**Agenda Item No:9**

**TREASURY MANAGEMENT QUARTER FOUR REPORT**

| | | | |
|---|---|---|---|
| *To:* | **General Purposes Committee** | | |
| *Meeting Date:* | **19th May 2015** | | |
| *From:* | **Chief Finance Officer** | | |
| *Electoral division(s):* | **All** | | |
| *Forward Plan ref:* | **N/A** | *Key decision:* | **No** |
| *Purpose:* | **To provide the fourth quarterly update and outturn report on the Treasury Management Strategy 2014-15, approved by Council in February 2014.** | | |
| *Recommendation:* | **The General Purposes Committee is recommended to;** | | |

**a) Note the fourth quarterly update and Treasury Management Outturn Report 2014-15 and recommend it to full Council for approval.**


| | ***Officer contact:*** |
|---|---|
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## 1. BACKGROUND

1.1 Treasury Management is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code). The Code has been developed to meet the needs of Local Authorities and its recommendations provide a basis to form clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

1.2 The Code was adopted via the Treasury Management Strategy Statement (TMSS), which was approved by Council in February 2014. It requires the Council to produce an annual treasury report and a half yearly report. Alongside these, General Purposes Committee are also provided with quarterly updates on progress against the Strategy.

1.3 This report has been developed in consultation with the Council's external investment manager and treasury adviser, Capita Asset Services (CAS) and provides an update for the fourth quarter to 31st March 2015.

1.4 The report is based on forecasts and estimates and may change from the actual outturn once the accounts are closed.

## 2. SUMMARY OF KEY HEADLINES

2.1 The main highlights for the quarter are:

- Investment returns received on cash balances compares favourably to the benchmarks. A return of 0.50% was achieved compared to the 3 month London Interbank Bid Rate (LIBID) benchmark of 0.43% (see section 6).

- An underspend of £1.965m is currently reported for the debt charges budget (see section 8).

## 3. THE ECONOMIC ENVIRONMENT

3.1 A detailed economic commentary is provided in **Appendix 1**. This information has been provided by Capita Asset Services – Treasury Solutions (CAS Treasury Solutions), the Council's treasury management advisors.

3.2 During the quarter ended 31st March 2015, the significant UK headlines of this analysis were:

- The economic recovery maintained a decent pace;
- Households began to spend the proceeds of their windfall from lower energy prices;
- The labour market tightened further, but wage growth only picked up slowly;
- Consumer Price Index (CPI) inflation fell all the way to zero in February, with negative inflation imminent;
- The chances of a first increase in Bank Rate this year diminished;
- The Budget confirmed that the fiscal squeeze is set to re-intensify next year; and

- The European Central Bank (ECB) finally launched its own programme of quantitative easing.

## 4. SUMMARY PORTFOLIO POSITION

4.1 A snapshot of the Council's debt and investment position is shown in the table below:

| | **TMSS Forecast February 2014 (as agreed by Council)** | | **Actual as at 31 March 2014** | | **Actual as at 31 March 2015** | |
|---|---|---|---|---|---|---|
| | £m | Rate % | £m | Rate % | £m | Rate % |
| **Long term borrowing** | | | | | | |
| PWLB | 360.3 | | 301.6 | | 301.6 | 4.4 |
| Market | 79.5 | | 79.5 | | 79.5 | 3.6 |
| **Total long term** | **439.8** | **4.4** | **381.1** | **4.1** | **381.1** | **4.1** |
| **Short term borrowing** | - | - | - | - | - | - |
| **Total borrowing** | **439.8** | **4.4** | **381.1** | **4.1** | **381.1** | **4.1** |
| | | | | | | |
| **Investments*** | **34.3** | **0.8** | **47.5** | **0.6** | **35.5** | **0.5** |
| | | | | | | |
| **Total Net Debt / Borrowing** | **405.5** | **-** | **333.6** | **-** | **345.6** | **-** |

*Excludes £50k share capital acquired in the Municipal Bonds Agency.

4.2 Further analysis of borrowing and investments is covered in the following two sections.

## 5. BORROWING

5.1 The Council can take out loans in order to fund spending for its Capital Programme. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, forecast reserves and current and projected economic conditions.

5.2 Total borrowing is forecast to be significantly less than originally forecast and no further borrowing this year is now expected. Cash balances have been run down further, generating revenue savings and increasing internal borrowing. In addition slippage in the capital programme has resulted in a lower borrowing requirement.

