AUD073
FOR DECISION
WARD(S): GENERAL

AUDIT COMMITTEE

3 December 2013

TREASURY MANAGEMENT MID-YEAR REVIEW 2013/14

REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

CAB2455 – Treasury Management Strategy 2013/14, 13 February 2013

AUD055 – Treasury Management Policy and Practices 2013/14, 12 Mar 2013

AUD070 – Treasury Management Stewardship 2012/13, 24 Sept 2013

EXECUTIVE SUMMARY:

The Treasury Management Strategy for 2013/14 (CAB2455) has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

The Code also recommends that members are informed of treasury management activities at least twice a year. This report therefore ensures that the Council is embracing Best Practice in accordance with CIPFA's recommendations.

Treasury management is defined as:
"The management of the local authority'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."

In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Authority to report on any financial instruments entered into to manage treasury risks.

RECOMMENDATIONS:

That the Audit Committee:

1. Approves the Treasury Management Mid-Year Monitoring Report for 2013/14, and
2. Notes the updated Prudential Indicators provided at Appendix A.

AUDIT COMMITTEE

3 December 2013

TREASURY MANAGEMENT MID-YEAR REVIEW 2013/14

REPORT OF CHIEF FINANCE OFFICER

1 Introduction

1.1 The Treasury Management Strategy for 2013/14 (CAB2284) has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

1.2 The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures the Council is embracing Best Practice in accordance with CIPFA's recommendations.

1.3 Treasury management is defined by the CIPFA Code of Practice on Treasury Management as

> "The management of the local authority'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."

1.4 In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Authority to report on any financial instruments entered into to manage treasury risks.

2 Economic Background

2.1 **Growth**: The UK economy showed some improvement, with consumer spending boosting growth. GDP for the first quarter of 2013 was revised up to +0.4% and for the second quarter was +0.7%. Recent data suggests a stronger rate in quarter three. Revisions by the Office of National Statistics to GDP back-data showed the UK avoided a double-dip recession in 2012, but that the downturn in 2008-09 was deeper than previously estimated. Growth is now still over 3% below its peak back in 2007. Some positive signs for household spending emerged. The deterioration in real earnings growth (i.e. earnings less inflation) slowed, which implied a slower erosion of purchasing power. Consumer confidence improved. Household savings rates remained high, which is unsurprising given the uncertain economic outlook, but appear to be on a downward track, suggesting spending was being driven by borrowing or lower savings. This raises questions about the sustainability of the recovery at these rates of growth.

2.2 **Inflation**: Annual CPI for August (published September) was 2.7%. Inflation fell in line with expectations and is expected to remain close to this level throughout the autumn. Further out, inflation should fall back towards the 2% target as external price pressures fade and a revival in productivity growth curbs domestic cost pressures. The oil price (Brent Crude) climbed above $100/barrel on the back of political unrest in Egypt and the unresolved crisis in Syria.

2.3 **Monetary Policy**: There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The main development for UK monetary policy was the start of Mark Carney's tenure as Governor and the implementation of forward guidance. Within the August Inflation Report, the Bank stated its forward guidance, the main element of which is to defer monetary tightening at least until the ILO Unemployment Rate falls to a threshold of 7% (among a raft of caveats). The Bank projected that the probability of this happening would remain below 50% until 2016. The Governor has had to defend the Bank's guidance in the face of rising financial market expectations of an earlier rate rise on the back of the encouraging economic data.

2.4 In his testimony to Congress on 22nd May the US Federal Reserve Chairman Ben Bernanke stated that, if the nascent recovery in the US economy became established, the Fed would reduce its $85bn monthly asset purchase programme (QE). The apparent movement by the Fed towards tapering its open-ended QE programme prompted extreme asset price volatility in bonds and equities, as investors sought to crystallise gains driven by excessive liquidity. As a consequence, government bond yields spiked. There had been a growing expectation that the Federal Reserve would seek to commence 'tapering' in September but they took markets by surprise and maintained asset purchases at the existing level.

2.5 **Global**: Whilst the outlook for the global economy appeared to have improved over the first half of calendar 2013/14, significant economic risks remain, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth, and, despite the time gained by the ECB to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away. The region appears to be dragging itself out of recession and September's German general election passed with little incident but political uncertainties, particularly in Italy, could derail any progress towards a more balanced and stable regional economy. The US recovery appeared to be in train, but a lack of agreement on the federal budget by the end of September caused a partial government shutdown at the start of October, which could have an effect on GDP growth. Political risks also remain regarding the debt ceiling.

3 Debt Management

Borrowing Activity in 2013/14

	Balance on 01/04/2013 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 30/09/2013 £m	Avg Rate % and Avg Life (yrs)
CFR	162.4				163.2	
Short Term Borrowing	0.0	0.0	0.0	0.0	0.0	
Long Term Borrowing	156.7	0.0	0.0	0.0	156.7	3.30% : 23.5 Yrs
TOTAL BORROWING	156.7	0.0	0.0	0.0	156.7	
Other Long Term Liabilities	2.1	(0.2)	0.0	0.0	1.9	2.16% : 6 Yrs
TOTAL EXTERNAL DEBT	158.8	(0.2)	0.0	0.0	158.6	

3.1 PWLB Certainty Rate and Project Rate Update

a) The Council qualifies for borrowing at the ‘Certainty Rate’ (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2012. In April the Authority submitted its application to the CLG along with the 2013-14 Capital Estimates Return to access this reduced rate for a further 12month period from 1st November 2013.

b) The Project Rate was announced in the Autumn Statement of 5th December 2012. It will be introduced in November 2013 and will be set at 0.4% below standard PWLB rates, i.e. 0.2% below the Certainty Rate. At the time, the announcement referred only to English authorities as being eligible, linked to single projects identified by Local Enterprise Partnerships (LEPs).

