Agenda item:

Decision maker:	Cabinet City Council
Subject:	Treasury Management Outturn 2011/12
Date of decision:	17 September 2012 (Cabinet) 27 September 2012 (Governance and Audit Committee) 16 October (City Council)
Report by:	Chris Ward, Head of Financial Services & Section 151 Officer
Wards affected:	All

Key decision: No
Budget & policy framework decision: No

1. Summary

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code requires local authorities to calculate prudential indicators before the start of and after each financial year. Those indicators that the Council is required to calculate at the end of the financial year are contained in Appendix A of this report.

The CIPFA Code of Practice on Treasury Management also requires the Section 151 Officer to prepare an annual report on the outturn of the previous year by 30 September 2012. This information is shown in Appendix B of the report.

2. Purpose of report

The purpose of this paper is to report on:

- The outturn Prudential Indicators for 2011/12
- The Treasury Management decisions taken over the course of 2011/12

3. Background

The Local Government Act 2003 requires local authorities to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.

The Prudential Code requires local authorities to adopt the CIFPA Code of Practice for Treasury Management in the Public Sector, which the City Council originally adopted in April 1994. Under the Code of Practice for Treasury Management an Annual Policy Statement is prepared setting out the strategy and objectives for the coming financial year. The Cabinet approved the policy statement for 2011/12 on 22 March 2011.

The Code of Practice also requires the Section 151 Officer to prepare an annual report on the outturn of the previous year by the 30 September 2012. This information is shown under Appendices B of the report.

4. Recommendations

That the following recommendations relating to Appendices A and B of this report be approved:

Appendix A - That the following actual prudential indicators based on the unaudited draft accounts be noted:

(a) The actual ratio of non Housing Revenue Account (HRA) financing costs to the non HRA net revenue stream of 13.6%;

(b) The actual ratio of HRA financing costs to the HRA net revenue stream of 4.4%;

(c) Actual non HRA capital expenditure for 2011/12 of £26,380,000;

(d) Actual HRA capital expenditure for 2011/12 of £110,905,000;

(e) The actual non HRA capital financing requirement as at 31 March 2012 of £282,371,000;

(f) The actual HRA capital financing requirement as at 31 March 2012 of £144,350,000;

(g) Actual external debt as at 31 March 2012 was £455,731,045 compared with £287,815,695 in 2010/11.

Appendix B - That the following actual Treasury Management indicators for 2011/12 be noted:

(a) The Council's gross debt less investments at 31 March 2012 was £217,364,000;

(b) The Council's sums invested for periods longer than 364 days at 31 March 2012 were:

	Actual £m
31/3/2012	16
31/3/2013	0
31/3/2014	0

(c) The Council's fixed interest rate exposure at 31 March 2012 was £346m, ie. the Council had net fixed interest rate borrowing of £346m

(d) The Council's variable interest rate exposure at 31 March 2012 was (£223m), ie. the Council had net variable interest rate investments of £223m

(e) The maturity structure of the Council's borrowing was

	Under 1 Year	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**11 to 20 Years**	**21 to 30 Years**	**31 to 40 Years**	**41 to 50 Years**
Actual	1%	4%	3%	5%	9%	12%	8%	58%

5. Implications

The net cost of Treasury Management activities and the risks associated with those activities have a significant effect on the City Council's overall finances. Effective Treasury Management provides support to the organisation in the achievement of its business and service objectives.

6. Corporate priorities

This report and the activities it refers to contribute to the following Corporate Priority:

- Improve efficiency and encourage involvement

7. Equality impact assessment (EIA)

A preliminary equalities impact assessment on Treasury Management Policy was carried out in March 2012.

8. Legal implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

9. Head of Finance's comments

All financial considerations are contained within the body of the report and the attached appendices

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Signed by Head of Financial Services & Section 151 Officer

Appendices:

Appendix A: Prudential Indicators
Appendix B: Treasury Management Outturn

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Treasury Management Files	Financial Services
2	

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the Cabinet on 17 September 2012.