**New loans and repayment of loans:**

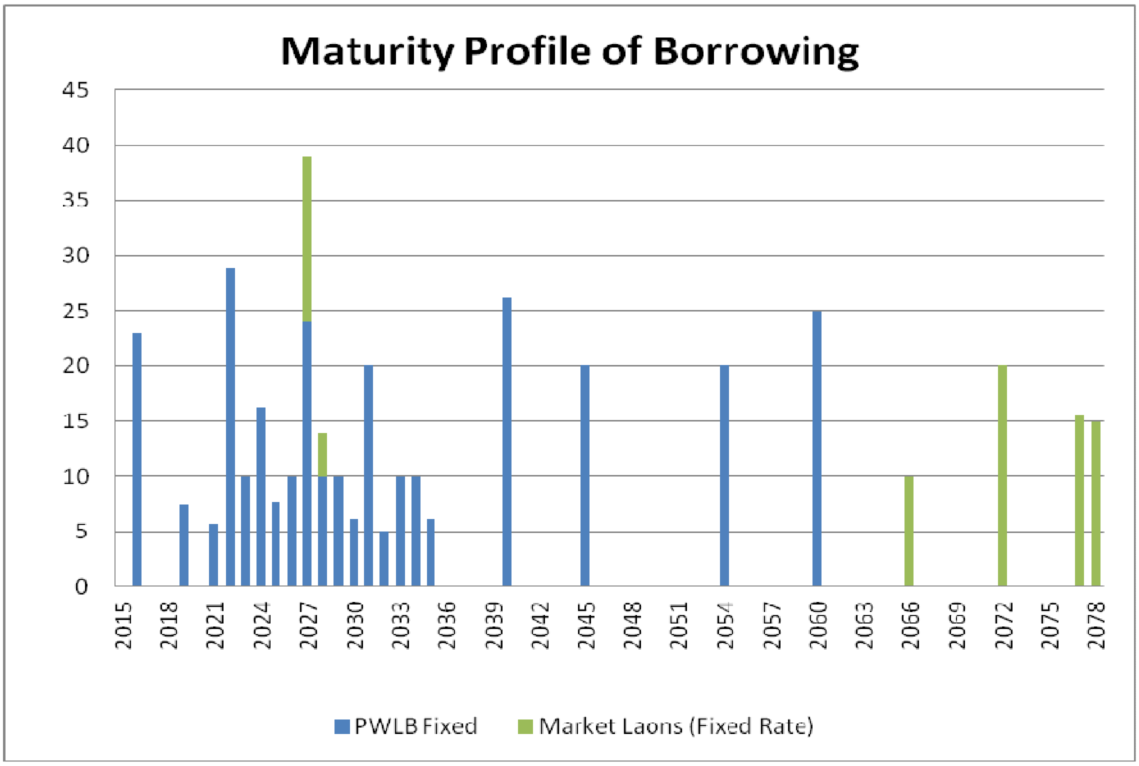
5.3 The table below shows the details new loans raised and loans repaid during the period. No loans were repaid or raised during quarter.

| Lender | Raised / Repaid | Start Date | Maturity Date | £m | Interest Rate % | Duration (yrs) |
|---|---|---|---|---|---|---|
| None | - | - | - | - | - | - |

**Maturity profile of borrowing:**

5.4 The following graph shows the maturity profile of the Council's loans. The majority of loans have a fixed interest rate and are long term which limits the Council's exposure to interest rate fluctuations. The weighted average years to maturity of the portfolio is 18.40 years.

5.5 The presentation below differs from that in Appendix 2 paragraph 4, in that LOBO loans are included at their final maturity rather than their next call date. In the current low interest rate environment the likelihood of the interest rates on these loans being raised and the loans requiring repayment at the break period is extremely low.




**Loan restructuring:**

5.6 When market conditions are favourable long term loans can be restructured to:

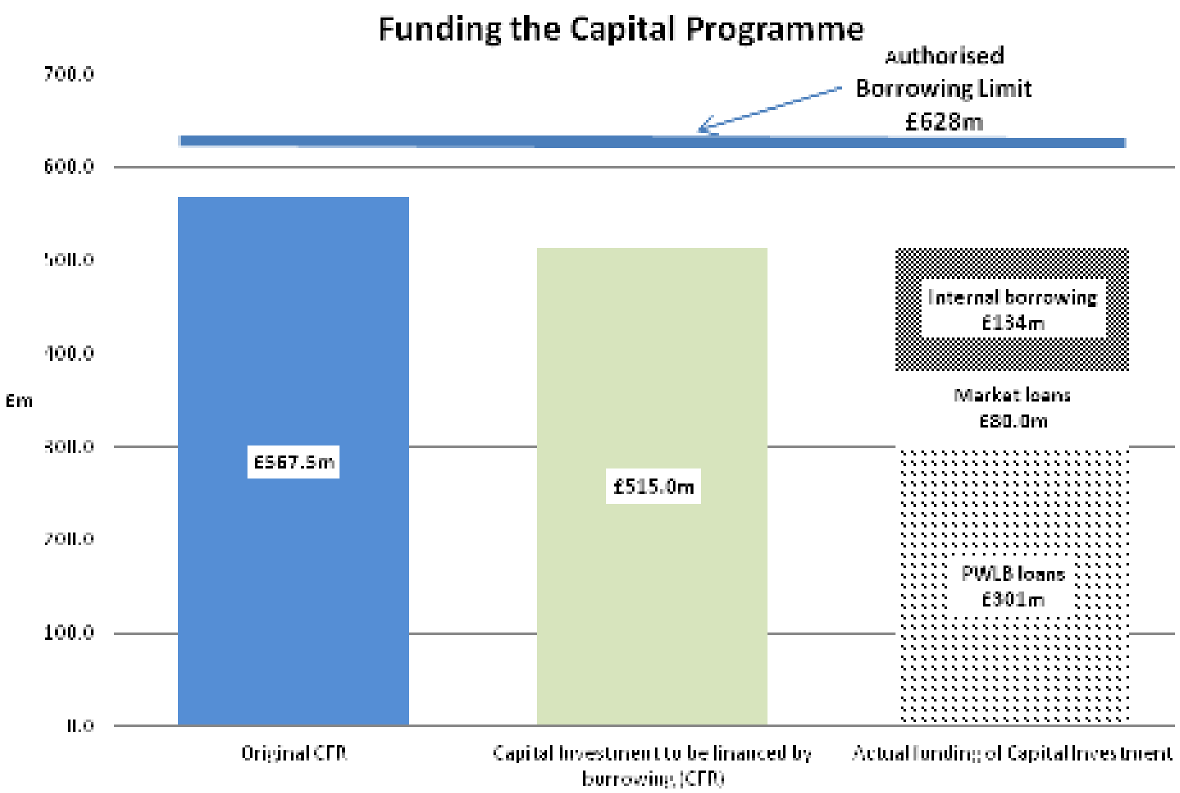
- to generate cash savings
- to reduce the average interest rate
- to enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility. (Volatility is determined by the fixed/variable interest rate mix.)