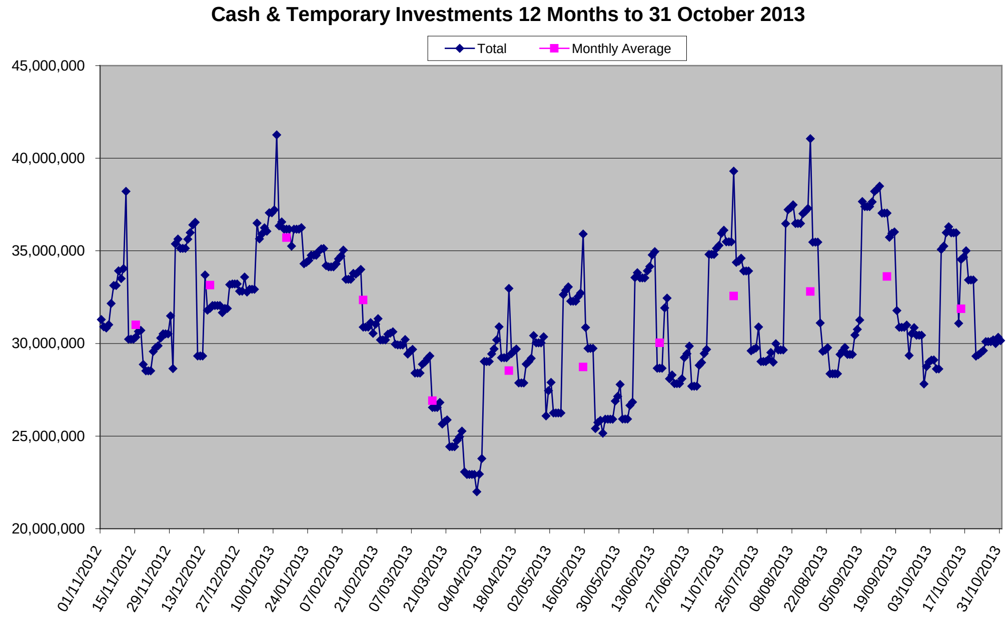
3.2 **PWLB Borrowing**: The PWLB remained an attractive source of borrowing for the Council as it offers flexibility and control. As concerns mounted over the timing of the removal or ‘tapering’ of QE by the US Federal Reserve, gilts sold off and yields rose in May and June. The sharp rise in gilt yields led to a corresponding rise in PWLB rates (see Appendix A), with the most pronounced increase was for 10 year loans where rates as at 30th September were 0.83% higher than 1st April. Affordability and the “cost of carry” remained important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

3.3 For the Council the use of internal resources in lieu of borrowing has, therefore, continued to be the most cost effective means of funding £0.8m of capital expenditure. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, the Authority acknowledges that this position will not be sustainable over the medium term and the Authority expects it will need to borrow £17.3m for capital purposes commencing next year (2014/15). Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Council’s treasury advisor.

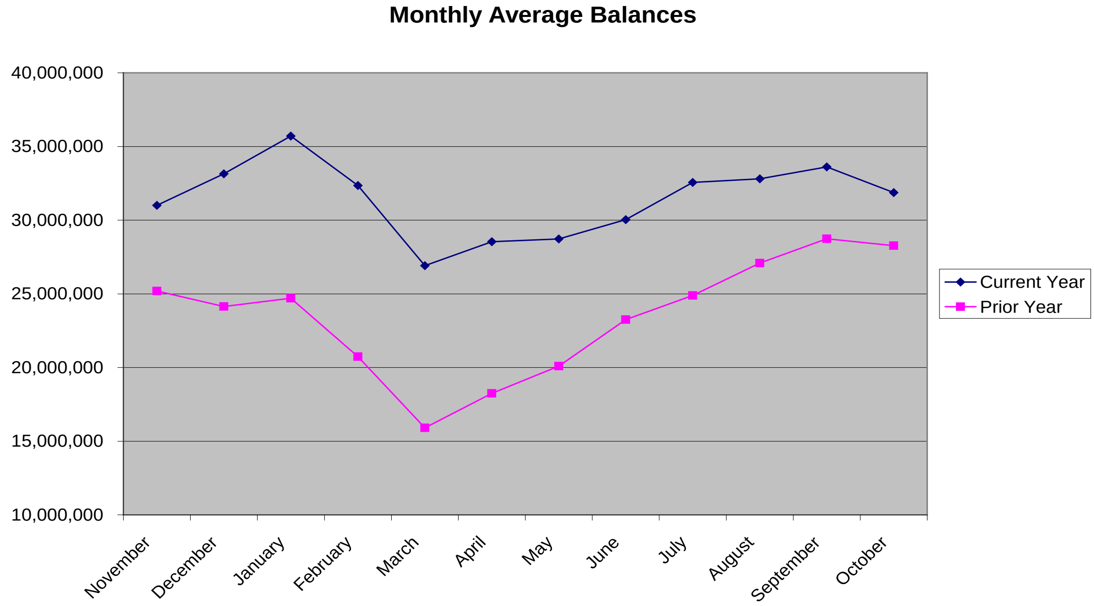
3.4 **Debt Rescheduling**: A year after their commencement, the £156.7m of loans borrowed on 28th March 2012 for the HRA self-financing settlement became eligible for rescheduling. These loans were borrowed at one-off preferential rates made available specifically for the settlement. The increases in gilt yields and PWLB redemption rates have resulted in these loans presenting early repayment opportunities at close to par, i.e. with a very small premium or discount. However debt rescheduling would have involved the Council refinancing at a much higher rate, i.e. gilts + 0.8% (certainty rate). The Council will continue to first assess early repayment or rescheduling against the requirements of the HRA business plan and any future overall borrowing requirements. Where rescheduling is appropriate, the Council will consider alternative refinancing to achieve cost savings and a reduction in risk.

4 Investment Activity

4.1 The Guidance on Local Government Investments gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The daily balances held are shown below:



Year on year monthly averages



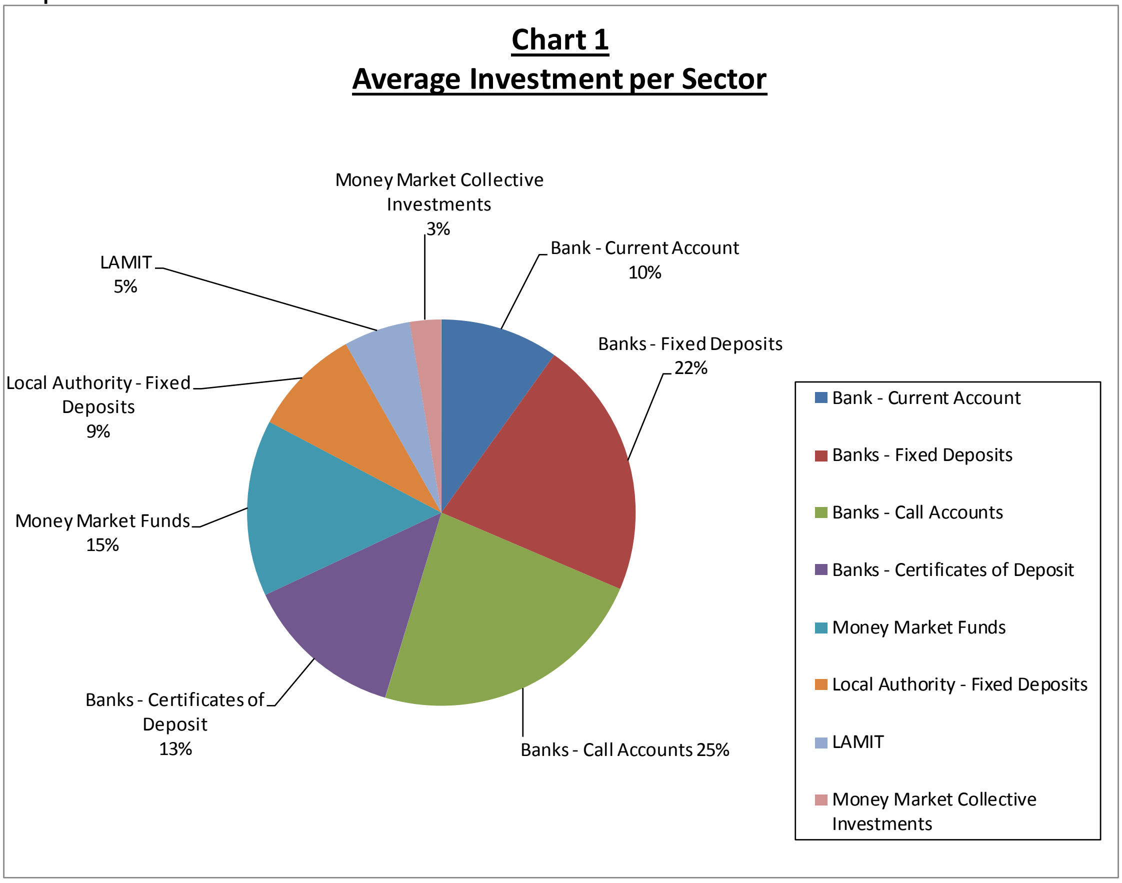
4.2 Investment activity was as follows:

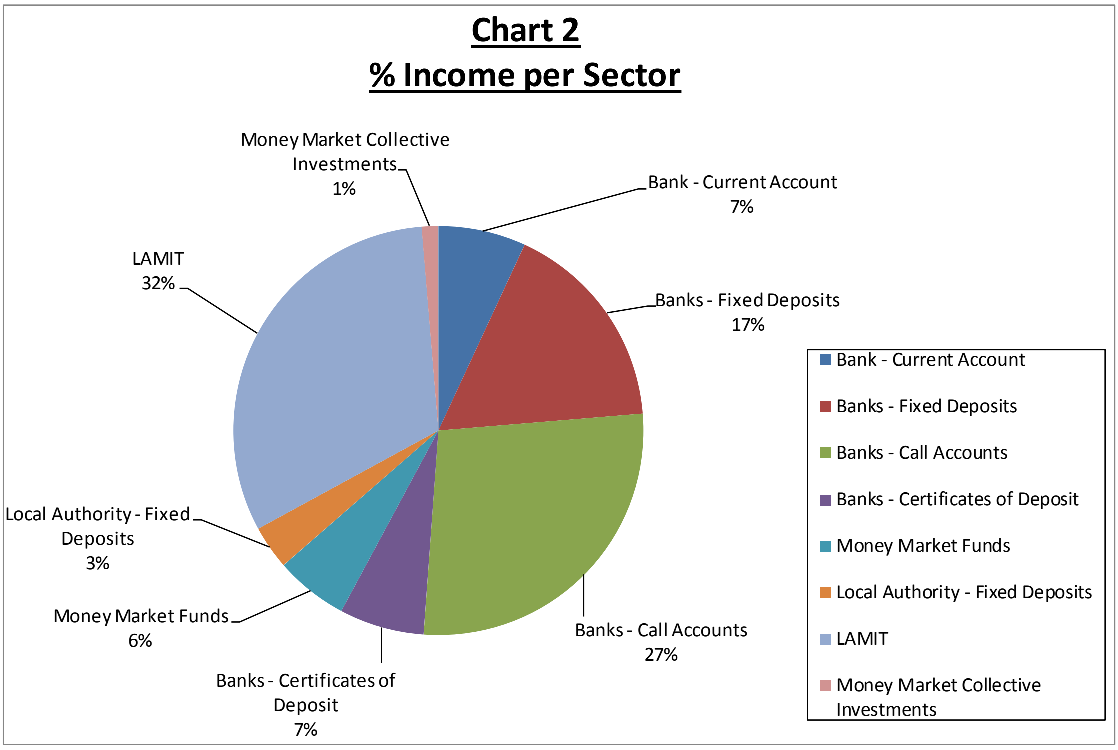
	Balance on 01/04/2013 £000s	Investments Made £000s	Investments Repaid £000s	Balance on 30/09/2013 £000's	Increase/ (decrease) in Investments £000's
Short Term Investments					
Call Accounts	7,000	1,000	2,000	6,000	(1,000)
Pooled Funds	4,300	59,000	62,300	1,000	(3,300)
Term Deposits					
Local Authorities	3,000	0	0	3,000	0
Debt Management Office	0	0	0	0	0
Banks	3,000	4,000	1,000	6,000	3,000
Building Societies	2,000	2,000	1,000	3,000	1,000
Certificates of Deposit					
Banks	1,000	7,000	2,000	6,000	5,000
Long Term Investments	1,000	1,000	0	2,000	1,000
TOTAL INVESTMENTS	21,300	74,000	68,300	27,000	5,700

Other Interest Bearing	Balance on 01/04/2013 £000s	Cash Received £000s	Cash Paid £000s	Balance on 30/09/2013 £000's	Increase/ (decrease) in Balance £000's
Current Account	2,630	174,972	174,790	2,812	182
Total External Balances *	23,930	106,672	100,790	29,812	5,882