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Signed by: the Leader of the Council

ACTUAL PRUDENTIAL INDICATORS

1. RATIO OF FINANCING COSTS TO NET REVENUE STREAM 2011/12

This ratio reflects the annual cost of financing net debt as a proportion of the total revenue financing received. It therefore represents the proportion of the City Council's expenditure that is largely fixed and committed to repaying debt. The higher the ratio, the lower the flexibility there is to shift resources to priority areas and/or reduce expenditure to meet funding shortfalls.

For the General Fund, this is the annual cost of financing debt and as a proportion of total income received from General Government Grants, Non Domestic Rates and Council Tax. The ratios of financing costs to net revenue streams for the General Fund in 2011/12 were as follows:

	Original Estimate	Actual
	£'000	£'000
Financing Costs:		
Interest Payable	18,607	18,457
Interest Receivable	(2,098)	(1,856)
Provision for Repayment of Debt	9,599	9,792
Effect of financial regulations on premiums & discounts	(3)	(3)
Total Financing Costs	**26,105**	**26,390**
Net Revenue Stream	**194,102**	**194,093**
Ratio of Financing Costs to Net Revenue Stream	**13.4%**	**13.6%**

Interest Payable was £150,000 less than the original estimate. This is mainly due to a higher proportion of the Council's borrowing costs being met by the HRA as a result of land being appropriated into the HRA at 31 March 2011.

Interest Receivable was £242,000 lower than the original estimates due to lower than anticipated interest being received on investments.

The provision for the repayment of debt was £193,000 greater than the original estimate due to a higher than anticipated capital financing requirement at the end of 2010/11. The capital financing requirement is a measure of the Council's unfunded capital expenditure, ie. its need to borrow.

The ratio of Housing Revenue Account (HRA) financing costs to net revenue stream is shown below. For the HRA, this is the annual cost of financing long term debt, as a proportion of total gross income received including housing rents and charges.

	Original Estimate	**Actual**
HRA	1.8%	4.4%

The actual percentage of HRA financing costs to net revenue stream is higher than anticipated. This is mainly because the actual HRA Item 8 consolidated interest rate was higher than estimated. The HRA capital financing requirement was also higher than anticipated following the appropriation of land into the HRA on 31 March 2011 which increased the proportion of the Council's interest payable that was charged to the HRA.

3. ACTUAL CAPITAL EXPENDITURE 2011/12

Actual capital expenditure in 2011/12 was as follows:

	Estimate £'000	Actual £'000
Culture & Leisure	3,041	2,232
Children's & Education Services	16,738	5,622
Environment & Community Safety	1,721	3,570
Health & Social Care (Adults Services)	1,523	1,148
Resources	6,470	3,763
Millennium	1,080	28
Planning, Regeneration & Economic Development	1,049	458
Commercial Port	7,123	2,760
Traffic & Transportation	6,432	3,994
Licensing	-	2
Housing General Fund	5,137	2,803
Total Non HRA	**50,314**	**26,380**
HRA	30,060	110,905
Total	**80,374**	**137,285**

Actual capital expenditure was £56.9m above the original capital programme. The main variances were as follows:

<u>Children's and Education Services - £11.1m Underspend</u>

The main reasons for the underspend on the Children's and Education Services capital programme was a £4.9m underspend due to the slippage of the Primary Capital Programme, a £2.4m underspend due to the withdrawal of the Building Schools for the Future Programme and £2.6m of unspent Schools Devolved Capital allocations.

Environment & Community Safety - £1.8m Overspend

This overspend is due to the purchase of a fleet of waste collection vehicles for £2.6m in connection with the new waste collection contract. This was partly offset by slippage on sea defence schemes.

Resources - £2.7m Underspend

This underspend is due to £1.1m of slippage on the landlords maintenance due to the re-prioritisation of works and the contingency provision in the budget not being used. There was £0.5m slippage in capitalised repairs to the electrical distribution system whilst the IS Data Centre was completed. There was £0.4m of slippage in capital advances to MMD (Shipping Services) Ltd. There was also slippage of £0.4m on relocating staff at Merefield House to the Civic Offices and on providing new meeting rooms on the ground floor of the Civic Offices.