During the quarter there were no opportunities for the Council to restructure its borrowing due to the position of the Council's borrowing portfolio compared to market conditions. Debt rescheduling will be considered subject to conditions being favourable but it is unlikely that opportunities will present themselves during this year. The position will be kept under review, and when opportunities for savings do arise, debt rescheduling will be undertaken to meet business needs.

**Funding the Capital Programme:**

5.7 The Treasury Management Strategy Statement (TMSS) sets out the plan for treasury management activities over the next year. It identifies where the authority expects to be in terms of borrowing and investment levels. When the 2014-15 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR), the Council's liability for financing the agreed Capital Programme, would be £567.5m. This figure is naturally subject to change as a result of changes to the approved capital programme and spend during the year.

5.8 The graph below compares the maximum the Council could borrow in 2014-15 with the forecast CFR at 31st March 2015 and the actual position of how this is being financed at 31st March 2015.




5.9 The graph shows the Council's current capital investment that is to be funded via borrowing is significantly below the statutory Authorised Borrowing Limit set for the Council at the start of the year.

5.10 In addition, the graph shows how the Council is currently funding its borrowing requirement. As at 31st March internal borrowing is forecast to be £134m at the end of the year. Internal borrowing is the use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally.

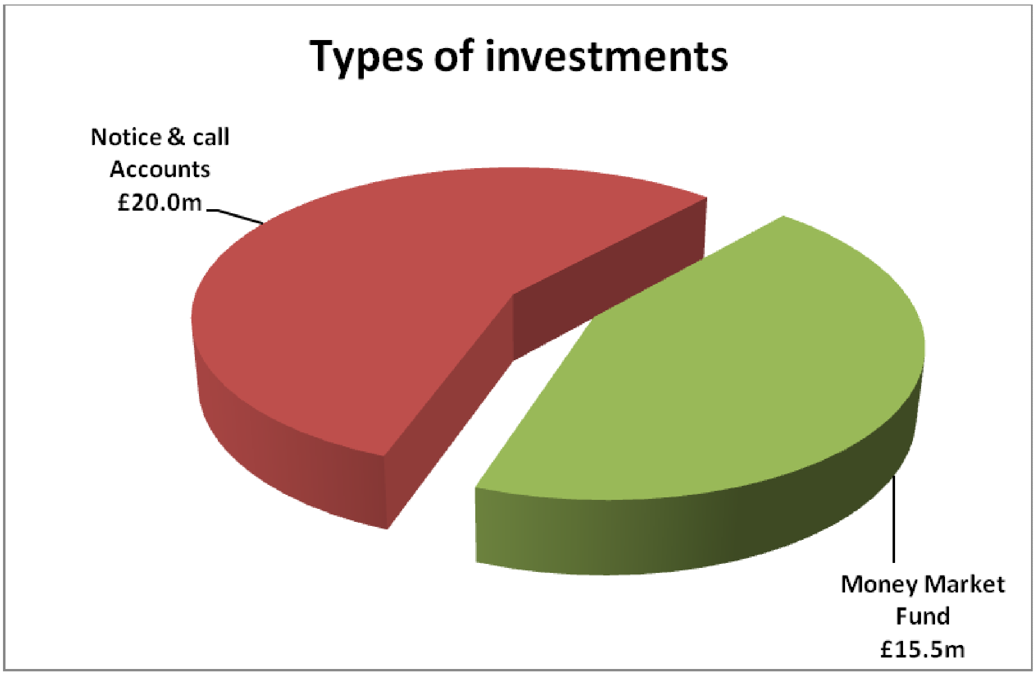
## 6. INVESTMENTS

6.1 Investment activity is carried out within the Council's counterparty policies and criteria, and with a clear strategy of risk management in line with the Council's treasury strategy for 2014-15. This ensures that the principle of considering security, liquidity and yield, in that order (SLY), is consistently applied. The Council will therefore aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity. Any variations to agreed policies and practices are reported to General Purposes Committee and Council.