* Cash Received excludes investments repaid, Cash Paid excludes investments made

4.3 Analyses of average balances & interest receivable for the 6 months to September 2013





Type of Deposit	Average Holding	Interest	Average Return	PY %	Share of total Investment %	Share of total income %
Bank - Current Account	£3,258,496	£11,550	0.71%	0.80%	9.85%	6.86%
Banks - Fixed Deposits	£7,150,485	£28,046	0.78%	0.60%	21.61%	16.65%
Banks - Call Accounts	£7,683,060	£45,919	1.20%	1.03%	23.22%	27.27%
Banks - Certificates of Deposit	£4,409,836	£11,188	0.51%		13.33%	6.64%
Money Market Funds	£4,886,339	£9,607	0.39%	0.57%	14.77%	5.70%
Local Authority - Fixed Deposits	£3,000,000	£5,766	0.38%	0.39%	9.07%	3.42%
LAMIT	£1,841,530	£54,158	5.88%	6.80%	5.56%	32.16%
Money Market Collective Investments	£863,388	£2,181	0.51%		2.61%	1.30%
	£33,093,134	£168,416	1.02%	0.80%		

4.4 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 (CAB2455). New investments can be made with the institutions/instruments as set down on the approved counterparty criteria in Appendix B.

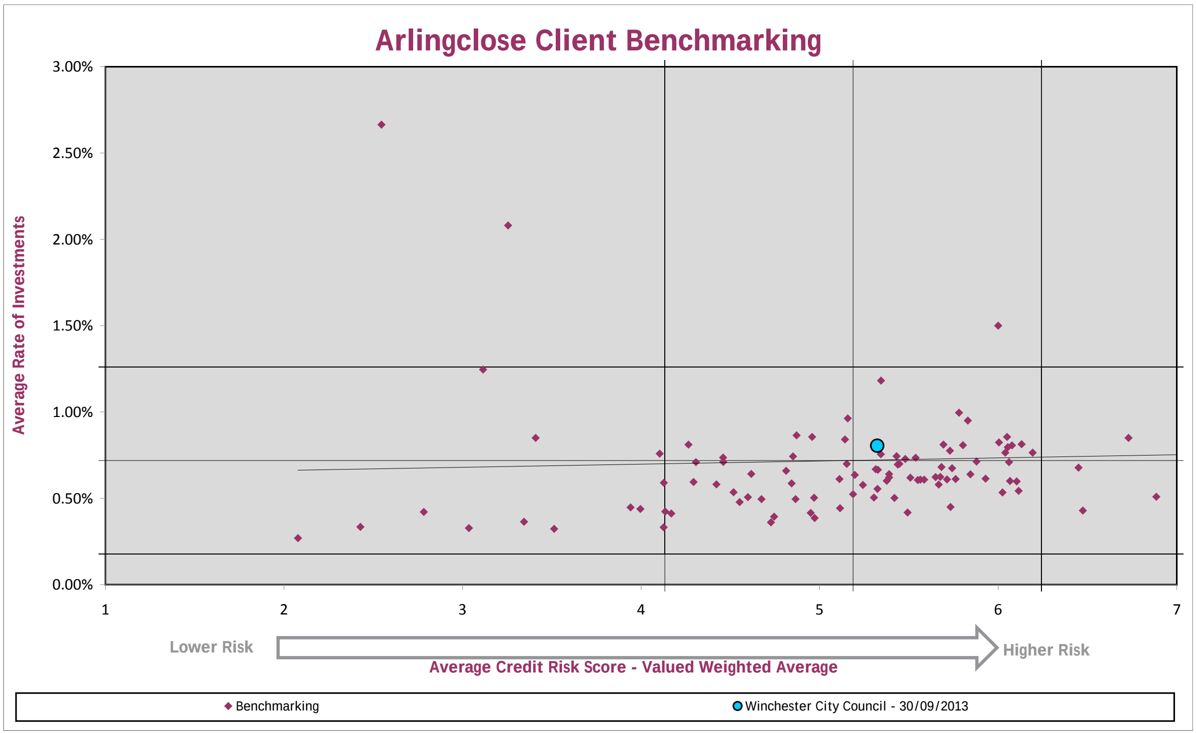
4.5 Additionally, on consulting with the Council's treasury management advisors Arlingclose, counterparties can have their deposit durations shortened and even be suspended entirely from the counterparty list depending on the state of the market.

4.6 **Credit Risk**: Counterparty credit quality is demonstrated by the Credit Score Analysis summarised below. The credit scores are based on the Council's quarter-end investment position.

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
30/09/2012	2.82	AA	1.89	AA+
30/12/2012	3.87	AA-	1.98	AA+
31/03/2013	4.94	A+	4.61	A+
30/06/2013	5.21	A+	5.14	A+
30/09/2013	5.32	A+	5.66	A

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 15
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

4.7 The Council's average credit risk score at 30 September 2013 compared with other Arlingclose - local authority clients is shown below.



The Chief Finance Officer can report that the investment portfolio has been managed within the counterparty limits set by the Council in the Treasury Management Strategy.

4.8 Counterparty update

a) In April Fitch downgraded the UK's long-term sovereign rating by one notch from AAA to AA+, the second of the rating agencies to do so (Moody's had downgraded the UK's ratings in February to Aa1). Where assigned, local authorities' ratings, which benefit from an uplift due to their close and direct links to central government, were also downgraded.

b) In the Chancellor's Mansion House speech on 19 June he signalled his intention to sell the government's stake in the Lloyds Banking Group reasonably soon and a 6% stake was indeed sold to institutional investors on 17 September at a price of 75p. In a positive move, Fitch upgraded Lloyds' viability rating to bbb+.

c) Moody's placed the RBS's long-term of A3 and standalone financial strength rating of D+ on review for downgrade on 5 July 2013, amid concerns about the impact of any potential breakup of the bank on creditors. Although the probability of losses remains low there is a possibility of capital impairment especially as the government has clearly indicated that it will not put up any further taxable funds. As a precautionary measure the Council has reduced its maximum duration on RBS investments to overnight.

4.9 Safe Custody Arrangements

a) The Council opened a custody account with King & Shaxson in September 2012. By opening a custody account the Council now has the ability to use a number of approved investment instruments, as outlined in the 2013/14 Treasury Strategy (CAB2455) in order to diversify the investment portfolio. Investment instruments requiring a custodian facility include Treasury Bills, Certificates of Deposit, Gilts, Bonds and Supranational Bonds.

b) By establishing custody arrangements, the Council will be better-placed to consider the use of alternative investment instruments in response to evolving credit conditions.

