.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2012/13. The council can confirm it has taken a prudent approach in relation to investment activity with priority being given to security and liquidity over yield.

The Authority can confirm that during 2012/13 it complied with its **Treasury Management Policy Statement** and **Treasury Management Practices**.

Other Items

PWLB Project Rate

The 2012 Autumn Statement announced that the Government would make available a new concessionary public works loan rate to an infrastructure project nominated by each Local Enterprise Partnership (excluding London) in England, with total borrowing capped at £1.5 billion. The Government will provide a UK guarantee to allow the Mayor of London to borrow £1 billion at a new preferential rate to support the Northern Line Extension to Battersea.

The March 2013 Budget announced details of the "project rate" which will enable English local authorities (LAs) working with their LEP to access cheaper borrowing on up to £1.5 billion of investment.

The Public Works Loan Board (PWLB) project rate has been set at 40 basis points below the standard rate across all loan types and maturities. It will be available to local authorities in England from 1 November 2013. This discounted borrowing is being made available to support strategic local capital investment projects. The Government is asking each LEP to work with LAs in their area to agree which project should benefit from the cheaper borrowing support. This will give LEPs, in consultation with LAs, the power to prioritise the projects that best support shared local goals.

Appendix B - Prudential Indicators

Capital Financing Requirement (CFR)

Estimates of the Council's cumulative maximum external borrowing requirement for 2012/13 to 2014/15 are shown in the table below:

	31/03/2013 Approved £m	31/03/2013 Actual £m	31/03/2014 Estimate £m	31/03/15 Estimate £m
General Fund CFR	231.1	235.8	261.2	283.2
HRA CFR	165.0	163.6	165.0	165.0
Gross CFR	396.1	399.4	426.2	448.2
Less: Other Long Term Liabilities	17.9	17.5	17.1	16.3
Borrowing CFR	**378.2**	**381.9**	**409.1**	**431.9**
Less: Existing Profile of Borrowing	315.5	315.5	308.0	291.6
Gross Borrowing Requirement/Internal Borrowing	**62.7**	**66.4**	**101.1**	**140.3**
Usable Reserves	**57.0**	**66.2**	**59.0***	**59.3***
Net Borrowing Requirement	**5.7**	**0.2**	**32.9**	**72.0**

* Based upon estimated 2012/13 usable reserves

In the Prudential Code Amendment (November 2012), it states that the Chief Finance Officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him/her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2013 Approved £m	31/03/2013 Actual £m	31/03/2014 Estimate £m	31/03/15 Estimate £m
CFR	396.1	399.4	426.2	448.2
Gross Debt	333.4	333.0	325.1	307.9
Difference	**62.7**	**66.4**	**101.1**	**140.3**
Borrowed in excess of CFR? (Y/N)	**N**	**N**	**N**	**N**

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Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Chief Finance Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak was £320.6m.

	Operational Boundary (Approved) as at 31/03/2013 £m	**Authorised Limit (Approved) as at 31/03/2013 £m**	**Actual External Debt as at 31/03/2013 £m**
Borrowing	404.5	414.5	315.5
Other Long-term Liabilities	22.9	25.4	17.5
Total	**427.4**	**439.9**	**333.0**

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

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

	Approved Limits for 2012/13 %	**Maximum during 2012/13 %**
Upper Limit for Fixed Rate Exposure	100	74.9
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	35	25.5
Compliance with Limits:	Yes	Yes

(c) Maturity Structure of Fixed Rate Borrowing

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

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/03/2013 £m	Fixed Rate Borrowing as at 31/03/2013 %	Compliance with Set Limits?
under 12 months	20	0	17.9	7.6	Yes
12 months and within 24 months	20	0	0	0	Yes
24 months and within 5 years	60	0	0	0	Yes
5 years and within 10 years	100	0	1.6	0.7	Yes
10 years and within 20 years	100	0	133.1	56.6	Yes
20 years and within 30 years	100	0	20	8.5	Yes
30 years and within 40 years	100	0	40.3	17.2	Yes
40 years and within 50 years	100	0	22.0	9.4	Yes
50 years and above	100	0	0	0	Yes

(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date)

(d) Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2012/13 Approved £m	2012/13 Actual £m	31/03/2014 Estimate £m	31/03/15 Estimate £m
Non-HRA	**64.3**	**66.8**	**80.2**	**60.5**
HRA	**6.6**	**6.7**	**11.0**	**14.8**
Total	**70.9**	**73.4**	**91.2**	**75.3**
Compliance with Set Limits		**NO**		