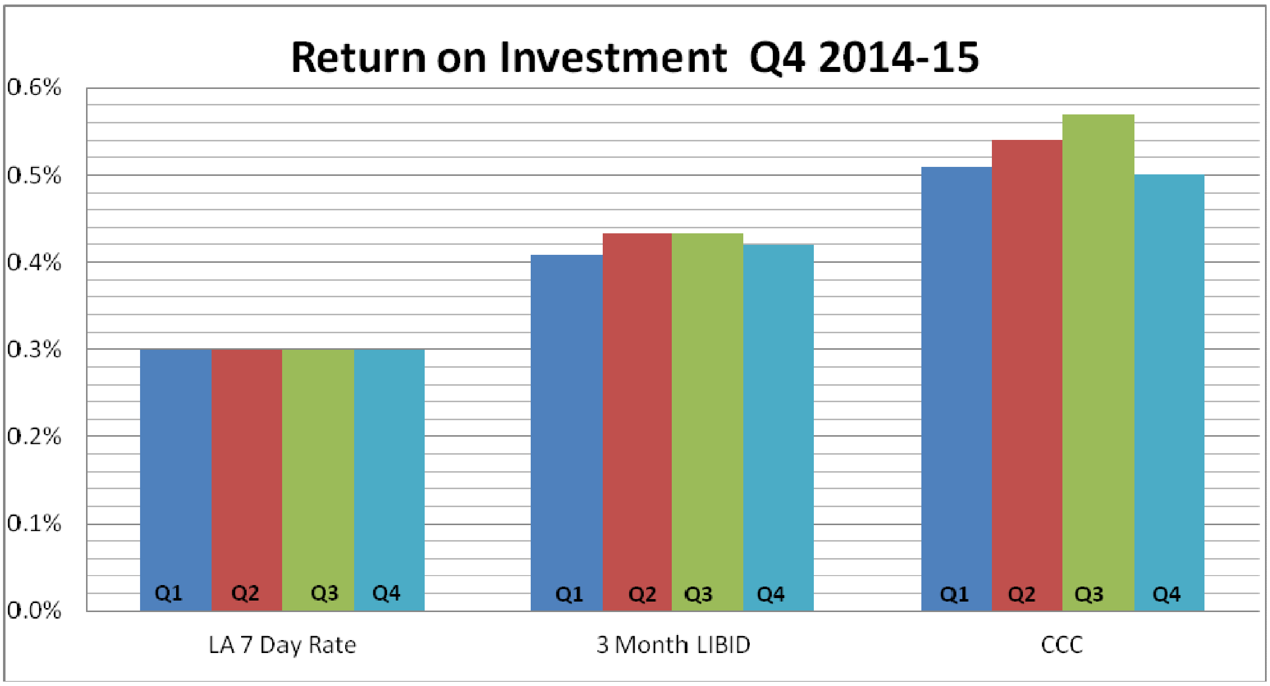
6.2 As described in paragraph 5.10, the strategy currently employed by the Council of internal borrowing also has the affect of limiting the Council's investment exposure to the financial markets, thereby reducing credit risk.

6.3 As at 31st March the level of investment totalled £35.5. The level of cash available for investment is as a result of reserves, balances and working capital the Council holds. These funds can be invested in money market deposits, placed in funds or used to reduce external borrowings. A balance sheet review is carried annually in October (once the accounts are finalised) to review the treasury management position. This is used as a starting point to project levels of cash balances and borrowing requirements in to the future.

6.4 A breakdown of investments by type are shown in the graph below, with detail at **Appendix 3**. The majority of investments are in notice and call accounts and money market funds to meet the liquidity demands for the Council. Investments are made within the boundaries of the Investment Strategy and credit worthiness criteria.




6.5 The graph below compares the returns on investments with the relevant benchmarks for each quarter this year.




6.6 It can be seen from the graph that investments returned 0.50% during the quarter, more than both the 7 day (0.30%) rate and 3 month London Interbank Bid Rate (LIBID) (0.43%) benchmarks.

6.7 Where appropriate, investments are locked out for periods of up to one year with nationalised banks (UK Government backed) at higher rates of interest. The policy does allow for longer durations should the value make it worthwhile. In a rising interest rate environment it is generally appropriate to keep investments fairly short in duration to take advantage of interest rate rises as soon as they occur. The weighted average time to maturity of investments at 31st March is 1 day.