4.10 Budgeted Interest Income and performance in the year to 30 September 2013:-

a) The Council's budgeted interest income for the year has been set at £74,000 assuming an average rate of 0.5%. The average cash balances representing the Council's reserves and working balances were budgeted at £19.8m during the period. Actual average balances for the 6 month period were £33.1m caused mainly by slower spending on the 2012/13 capital programme.

b) The UK Bank Base Rate has been maintained at 0.5% since March 2009 and is not forecast to rise until after 2016/17. Short-term money market rates have remained at very low levels. The Council has interest receivable of £167,000 to the 30 September 2013 and anticipates an interest outturn of circa £227,000 / 0.85% for the whole year.

5 <u>Other Holdings</u>

5.1 Local Authorities Mutual Investment Trust (LAMIT)

a) The Council holds 422,654 units in the LAMIT property fund which were purchased in 1989/90 at a cost price of £1 million, plus 447,507 units that were added to the Council's holding on the 30 April 2013 at a cost of £1m. The value of LAMIT has been subject to market fluctuations.

Valuation date	Value*	Gain / (Loss) on investment (unrealised)
31st March 2010	913,000	(87,000)
31st March 2011	962,000	(38,000)
31st March 2012	963,000	(37,000)
31st March 2013	945,000	(55,000)
30th September 2013	1,961,000	(39,000)

b) The holding has increased in value by £16,000 to the 30 September 2013.

c) Dividends receivable on this investment in the 6 months to September amounted to £54,158 (5.9%).

6 Heritable Bank in Administration

6.1 The Council had an investment of £1m with Heritable Bank Ltd which was placed into administration in October 2008. At 30 September 2013 the Council had received dividends of £943,419. The administrators have indicated that there will be no further dividends until ongoing legal proceedings are concluded.

7 Compliance with Prudential Indicators

7.1 The Chief Finance Officer can confirm that the Council has complied with its Prudential Indicators for 2013/14 that were set as part of the Council's Treasury Management Strategy (CAB2455).

7.2 Members are asked to note the performance against the indicators as detailed in Appendix A.

8 Outlook for the remainder of the year

8.1 At the half year stage in September 2013, the UK economic outlook appears to have improved. The projected path for growth has risen, but remains relatively subdued, with a distinct reliance on household consumption, which itself remains under pressure given the deterioration in real earnings growth, high unemployment and general low confidence. A variety of other factors will continue to weigh on a domestic recovery, including on-going fiscal consolidation, muted business confidence and subdued foreign demand. While the economic recovery may pick up steam, forward guidance from the Bank of England suggests that monetary policy is unlikely to be tightened until the ILO Unemployment Rate falls below 7%. The Bank projected this level would be reached in 2016. The latest forecast for Bank Rate from our advisors Arlingclose is below:

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Official Bank Rate												
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75
Arlingclose Central	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

OTHER CONSIDERATIONS:

9 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

9.1 The Treasury Management Strategy supports all tenets of the Community Strategy including the core value of being efficient and ensuring value for money.

10 RESOURCE IMPLICATIONS:

10.1 Interest payable:-

a) Housing Finance Reform, loans totalling £156.7m at a weighted average fixed rate of 3.30%. Annual interest cost is £5.20m. No capital repayments are due for 9.5 years. If the £5m loan due in 2023 was to be refinanced for a further 11 years an additional annual interest cost of £59,000 would be incurred, at current interest rates.

b) Embedded lease interest costs (in relation to the Environmental Services Contract) are at a fixed rate of 2.16% total £43k in 2013-14.

10.2 The Original Estimate for Interest Receivable in 2013/14 was £74,000. The current forecast is £227,000 which is mainly caused by higher balances being brought forward from 2012/13.

10.3 Interest sensitivity on a forecast average balance for the year of £26.5m is +/- 0.25% = £66,250.

11 RISK MANAGEMENT ISSUES

11.1 These are considered within the report.

BACKGROUND DOCUMENTS:

APPENDICES:

Appendix A Prudential Indicators

Appendix B Counterparty Criteria

Appendix C Investments at 30 September 2013

Appendix D Glossary of Terms

PRUDENTIAL INDICATORS

Capital Financing Requirement

Estimates of the Council's cumulative maximum external borrowing requirement for 2013/14 to 2015/16 are shown in the table below:

	31/03/2013 Actual £000s	31/03/2014 Esitmate £000s	31/03/2015 Estimate £000s	31/03/2016 Estimate £000s
Housing Revenue Account CFR	163,353	163,353	163,353	166,853
General Fund CFR	(964)	11,174	29,069	28,271
Total CFR	162,389	174,527	192,422	195,124
Less: Other Long Term Liabilities	2,118	1,811	1,497	1,177
HRA Borrowing CFR	163,353	163,353	163,353	166,853
GF Borrowing CFR	(3,082)	9,363	27,572	27,094
Total Borrowing CFR	160,271	172,716	190,925	193,947
Less: Existing Profile of Borrowing	156,779	156,779	156,779	156,779
Gross Borrowing Requirement	3,492	15,937	34,146	37,168
Usable Balances & Reserves	27,214	22,964	19,936	19,458
Net Investment Capacity / (Net Borrowing Requirement)	**23,722**	**7,027**	**(14,210)**	**(17,710)**

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 her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2013 Actual £000s	31/03/2014 Esitmate £000s	31/03/2015 Estimate £000s	31/03/2016 Estimate £000s
CFR	160,271	172,716	190,925	193,947
Gross Debt	156,779	156,779	175,989	179,489
Difference	3,492	15,937	14,936	14,458
Borrowed in excess of CFR? (Y/N)	**N**	**N**	**N**	**N**

Balances and Reserves

Estimates of the Council's level of Balances and Reserves for 2013/14 to 2015/16 are as follows:

	31/03/2013 Actual £000s	31/03/2014 Esitmate £000s	31/03/2015 Estimate £000s	31/03/2016 Estimate £000s
Usable Balances & Reserves	27,214	22,964	19,936	19,458

PRUDENTIAL INDICATORS

Prudential Indicator Compliance

a) Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

The Chief Finance Officer reports that the Authority had no difficulty meeting this requirement in 2012/13 and 2013/14 (to date), nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

b) Estimates of 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.