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	2012/13 Approved £m	2012/13 Actual £m	31/03/2014 Estimate £m	31/03/15 Estimate £m
Capital receipts	8.7	3.7	**1.7**	**6.5**
Government Grants	34.9	38.4	**43.8**	**23.4**
Major Repairs Allowance	0	0		
Revenue contributions		0.75	**10.8**	**14.6**
Use of Negative CFR	6.4	6.4		
Total Financing	50.0	49.3	**56.2**	**44.6**
Supported borrowing				
Unsupported borrowing	20.9	24.2*	**35.6**	**29.8**
Total Funding	70.9	73.4	**91.8**	**74.4**

* Internal borrowing

The table shows that the capital expenditure plans of the Authority could not be funded entirely from sources other than external borrowing. The authority was able to meet this borrow requirement from this internal resources.

(e) Ratio of Financing Costs to Net Revenue Stream

- This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.
- The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Approved %	2012/13 Actual %	31/03/2014 Estimate %	31/03/15 Estimate %
Non-HRA	6.1	6.2	**7.2**	**8.5**
HRA	14.5	14.5	**14.4**	**13.9**
Total	**7.2**	**7.2**	**8.1**	**9.3**

(f) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at full Council meeting on 29th November 2012.

(g) Upper Limit for Total Principal Sums Invested Over 364 Days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £m	2013/13 Actual £m	31/03/2014 Estimate £m	31/03/15 Estimate £m
	25.0	0.0	25.0	25.0

(h) HRA Limit on Indebtedness

	2012/13 Approved £m	2013/13 Actual £m	31/03/2014 Estimate £m	31/03/15 Estimate £m
HRA Debt Cap (as prescribed by CLG)	165.0	165.0	165.0	165.0
HRA CFR	165.0	163.6	165.0	165.0
Difference	0	1.4	0	0

Appendix C Interest Rates 2012/13

The average, low and high rates correspond to the rates during the financial year and rather than those in the tables below

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2012		0.5		0.6	0.6	0.6	1.0	1.3	1.8	1.2	1.3	1.6
30/04/2012		0.5		0.5	0.7	0.6	1.0	1.3	1.8	1.4	1.4	1.7
31/05/2012		0.5		0.5	0.7	0.6	1.0	1.3	1.8	1.2	1.2	1.3
30/06/2012		0.5		0.5	0.5	0.6	0.8	1.1	1.7	1.0	1.0	1.3
31/07/2012		0.5		0.5	0.7	0.5	0.6	0.9	1.4	0.8	0.8	1.0
31/08/2012		0.5		0.5	0.5	0.4	0.6	0.8	1.2	0.8	0.8	1.0
30/09/2012		0.5		0.3	0.5	0.4	0.5	0.7	1.0	0.7	0.8	1.0
31/10/2012		0.5		0.3	0.4	0.4	0.4	0.6	0.8	0.7	0.8	1.1
30/11/2012		0.5		0.3	0.3	0.4	0.4	0.5	0.8	0.7	0.8	1.1
31/12/2012		0.5		0.3	0.4	0.4	0.4	0.5	0.8	0.7	0.8	1.0
31/01/2013		0.5		0.4	0.4	0.4	0.4	0.5	0.8	0.7	0.9	1.2
29/02/2013		0.5		0.4	0.4	0.4	0.4	0.5	0.8	0.6	0.7	1.0
31/03/2013		0.5		0.4	0.4	0.4	0.4	0.5	0.8	0.6	0.7	1.0
Minimum		0.5		0.3	0.3	0.4	0.4	0.5	0.8	0.6	0.7	0.9
Average		**0.5**		0.4	0.5	0.5	0.6	0.8	1.2	0.8	0.9	1.2
Maximum		0.5		0.6	0.7	0.6	1.0	1.3	1.8	1.4	1.5	1.7
Spread		--										