6.8 Leaving market conditions to one side, the Council's return on investment is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument. Credit risk is a measure of the likelihood of default and is controlled through the creditworthiness policy approved by Council. The duration of an investment introduces liquidity risk; the risk that funds cannot be accessed when required, and interest rate risk; the risk that arises from fluctuating market interest rates. These factors and associated risks are actively managed by the LGSS Treasury team together with the Council's Treasury Advisors (CAS). Using credit ratings, the investment portfolio's historical risk of default stands at 0.002%. This simply provides a calculation of the possibility of average default against the historical default rates.

6.9 The Council is also a member of a benchmarking group run by CAS which shows that, for the value of risk undertaken, the returns generated are in line with the Model Band (the average range of returns across for all CAS's clients).

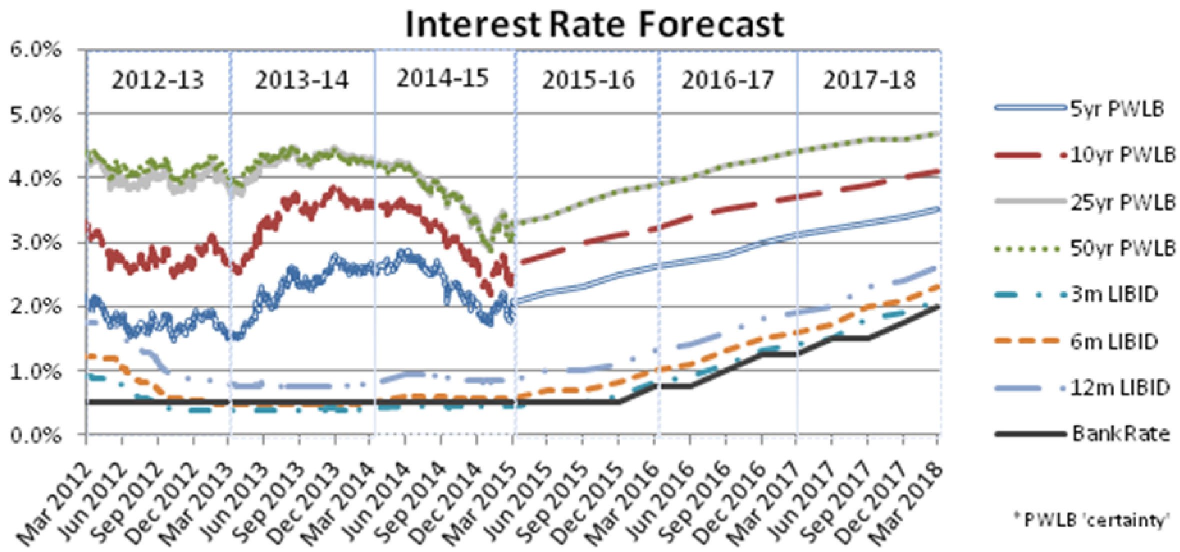
## 7. THIRD PARTY LOANS

7.1 General Purposes Committee approved a loan (in principle) of up to £4m to the Arthur Rank Hospice Charity to facilitate the construction of a new 24 bed hospice. The details of this loan have now been finalised and it is anticipated that loan advances will be made during the course of 2015-16, commencing in November 2015.

## 8. OUTLOOK

8.1 The current interest rate forecast is shown in the graph below. The forecast for the first increase in Bank Rate has been pushed back to the first quarter of 2016. However there are risks to this central forecast as the economic recovery in the UK is currently finely balanced.

8.2 Recent demands for the safe haven of gilts have depressed gilts yields and Public Works Loan Board (PWLB) rates recently. Geopolitical events make forecasting PWLB rates highly unpredictable in the shorter term. It is assumed that these fears will subside and that safe haven flows into UK Gilts will unwind and rates will rise back again over the next few quarters.




8.3 The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

8.4 From a strategic perspective, the Council is continually reviewing options as to the timing of any potential borrowing and also the alternative approaches around further utilising cash balances and undertaking shorter term borrowing which could potentially generate savings subject to an assessment of the interest rate risks involved. Cash flows this year have been sufficiently robust for the Council to use its balance sheet strength and avoid taking on new borrowing. The savings generated by this strategy have been included in the Integrated Performance Report.

## 9. DEBT FINANCING BUDGET

9.1 An underspend of £1.965m is currently forecast for Debt Charges which is broken down as follows:

9.2 £1.330m is largely due to the decision to delay long term borrowing until 2015-16 and instead utilise cash balances which has resulted in a favourable variance for interest payable. In addition we have experienced higher than forecast levels of cash balances throughout the year, so consequently interest receivable is forecast to be greater than originally budgeted. An underspend on the Minimum Revenue Provision has also contributed significantly as a result of lower than expected levels of prudential borrowing.

9.3 In March the Council received full payment of a S106 contribution for the Addenbrooke’s 2020 site (£8.5m). Accumulated accrued interest of £0.635m was also paid earlier than expected resulting in this additional saving this year which was not expected.