Millennium - £1.1m Underspend

This is due to slippage on the Millennium Walkway scheme resulting from difficulties in concluding legal agreements.

Commercial Port - £4.4m Underspend

Expenditure in 2011/12 on extending Berth 2 was £2m less than anticipated due to slippage and the successful tender being lower than anticipated. Expenditure on dredging in 2011/12 was £1.2m less than anticipated due to slippage whilst negotiations take place on repositioning the mooring of HMS Bristol in the adjacent Naval Base. There was also £1m of slippage on the final phase of the scheme to provide a new passenger terminal whilst negotiations with the contractor progress.

Traffic & Transportation - £2.4m Underspend

This underspend is mainly due to delays in obtaining Government funding for the Tipner motorway junction and park and ride scheme, and the scheme to rebuild Northern Road Bridge.

Housing General Fund - £2.3m Underspend

This underspend is largely due to slippage resulting from delays in drawing up legal agreements for the new loan packages and marketing them. There was also slippage in providing support to registered social landlords to provide new affordable housing whilst negotiations continued.

Housing Revenue Account (HRA) - £80.8m Overspend

Some of the rental income relating to council housing was paid to the Government in the form of negative HRA subsidy. The Localism Act included measures to repeal the Housing Revenue Account (HRA) subsidy system and replace it with powers for the Secretary of State for Communities and Local Government to introduce self-financing. This will be achieved via a reallocation of housing debt, after which councils retain all the rental income they collect. The settlement date for the HRA Self Financing payment to the Government was brought forward from 1st April 2012 to 28th March 2012.This meant that capital expenditure which would have been incurred in 2012/13 was incurred in 2011/12.

4. ACTUAL CAPITAL FINANCING REQUIREMENT

This represents the underlying requirement to borrow for capital expenditure. It takes the total value of the City Council's fixed assets and determines the amount that has yet to be repaid or provided for within the Council's accounts. The capital financing requirement also forms the basis of the calculation of the amount of money that has to be set aside for the repayment of outstanding General Fund debt. The capital financing requirement is increased each year by any new borrowing and reduced by any provision for the repayment of debt. The higher the capital financing requirement, the higher the amount that is required to be set aside for the repayment of debt in the following year.

The actual capital financing requirements as at 31st March 2012 were as follows:

	Original Estimate	Actual
	£'000	£'000
Non HRA	306,860	282,371
HRA	42,381	144,350
Total	349,241	426,721

The non-HRA capital financing requirement is lower than the original estimate due to slippage in the capital programme.

When the Council approved the original capital programme on 8th February 2011 it was anticipated that the HRA Self Financing payment of £88.6m would be made on 1st April 2012. The Government brought forward the settlement day for the HRA Self Financing payment to 28th March 2012. This has resulted in the HRA capital financing requirement at 31st March 2012 being higher than was anticipated.

5. ACTUAL EXTERNAL DEBT

At 31 March 2012, the City Council's level of external debt amounted to £455,731,045 consisting of the following:

- Long Term Borrowing £364,885,310
- Finance leases £5,362,807
- Service concessions (including PFI schemes) £85,482,928

Section 12 of the Local Government Act gives a local authority the power to invest for "any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs". While the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there is no legal obstacle to the temporary investment of funds borrowed for the purpose of funding capital expenditure incurred in the reasonably near future.

Some of the rental income relating to council housing was paid to the Government in the form of negative HRA subsidy. The Localism Act included measures to repeal the existing Housing Revenue Account (HRA) subsidy system and replace it with powers for the Secretary of State for Communities and Local Government to introduce self-financing. This was achieved via a reallocation of housing debt on 28th March 2012, after which councils will retain all the rental income they collect. The Council was required to pay the Government £88.6m on 28th March 2012.