	2013/14 Approved £million	**2013/14 Revised £million**	**2013/14 Revised £million**	**2014/15 Estimate £million**	**2015/16 Estimate £million**
Capital Expenditure					
Non-HRA	18.0	1.2	16.3	22.5	1.0
HRA	12.3	4.9	12.0	14.7	21.2
Financed by:					
Non - HRA					
Government grants	0.4	0.0	0.6	0.4	0.4
External contributions	1.5	0.0	0.5	0.4	0.0
Earmarked reserves	1.4	0.4	1.4	0.4	0.4
Major Investment reserve	0.3	0.0	0.9	2.6	0.1
Capital receipts	0.5	0.0	0.5	0.4	0.1
HRA					
Government grants	0.0	0.0	0.2	3.9	2.3
Major repairs reserve	5.4	0.0	5.0	5.1	5.3
RCCO	6.2	4.9	5.3	5.5	9.9
Capital Receipts	0.7	0.0	1.6	0.2	0.2
Net financing need for the year	**13.9**	**0.8**	**12.4**	**18.3**	**3.5**

The table above shows that the capital expenditure plans of the Council are not fully funded and the Council has to fund it by borrowing from balances and reserves or externally borrowing.

PRUDENTIAL INDICATORS

(c) 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 definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

Affordability Indicator	2013/14 Approved %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %
Non-HRA	(1.0)	(1.4)	0.5	3.8
HRA	20.5	20.2	19.5	18.6

(d) Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

	2013/14 Approved £million	2013/14 Revised £million	2014/15 Estimate £million	2015/16 Estimate £million
Capital Financing Requirement				
CFR – Non HRA	13.5	11.1	29.1	28.3
CFR - HRA	163.4	163.4	163.4	166.9
Total CFR	**176.9**	**174.5**	**192.4**	**195.1**

(e) Incremental Impact of Capital Investment Decisions

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

	2013/14 Approved £	2013/14 Revised £	2014/15 Estimate £	2015/16 Estimate £
Increase/(Decrease) in Council Tax - Band D	(13.17)	(12.75)	(7.75)	23.92
Increase/(Decrease) Weekly Housing Rent	(1.56)	(5.59)	(0.49)	41.64

PRUDENTIAL INDICATORS

f) 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 Council's Affordable Borrowing Limit was set at £182.9m for 2013/14.

* *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 Operational Boundary for 2013/14 was set at £175.9m.

* The Chief Finance Officer confirms that there were no breaches to the Authorised Limit or the Operational Boundary during the year and there has been no new borrowing to the 30 September 2013.

	Authorised Limit (Approved) as at 31/03/2014 £m's	Operational Boundary (Approved) as at 31/03/2014 £m's	**Actual External Debt as at 30/09/2013** £m's
Borrowing	176.9	171.9	156.7
Other Long-term Liabilities	6.0	4.0	1.9
Total	**182.9**	**175.9**	**158.6**

(g) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority has 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 under the constitution, Financial Procedure Rule 5.4. (CAB313,13 February 2002 refers).

(h) 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.*

PRUDENTIAL INDICATORS

	Approved Limits for 2013/14 £m's	Maximum during 2013/14 £m's
Upper Limit for Fixed Rate Exposure	176.9	158.8
Compliance with Limits:		Yes
Upper Limit for Variable Rate Exposure	0	(41.1)
Compliance with Limits:		Yes

i) 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	**Lower Limit 2013/14 £m**	**Upper Limit 2013/14 £m**	**Actual Fixed Rate Borrowing as at 30/09/2013 £m**	**Actual Fixed Rate Borrowing as at 30/09/2013 %**	**Compliance with set limits**
Under 12 Months	0.0	15.0	0.0	0.0%	Yes
12 months and within 24 months	0.0	20.2	0.0	0.0%	Yes
24 months and within 5 years	0.0	20.2	0.0	0.0%	Yes
5 years and within 10 years	0.0	20.2	5.0	3.2%	Yes
10 years and within 20 years	0.0	85.2	60.0	38.3%	Yes
20 years and within 30 years	0.0	55.2	35.0	22.3%	Yes
30 years and within 40 years	0.0	40.2	20.0	12.8%	Yes
40 years and within 50 years	0.0	56.9	36.7	23.4%	Yes
50 years and above	0.0	20.2	0.0	0.0%	Yes
Total	0.0	176.9	156.7	100.0%	Yes

f) Total principal sums invested for periods longer than 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	**Approved £m**	**Actual at 30/09/13 £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
1 Year	**10.0**	**2.0**	**10.0**	**10.0**
2 - 5 Years	**5.0**	**0.0**	**5.0**	**5.0**

PRUDENTIAL INDICATORS

H) Housing Revenue Account Limit on indebtedness

This purpose of this indicator is for the Council to report on the level of the limit imposed at the time of implementation of self-financing by the Department for Communities and Local Government.

HRA Limit on Indebtedness	2013/14 Approved	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£m	£m	£m	£m
HRA CFR	163.4	163.4	163.4	166.9
HRA Debt Cap (as prescribed by CLG)	166.9	166.9	166.9	166.9
Difference	3.5	3.5	3.5	0.0
HRA Actual Debt		156.7		

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Counter Party Criteria

Investment	Specified	Non-Specified	Counterparty Limit
Term deposits with banks and building societies	✓	✓	£3m *
Certificates of deposit with banks and building societies	✓	✓	Include in limits above
Term deposits with other UK local authorities (incl. Police & Fire Authorities)	✓	✓	£3m
Local Authority Bills	✓	×	Include in limits above
Debt Management Account Deposit Facility	✓	×	Unlimited
Treasury Bills (T-Bills)	✓	×	Unlimited
Gilts	✓	✓	Unlimited
Bonds issued by Multilateral development Banks	✓	✓	£3m
AAA rated Money Market Funds	✓	×	£3m per fund and 0.5% of the net asset value of the fund.Limited to 10%of investment portfolio per MMF, limit of 50% exposure to MMF's as a whole
Other Money Market and Collective Investment Schemes	✓	✓	£2m per Counterparty
Commercial paper	✓	✓	£100k

* Additional £1m for Banks with a significant UK Government share holding and a further £1m for the current account with the daily approval of the Chief Finance Officer

Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the CLG. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as determined by the Council and are not deemed capital expenditure investments under Statute. Non-specified investments are, effectively, everything else

Each Bank and Building Society has an additional limit of 15% of total funds invested at the time of the investment

The Council and its advisors, select financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns, BBB where the UK Government has a significant holding)
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

WINCHESTER CITY COUNCIL TREASURY REPORT	2012/13 31/03/2013 £'000	2013/14 31/07/2013 £'000	2013/14 31/08/2013 £'000	2013/14 30/09/2013 £'000
Term Deposits Banks & Building Societies (Cash & Cash Equivalents/Short Term Investments)				
Bank of Scotland Call Account (Lloyds Bank Group)	2,000	2,000	1,000	0
Bank of Scotland	1,000	1,000	3,000	3,000
Barclays	2,000	3,000	3,000	3,000
HSBC	2,000	2,000	2,000	2,000
Lloyds Call Account	2,000	2,000	2,000	2,000
National Westminster Bank (Current Account)	2,630	2,994	3,409	2,812
Close Brothers	1,000	2,000	2,000	2,000
Nationwide Building Society	2,000	3,000	3,000	3,000
TOTAL Banks & Building Societies	**14,630**	**17,994**	**19,409**	**17,812**
Term Deposits UK Local Authorities/LA Bills (Short Term Investments)				
Northumberland County Council	2,000	2,000	2,000	2,000
North Lanarkshire Council	1,000	1,000	1,000	1,000
TOTAL Deposits UK Local Authorities	**3,000**	**3,000**	**3,000**	**3,000**
Certificates of Deposit				
Credit Agricole	0	2,000	3,000	3,000
Nordea Bank (Finland)	0	1,000	1,000	1,000
Standard Chartered	1,000	2,000	2,000	2,000
TOTAL Certificates of Deposit	**1,000**	**5,000**	**6,000**	**6,000**
AAA Money Market Funds (Cash & Cash Equivalents)				
Federated Prime Rate MMF	2,000	0	0	0
IGNIS Sterling Fund	0	0	0	0
Morgan Stanley Fund	1,500	2,000	0	0
RBS Sterling Fund	800	0	0	0
TOTAL AAA Money Market Funds	**4,300**	**2,000**	**0**	**0**
Other Money Market Collective Investment Funds				
Federated Prime Rate Cash Plus Fund	0	1,000	1,000	1,000
TOTAL Other Money Market Collective Investment Funds	**0**	**1,000**	**1,000**	**1,000**
TOTAL Cash & Cash Equivalents and Short Term Investments	**22,930**	**28,994**	**29,409**	**27,812**
Long Term Investments				
Local Authorities Mutual Investment Trust	1,000	2,000	2,000	2,000
TOTAL Cash & Cash Equivalents, Short Term & Long Term Investments	**23,930**	**30,994**	**31,409**	**29,812**
Impaired Investments				
Heritable Bank Ltd in administration	225	225	57	57
TOTAL Cash & Cash Equivalents, Short Term, Long Term & Impaired Investments	**24,155**	**31,218**	**31,466**	**29,869**

Glossary of Terms

AAA-rating The best *credit rating* that can be given to a borrower's debts, indicating that the risk of borrowing *defaulting* is minuscule.

Base rate The key interest rate set by the Bank of England. It is the overnight interest rate that it charges to banks for lending to them. The base rate - and expectations about how the base rate will change in the future - directly affect the interest rates at which banks are willing to lend money in sterling.

Basel accords The Basel Accords refer to a set of agreements by the Basel Committee on Bank Supervision (BCBS), which provide recommendations on banking regulations. The purpose of the accords is to ensure that financial institutions have enough capital to meet obligations and absorb unexpected losses.

Basis point One hundred basis points make up a percentage point, so an interest rate cut of 25 basis points might take the rate, for example, from 3% to 2.75%.

Bill A debt *security* - or more simply an IOU. It is very similar to a *bond*, but has a maturity of less than one year when first issued.

Bond A debt *security*, or more simply, an IOU. The bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. They can be issued by companies, banks or governments to raise money. Banks and investors buy and trade bonds.

Collateralised debt obligations (CDOs) A financial structure that groups individual loans, bonds or other assets in a portfolio, which can then be traded. In theory, CDOs attract a stronger *credit rating* than individual assets due to the risk being more diversified. But as the performance of many assets fell during the financial crisis, the value of many CDOs was also reduced.

Commercial paper Unsecured, short-term loans taken out by companies. The funds are typically used for working capital, rather than fixed assets such as a new building. The loans take the form of IOUs that can be bought and traded by banks and investors, similar to bonds.

CPI The Consumer Prices Index is a measure of the price of a bundle of goods and services from across the economy. It is the most common measure used to identify inflation in a country. CPI is used as the target measure of inflation by the Bank of England and the *ECB*.

Credit default swap (CDS) A financial contract that provides insurance-like protection against the risk of a third-party borrower defaulting on its debts. For example, a bank that has made a loan to Greece may choose to hedge the loan by buying CDS protection on Greece. The bank makes periodic payments to the CDS seller. If Greece *defaults* on its debts, the CDS seller must buy the loans from the bank at their full face value. CDSs are not just used for hedging - they are used by investors to speculate on whether a borrower such as Greece will default.

Credit rating The assessment given to debts and borrowers by a *ratings agency* according to their safety from an investment standpoint - based on their creditworthiness, or the ability of the company or government that is borrowing to repay. Ratings range from *AAA*, the safest, down to D, a company that has already *defaulted*. Ratings of BBB- or higher are considered "investment grade". Below that level, they are considered "speculative grade" or more colloquially as *junk*.

Deflation Negative inflation - that is, when the prices of goods and services across the whole economy are falling on average.

Derivative A financial contract which provides a way of investing in a particular product without having to own it directly. For example, a stock market *futures* contract allows investors to make bets on the value of a stock market index such as the FTSE 100 without having to buy or sell any shares. The value of a derivative can depend on anything from the price of coffee to interest rates or what the weather is like. Credit derivatives such as *credit default swaps* depend on the ability of a borrower to repay its debts. Derivatives allow investors and banks to hedge their risks, or to speculate on markets. *Futures*, *forwards*, *swaps* and *options* are all types of derivatives.