9.4 The following table shows the break down of the variance.

| | Budget | Estimated Outturn | Variance |
|---|---|---|---|
| | £m | £m | £m |
| Interest payable | 16.147 | 15.811 | -0.336 |
| Interest receivable | -0.349 | -1.125 | -0.776 |
| Other | 0.296 | 0.365 | 0.069 |
| Technical | -0.085 | -0.073 | 0.012 |
| MRP | 18.133 | 17.199 | -0.934 |
| **Total** | **34.142** | **32.177** | **-1.965** |

9.5 Although there is link between the capital programme, net borrowing and the revenue budget, the Debt Charges budget is impacted by the timing of long term borrowing decisions. These decisions are made in the context of other factors including, interest rate forecasts, forecast levels of cash reserves and the borrowing requirement for the Council over the life of the Business Plan and beyond.

## 10. MUNICIPAL BONDS AGENCY

10.1 This Council committed to an investment of £400k to support the launch of the Agency. To date £50k has been drawn and it is expected the remainder will be drawn down in the coming months. It is intended that the Council will use the Agency to raise borrowing during 2015-16 at a rate of interest below that available from the PWLB.

10.2 The Municipal Bonds Agency has scheduled to launch their first bond on behalf of Local Authorities in autumn of 2015 and to issue a second bond later in the year.

## 11. PWLB GOVERNANCE ARRANGEMENTS

11.1 The Government has tabled an amendment to the infrastructure Bill which would enable the Government to abolish the Public Works Loan Board and transfer its lending to another body using the processes set out in the Public Bodies Act 2011.

11.2 The Government plans to set out its proposals on transferring the lending function to another body in a consultation document in due course.

11.3 As a Council we have been reassured by the Department for Communities and Local Government that the reform is about the governance only and that that proposals will have no impact on existing loans held by local authorities or the government’s policy on Local Authority borrowing.

## 12. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

12.1 With effect from 1st April 2004 The Prudential Code became statute as part of the Local Government Act 2003 and was revised in 2011.

12.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable. To ensure compliance with this the Council is required to set and monitor a number of Prudential Indicators.

12.3 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (TMSS) and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 2.

## 13. ALIGNMENT WITH CORPORATE PRIORITIES

13.1 **Developing the local economy for the benefit of all**
There are no significant implications for this priority.

13.2 **Helping people live healthy and independent lives**
There are no significant implications for this priority.

13.3 **Supporting and protecting vulnerable people**
There are no significant implications for this priority.

## 14. SIGNIFICANT IMPLICATIONS

14.1 **Resource Implications**
This report provides information on performance against the Treasury Management Strategy. Section 8 shows the impact of treasury decisions which are driven by capital spend on the Council's revenue budget.

14.2 **Statutory, Risk and Legal Implications**
The Council continues to operate within the statutory requirements for borrowing and investments. Further details can be found within the Prudential Indicators in Appendix 2.

14.3 **Equality and Diversity Implications**
There are no significant implications within this category.

14.4 **Engagement and Consultation Implications**
There are no significant implications within this category.

14.5 **Localism and Local Member Involvement**
There are no significant implications within this category.

14.6 **Public Health Implications**
There are no significant implications within this category.

| Source Documents | Location |
|---|---|
| Treasury Management Strategy | http://tinyurl.com/ccc-cc-180214 |

**Appendix 1**

**Economic Update (provided by CAS Treasury Solutions)**

**Quarter ending 31st March 2015**

1 The economic recovery maintained a healthy pace in the quarter 4 of 2014 with a 0.6% rise in quarterly GDP (2.8% in 2014 as a whole, the strongest rate since 2006), following a 0.6% rise in Q3. Encouragingly, forward-looking indicators would suggest that the recovery has picked up further momentum in 2015. Indeed, the average Markit/CIPS composite PMI in January and February points to a pick-up in the quarterly growth rate of GDP to around 0.8%. And the CBI's monthly Composite Growth Indicator points to an even faster rate of expansion. Granted, these surveys have tended to overstate the-strength of the recovery in recent months. However, their close historical relationship with the official data suggests that the latter could be revised up in time.

2 The breakdown of the 2014 National Accounts showed that household spending made another punchy contribution to growth. Admittedly, the 0.6% expansion in household spending in Q4 was lower than Q3's 1% rise, but this was still enough to push the annual growth rate to its highest since the eve of the crisis. Early indicators suggest that the recovery in household spending maintained a decent pace in Q1 of 2015 too. Admittedly, on the basis of January and February's official data, retail sales growth looks set to slow from Q4's stellar rate. But survey measures suggest that spending on consumer services has accelerated which should offset some of this.

3 Strong growth in household spending should continue to be supported by improvements in the labour market. Indeed, the working-age employment rate rose to a record high of 73.3% in the three-months to February. Granted, the unemployment rate held steady at 5.7% in February, but this is still an impressive 1.5% lower than it was a year ago, and not that far above pre-recession levels.