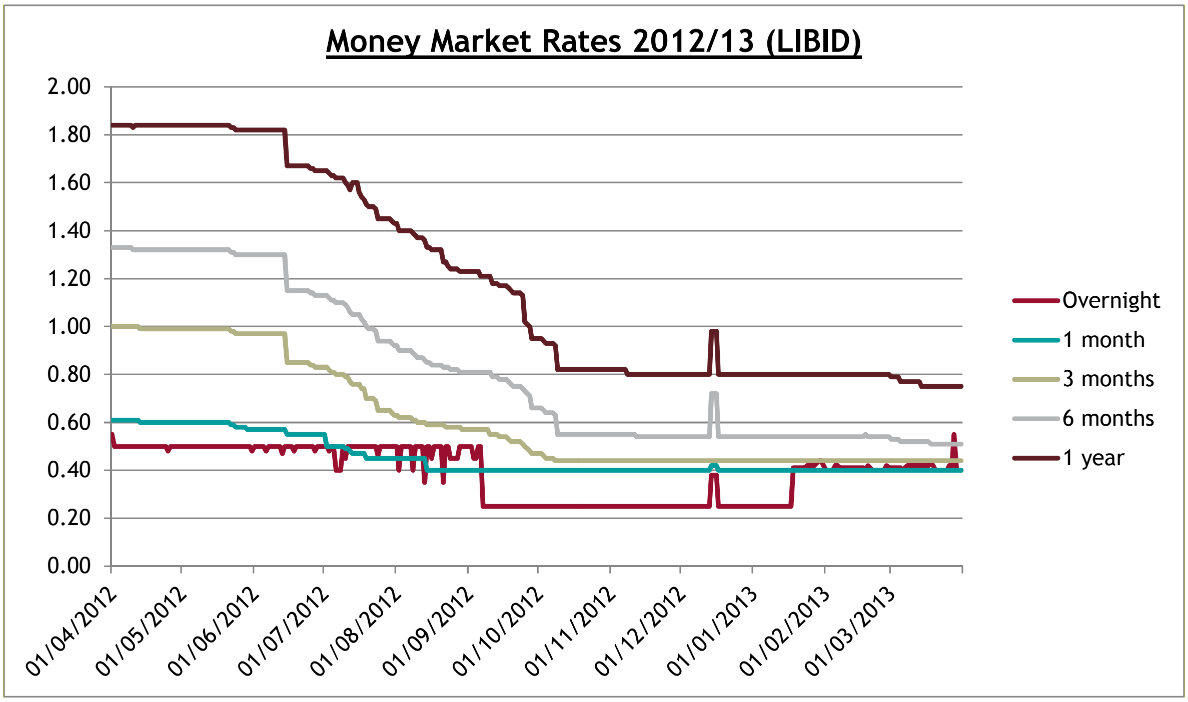


Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	1.3	2.1	3.3	4.2	4.4	4.5	4.4
30/04/2012	166/12	1.3	2.1	3.2	4.1	4.4	4.4	4.4
31/05/2012	210/12	1.2	1.8	2.7	3.8	4.1	4.2	4.1
29/06/2012	248/12	1.2	1.8	2.8	3.8	4.1	4.2	4.1
31/07/2012	292/12	1.0	1.6	2.6	3.6	4.0	4.1	4.1
31/08/2012	336/12	1.1	1.6	2.6	3.6	4.1	4.1	4.1
28/09/2012	376/12	1.2	1.8	2.7	3.7	4.1	4.2	4.1
28/10/2012	422/12	1.2	1.8	2.8	3.8	4.2	4.3	4.2
30/11/2012	466/12	1.2	1.8	2.8	3.7	4.1	4.2	4.1
31/12/2012	504/12	1.2	1.9	2.8	3.8	4.2	4.3	4.2
31/01/2013	044/13	1.3	1	3.1	4.1	4.4	4.4	4.4
28/02/2013	084/13	1.2	1.9	3.0	4.0	4.4	4.4	4.4
28/03/2013	124/13	1.1	1.8	2.8	39	4.2	4.3	4.2
	Low	1.0	1.6	2.6	3.6	4.0	4.1	4.1
	Average	1.2	1.8	2.9	3.9	4.2	4.3	4.2
	High	1.3	2.1	3.3	4.2	4.4	4.5	4.4