Fiscal policy The government's borrowing, spending and taxation decisions. If a government is worried that it is borrowing too much, it can engage in austerity - raising taxes and cutting spending. Alternatively, if a government is afraid that the economy is going into recession it can engage in fiscal stimulus - cutting taxes, raising spending and raising borrowing.

Hedging Making an investment to reduce the risk of price fluctuations to the value of an asset. Airlines often hedge against rising oil prices by agreeing in advance to buy their fuel at a set price. In this case, a rise in price would not harm them - but nor would they benefit from any falls.

Impairment charge The amount written off by a company when it realises that it has valued an asset more highly than it is actually worth.

Inflation The upward price movement of goods and services.

Junk bond A *bond* with a *credit rating* of BB+ or lower. These debts are considered very risky by the *ratings agencies*. Typically the bonds are traded in markets at a price that offers a very high *yield* (return to investors) as compensation for the higher risk of *default*.

Keynesian economics The economic theories of John Maynard Keynes. In modern political parlance, the belief that the state can directly stimulate demand in a stagnating economy, for instance, by borrowing money to spend on public works projects like roads, schools and hospitals.

LAMIT Local Authorities Mutal Investment Trust, a property fund exclusively for local authorities to invest in commercial and industrial property. Its objective is to provide a satisfactory total capital and income return over the long term

Leverage Leverage, or gearing, means using debt to supplement investment. The more you borrow on top of the funds (or *equity*) you already have, the more highly leveraged you are. Leverage can increase both gains and losses. *Deleveraging* means reducing the amount you are borrowing.

Libor London Inter Bank Offered Rate. The rate at which banks in London lend money to each other for the short-term in a particular currency. A new Libor rate is set every morning by the *British Bankers Association*.

Liquidity How easy something is to convert into cash. Your current account, for example, is more liquid than your house. If you needed to sell your house quickly to pay bills you would have to drop the price substantially to get a sale.

Monetary policy The policies of the central bank. A central bank has an unlimited ability to create new money. This allows it to control the short-term interest rate, as well as to engage in unorthodox policies such as *quantitative easing* - printing money to buy up government debts and other *assets*. Monetary policy can be used to control inflation and to support economic growth.

Money markets Global markets dealing in borrowing and lending on a short-term basis.

Options A type of *derivative* that gives an investor the right to buy (or to sell) something - anything from a share to a barrel of oil - at an agreed price and at an agreed time in the future. Options become much more valuable when markets are volatile, as they can be an insurance against price swings.

Private equity fund An investment fund that specialises in buying up troubled or undervalued companies, reorganising them, and then selling them off at a profit.

PWLB Public Works Loan Board, the function of the board, derived chiefly from the Public Works Loan Act 1875 and the National Loans Act 1968, is to consider loan applications from local authorities and other prescribed bodies and to collect repayments

Quantitative easing Central banks increase the supply of money by "printing" more. In practice, this may mean purchasing government bonds or other categories of assets, using the new money. Rather than physically printing more notes, the new money is typically issued in the form of a deposit at the central bank. The idea is to add more money into the system, which depresses the value of the currency, and to push up the value of the assets being bought and to lower longer-term interest rates, which encourages more borrowing and investment. Some economists fear that quantitative easing can lead to very high inflation in the long term.

Rating The assessment given to debts and borrowers by a *ratings agency* according to their safety from an investment standpoint - based on their creditworthiness, or the ability of the company or government that is borrowing to repay. Ratings range from *AAA*, the safest, down to D, a company that has already *defaulted*. Ratings of BBB- or higher are considered "investment grade". Below that level, they are considered "speculative grade" or more colloquially as *junk*.

Rating agency A company responsible for issuing *credit ratings*. The major three rating agencies are Moody's, Standard & Poor's and Fitch.

Recapitalisation To inject fresh *equity* into a firm or a bank, which can be used to absorb future losses and reduce the risk of *insolvency*. Typically this will happen via the firm issuing new shares. The cash raised can also be used to repay debts. In the case of a government recapitalising a bank, it results in the government owning a stake in the bank. In an extreme case, such as Royal Bank of Scotland, it can lead to *nationalisation*, where the government owns a majority of the bank.

Recession A period of negative economic growth. In most parts of the world a recession is technically defined as two consecutive quarters of negative economic growth - when real output falls. In the United States, a larger number of factors are taken into account, such as job creation and manufacturing activity. However, this means that a US recession can usually only be defined when it is already over.

Securities lending When one broker or dealer lends a security (such as a bond or a share) to another for a fee. This is the process that allows *short selling*.

Securitisation Turning something into a *security*. For example, taking the debt from a number of mortgages and combining them to make a financial product, which can then be traded (see *mortgage backed securities*). Investors who buy these securities receive income when the original home-buyers make their mortgage payments.

Security A contract that can be assigned a value and traded. It could be a share, a bond or a mortgage-backed security.

Separately, the term "security" is also used to mean something that is pledged by a borrower when taking out a loan. For example, mortgages in the UK are usually secured on the borrower's home. This means that if the borrower cannot repay, the lender can seize the security - the home - and sell it in order to help repay the outstanding debt.

Spread (yield) The difference in the *yield* of two different *bonds* of approximately the same maturity, usually in the same currency. The spread is used as a measure of the market's perception of the difference in creditworthiness of two borrowers.

Stagflation The dreaded combination of inflation and stagnation - an economy that is not growing while prices continue to rise. Most major western economies experienced stagflation during the 1970s.

Swap A *derivative* that involves an exchange of cashflows between two parties. For example, a bank may swap out of a fixed long-term interest rate into a variable short-term interest rate, or a company may swap a flow of income out of a foreign currency into their own currency.

Warrants A document entitling the bearer to receive shares, usually at a stated price.

Working capital A measure of a company's ability to make payments falling due in the next 12 months. It is calculated as the difference between the company's current assets (unsold inventories plus any cash expected to be received over the coming year) minus its current liabilities (what the company owes over the same period). A healthy company should have a positive working capital. A company with negative working capital can experience cashflow problems.

Yield The return to an investor from buying a *bond* implied by the bond's current market price. It also indicates the current cost of borrowing in the market for the bond issuer. As a bond's market price falls, its yield goes up, and vice versa. Yields can increase for a number of reasons. Yields for all bonds in a particular currency will rise if markets think that the central bank in that currency will raise short-term interest rates due to stronger growth or higher inflation. Yields for a particular borrower's bonds will rise if markets think there is a greater risk that the borrower will *default*.