4 That said, the recovery in wages has been less impressive. Granted, annual growth in average weekly earnings was 2.1% in Q4, the strongest rise since Q2 2013. However, this was partly due to especially strong bonus payments in December; earnings growth then slowed to 1.1% in January. Looking ahead, wage growth is set for a stronger recovery this year. The significant tightening in the labour market seen over the past few years should put upward pressure on wages in time and most measures of private sector pay point to an acceleration in earnings growth in the near term. What's more, although earnings growth has disappointed, the marked easing in price pressures has meant that even modest rates of wage growth are consistent with solid rises in real earnings.

5 CPI inflation fell all the way to zero in February, the lowest since 1960 on the basis of the ONS' experimental long-run series. Whilst lower petrol and utility prices pushed the headline rate down a bit, the main driver of the fall was a drop in core inflation. This perhaps reflects the delayed effect of the fall in oil prices seen over the past six months, starting to feed through into lower prices for other goods.

6 What's more, the UK looks set to experience a brief period of negative inflation soon, probably in March, when the cut in gas prices announced by British Gas (the utility company with the biggest market share), will show up in the inflation figures for the first time.

7 The present low level of inflation has raised concerns among some members of the Monetary Policy Committee, most notably the Bank of England's Chief Economist Andy Haldane, who recently said that he believes that the next move in Bank Rate is just as likely to be a rate cut than a rate hike. The key worry is that low inflation, or deflation, becomes ingrained in the economy as consumers delay their spending in anticipation of lower prices in future, and firms then cut nominal wages as prices fall.

8 Not all MPC members share his pessimism. Indeed, Mark Carney recently stated that it would be "foolish" to fight the current period of low inflation by injecting more monetary stimulus into the economy, and re-iterated that the most likely next move in interest rates is likely to be up. Nonetheless, it is clear that divisions on the MPC are once again growing, and this clouds the outlook for interest rates in the near term.

9 The MPC is unlikely to raise interest rates whilst inflation is negative. But with the risks of deflation becoming ingrained low, and the economic recovery set for another robust year of growth, there is still a chance that the MPC will make a start on raising Bank Rate before the end of 2015. Accordingly, markets may now be going too far in thinking that interest rates will remain on hold until Q3 2016. However, the MPC may be reluctant to raise interest rates when the pound is so high on its trade weighted index - so discouraging exporting and manufacturing in particular, especially at a time when the UK is running the biggest balance of payments deficit since records began in 1948. Regardless of the exact timing of the first rise in interest rates, the bigger picture is that rates will rise extremely slowly by past standards and are very unlikely to get back up to near to what was regarded as normal levels before 2008.

10 Meanwhile, March's Budget did not dramatically alter the outlook for fiscal policy. Rather than loosen policy in an attempt to win over voters ahead of May's general election, the Chancellor used the fruits of the improved fiscal position to reduce the level of borrowing, and hence the GDP / debt ratio in the years ahead. Admittedly, Mr Osborne did reduce the intended squeeze on public spending in 2019/20, but this still leaves four more years of harsh austerity, starting in 2016. Of course, these plans will almost certainly change after the election. The current polls still suggest

that the UK is headed for a hung parliament. But no matter which party is in power, the fiscal squeeze is set to re-intensify over the next couple of years.

11 Another lingering risk for the UK's economic recovery is the current account deficit. Although it narrowed a touch in Q4, from £27.7bn in Q3 to £25.3bn, this was still equivalent to a whopping 5.6% of GDP. Of particular disappointment was the investment income deficit balance which remained wide. There is a risk that foreigners become unwilling to accumulate UK assets, perhaps due to concerns about the outcome of the election or the UK's future in the European Union, leading to a sharp sell-off in sterling.

12 Internationally, there have been some encouraging signs that Eurozone GDP growth has picked up a little pace in the first quarter, after growing by a meagre 0.3% in the fourth quarter of 2014. The ECB commenced its €1.1trn total programme of monthly asset purchases in March in order to stimulate growth: this has also caused the euro to fall and bond yields to decline. However, these developments have been somewhat overshadowed by the ongoing crisis in Greece. The country is rapidly running out of time to produce a credible list of reforms that will satisfy its creditors and secure the additional bail-out payment it requires to meet its near-term financial obligations. But even if it's successful, the much more daunting challenge of finding a lasting solution to the size of the country's unsustainable debt burden will still lie ahead.

13 Meanwhile, the US economic recovery has remained robust. GDP rose by an annualised 2.2% in the fourth quarter of 2014 (2.4% overall in 2014), and early indicators suggest that growth may have picked up to between 2.5% and 3% in the first quarter this year. What's more, the jobs recovery has remained strong, with payroll employment rising by 295,000 in February, and the unemployment rate falling from 5.7% to 5.5%.

14 Finally, the FTSE 100 has outperformed the S&P 500 since the start of 2015. However, UK equities have underperformed their European counterparts as the latter have been boosted by the ECB's quantitative easing programme and improving growth prospects. Meanwhile, given the diverging paths for monetary policy in the UK and the Eurozone, the pound has appreciated by over 6% against the euro since the start of the year. But the value of sterling against the US dollar has fallen by around 5% this quarter, as investors have revised down their expectations for UK interest rates.