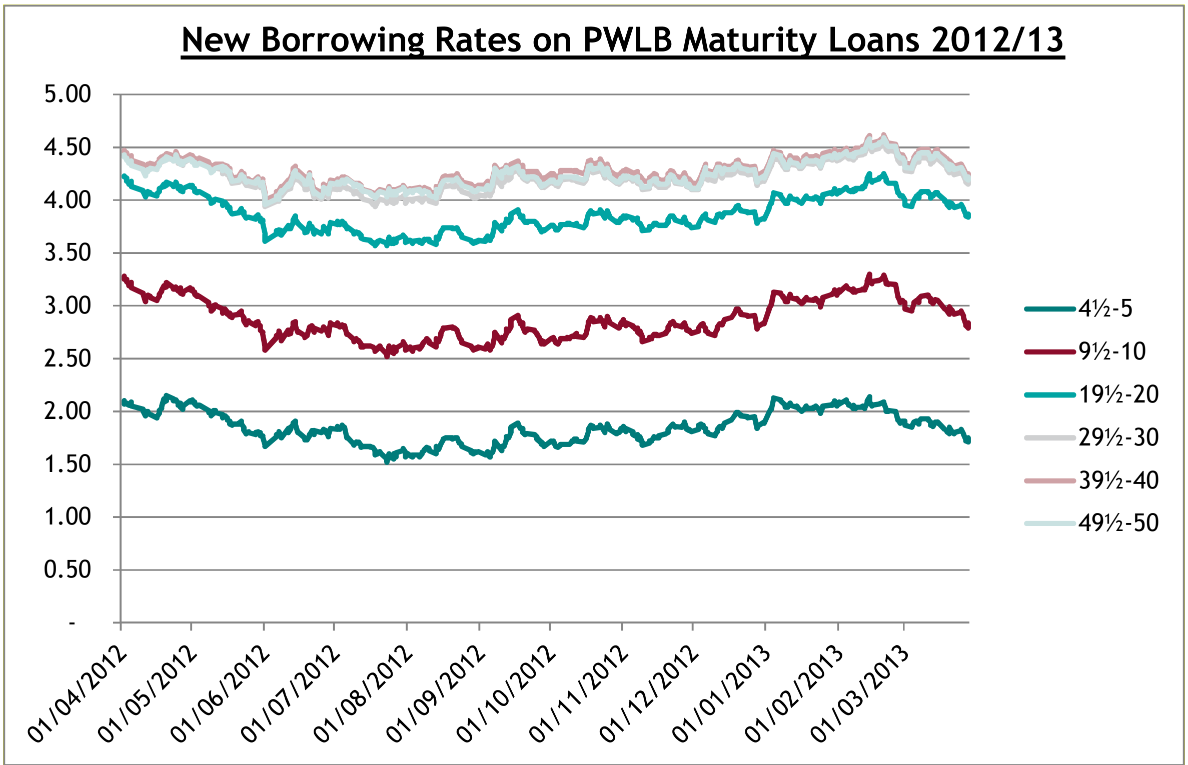
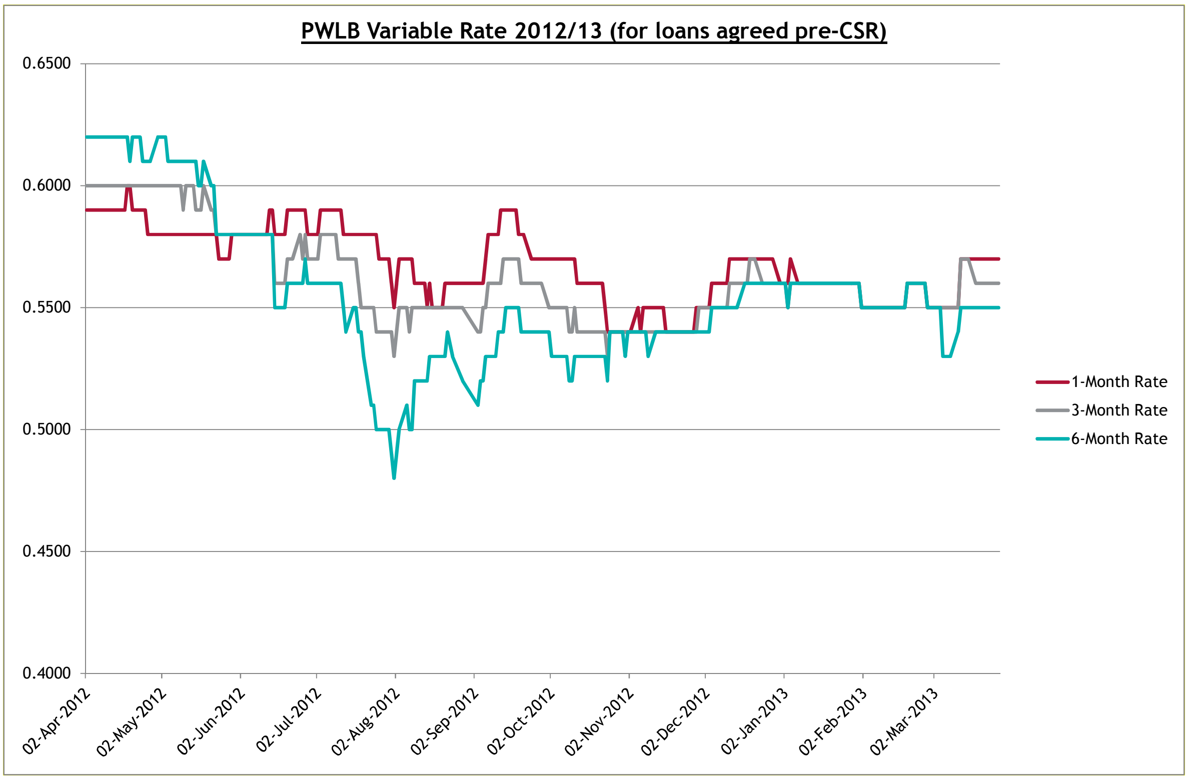
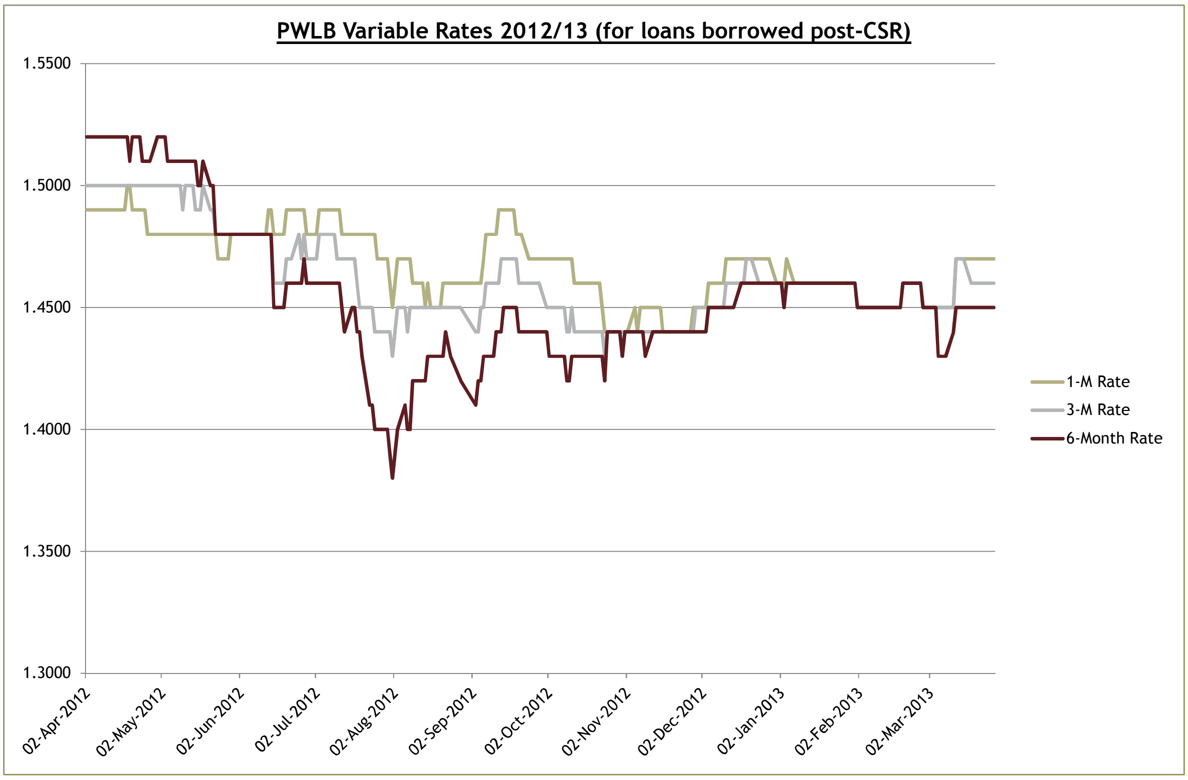


Table 3: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR			Post-CSR		
02/04/2012	0.6	0.6	0.6	1.5	1.5	1.5
29/06/2012	0.6	0.6	0.6	1.5	1.5	1.5
28/09/2012	0.6	0.6	0.5	1.5	1.45	1.4
31/12/2012	0.6	0.6	0.6	1.5	1.45	1.5
28/03/2013	0.6	0.6	0.6	1.5	1.5	1.5
Low	0.5	0.5	0.5	1.4	1.4	1.4
Average	0.6	0.6	0.6	1.5	1.5	1.5
High	0.6	0.6	0.6	1.5	1.5	1.5




PWLB Variable Rates 2012/13 (for loans borrowed post-CSR)
1.5500
1.5000
1.4500
1.4000
1.3500
1.3000
02-Apr-2012
02-May-2012
02-Jun-2012
02-Jul-2012
02-Aug-2012
02-Sep-2012
02-Oct-2012
02-Nov-2012
02-Dec-2012
02-Jan-2013
02-Feb-2013
02-Mar-2013
1-M Rate
3-M Rate
6-Month Rate