**Appendix 2**

## Prudential and Treasury Indicators at 31st March 2015

**Monitoring of Prudential and Treasury Indicators: approved by Council in February 2014.**

1. **Has the Council adopted CIPFA Code of Practice for Treasury Management in the Public Services?**

   The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. This is a key element of the Treasury Strategy 2014-15 which was approved by Council in February 2014.

2. **Limits for exposure to fixed and variable rate net borrowing (Borrowing less investments)**

| | Limits | Actual |
|---|---|---|
| Fixed rate | 150% | 95% |
| Variable rate | 65% | 5% |
| Total | | 100% |

The Interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% or negative depending upon the component parts of the formula. The formula is shown below:

$$\frac{\textit{Total Fixed (or Variable) rate exposure}}{\textit{Total borrowing – total investments}}$$

Fixed Rate calculation:

$$\frac{\textit{(Fixed rate borrowing £327.7m* - Fixed rate investments £0m*)}}{\textit{Total borrowing £381.1m - Total investments £35.60m}} = 95\%$$

*Defined as greater than 1 year to run

Variable Rate calculation:

$$\frac{\textit{(Variable rate borrowing £53.5m** - Variable rate investments £35.6m**)}}{\textit{Total borrowing £381.1m - Total investments £35.6 m}} = 5\%$$

** Defined as less than 1 year to run or in the case of LOBO borrowing the call date falling within the next 12 months.

3. **Total principal sums invested for periods longer than 364 days**

| | 2014-15 Limit £m | Actual £m |
|---|---|---|
| Investment longer than 364 days to run | 34.0 | 0.0 |

Notes: This indicator is calculated by adding together all investments that have greater than 364 days to run to maturity at this point in time.

4. **Limits for maturity structure of borrowing**

| | Upper Limit | Actual |
|---|---|---|
| under 12 months | 80% | 14% |
| 12 months and within 24 months | 50% | 4% |
| 24 months and within 5 years | 50% | 3% |
| 5 years and within 10 years | 50% | 23% |
| 10 years and above | 100% | 56% |

**Note:** The guidance for this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity.

**<u>Affordability</u>**

5. **Ratio of financing costs to net revenue stream**

| 2014-15 Original Estimate % | 2014-15 Revised Estimate % | Difference % |
|---|---|---|
| 9.65 | 8.81 | -0.84 |

6. **Estimated incremental impact of capital investment decisions on band D council tax**

| 2014-15 Original Estimate £ | 2014-15 Revised Estimate £ | Difference £ |
|---|---|---|
| +9.78 | -4.95 | -14.73 |

The revised estimate for the indicator is considerable less than the original estimate. This is because the underspend of £1.965m is greater than the increase in the Debt Charges budget this year. This has resulted in a fall in the incremental impact on council tax.

## Prudence

7. **Gross borrowing and the Capital Financing Requirement (estimated borrowing liability excluding PFI)**

| Original 2014-15 Capital Financing Requirement (CFR) £m | 2014-15 CFR (based on latest capital information) £m | Actual Gross Borrowing £m | Difference between actual borrowing and original CFR £m | Difference between actual borrowing and latest CFR £m |
|---|---|---|---|---|
| 567.5 | 515.0 | 381.1 | 186.4 | 133.9 |

## Capital Expenditure

8. **Estimates of capital expenditure**

For details of capital expenditure and funding please refer to the monthly capital report.

## External Debt

9. **Authorised limit for external debt**

| 2014-15 Authorised Limit £m | Actual Borrowing £m | Headroom £m |
|---|---|---|
| 627.5 | 381.1 | 246.4 |

The Authorised limit is the statutory limit on the Council's level of debt and must not be breached. This is the absolute maximum amount of debt the Council may have in the year.

10. **Operational boundary for external debt**

| 2014-15 Operational Boundary £m | Actual Borrowing £m | Headroom £m |
|---|---|---|
| 597.5 | 381.1 | 216.4 |

The operational boundary is set as a warning signal that debt has reached a level nearing the Authorised limit and must be monitored carefully.

**Appendix 3**

## Investment Portfolio as at 31st March 2015

| Class | Type | Deal Ref | Start Date | Maturity Date | Counterparty | Profile | Rate | Principal O/S (£) |
|---|---|---|---|---|---|---|---|---|
| Deposit | Call | CCC/CE/6 | 01/12/14 | | Barclays Bank plc | Maturity | 0.5000% | 20,000,000.00 |
| | **Call Total** | | | | | | | **20,000,000.00** |
| Deposit | LGA Bonds Agency Investments | CCC/59 | 25/09/14 | 25/09/24 | Local Capital Finance Company Ltd | Maturity | 0.4950% | 50,000.00 |
| | **Variable Total** | | | | | | | **50,000.00** |
| Deposit | Money Market Fund | CCC/ST/3 | 31/03/14 | | Ignis Sterling Liquidity 2 GBP | Maturity | 0.4734% | 15,555,000.00 |
| | **MMF Total** | | | | | | | **15,555,000.00** |
| **Deposit Total** | | | | | | | | **35,605,000.00** |