Lower interest rate expectations and continuing concerns over the Euro zone sovereign debt caused a reduction in gilt yields and PWLB rates in April. With the expected direction of future gilt yields being upwards at that time, consideration was given to borrowing part of the Housing Revenue Account (HRA) Self Financing payment to the Government. With this in mind £34m was borrows from the PWLB in May 2011.

Risk adverse attitudes in the financial markets caused a further reduction in gilt yields and PWLB rates in August 2011. With the expected direction of future gilt yields being upwards consideration was given to borrowing more of the Housing Revenue Account (HRA) Self Financing payment to the Government. With this in mind a further £50m was borrowed from the PWLB in August 2011.

On 29 September the Chief Secretary to the Treasury announced that local authorities would be allowed to borrow from the Public Works Loans Board (PWLB) at National Loans Fund (NLF) rates to fund the HRA Self Financing payment. NLF rates are typically 1.13% below the rates the PWLB normally offers to local authorities. The PWLB will make NLF rates available to local authorities on 26 March 2012 for the purposes of funding HRA Self Financing payments. Despite local authorities being given indicative HRA Self Financing payment figures before the start of this financial year, there was no indication that the PWLB would offer loans at NLF rates prior to 29 September. The only way that the Council could benefit from these interest rates was to borrow in advance of need.

On 20th March 2012 the Council therefore gave the Head of Financial Services and Section 151 Officer delegated authority to borrow up to £50m in advance of need as measured by the Capital Financing Requirement from 23rd March 2012. This was the estimated borrowing required to support the Council's capital programme until 2016/17.

On 28th March the Council borrowed £88.6m from the PWLB at NLF rates. As a consequence the Council's external debt exceeded its capital financing requirement by £29m at 31st March 2012.

In effect, the Council took advantage of the NLF rates and borrowed £88.6m and subsequently applied the borrowing to fund the HRA Self Financing "buy out". The Council then switched the original PWLB borrowing of £84m taken earlier in the year and applied that to fund existing capital expenditure and retained the balance of £29m for future capital investment which has already been approved by the Council.

The overall level of debt has increased between 2010/11 and 2011/12 by £167,915,350.

6. CODE OF PRACTICE

The Prudential Code requires local authorities to adopt CIPFA's Code of Practice for Treasury Management in Local Authorities. The City Council has complied with this code.

APPENDIX B

TREASURY MANAGEMENT DECISIONS 2011/12

1. GOVERNANCE

Treasury management activities were performed within the Prudential Indicators approved by the City Council.

Treasury management activities were also performed in accordance with the Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council. However some existing investments did not meet the City Council's 2011/12 investment criteria. This was due to tighter criteria for long term investments and financial institutions being down rated by credit rating agencies during the year. The last of these investments matured on 19th December 2011.

In addition, many other financial institutions were downgraded by the credit rating agencies during 2011/12 so that their lowest credit rating was less than the A+ credit rating required by the 2011/12 Annual Investment Strategy. This meant that Barclays Bank and Lloyds TSB ceased to meet the Council's investment criteria. At 31st March 2012 the Council had £7m invested in Barclays Bank and £3.4m invested in Lloyds TSB.

2. FINANCING OF CAPITAL PROGRAMME

The 2011/12 capital programme was financed as follows:

Source of Finance	Anticipated £'000	Actual £'000
Corporate Reserves (including Capital Receipts)	11,473	4,478
Grants & Contributions	25,502	15,601
Revenue & Reserves	22,126	18,386
Long Term Borrowing	21,273	98,820
Total	80,374	137,285

The settlement date for the HRA Self Financing payment of £88.6m to the Government was brought forward from 1st April 2012 to 28th March 2012. However there was also significant slippage on other parts of the capital programme. This meant that less capital resources were generally used to finance the capital programme, but more expenditure was funded from long term borrowing. £88.6m of long term borrowing was used to fund the HRA Self Financing payment. If the HRA Self Financing payment had not been brought forward into 2011/12 there would also have been a reduction in long term borrowing used to fund capital expenditure.

3. INTEREST RATE FORECASTS FOR 2011/12

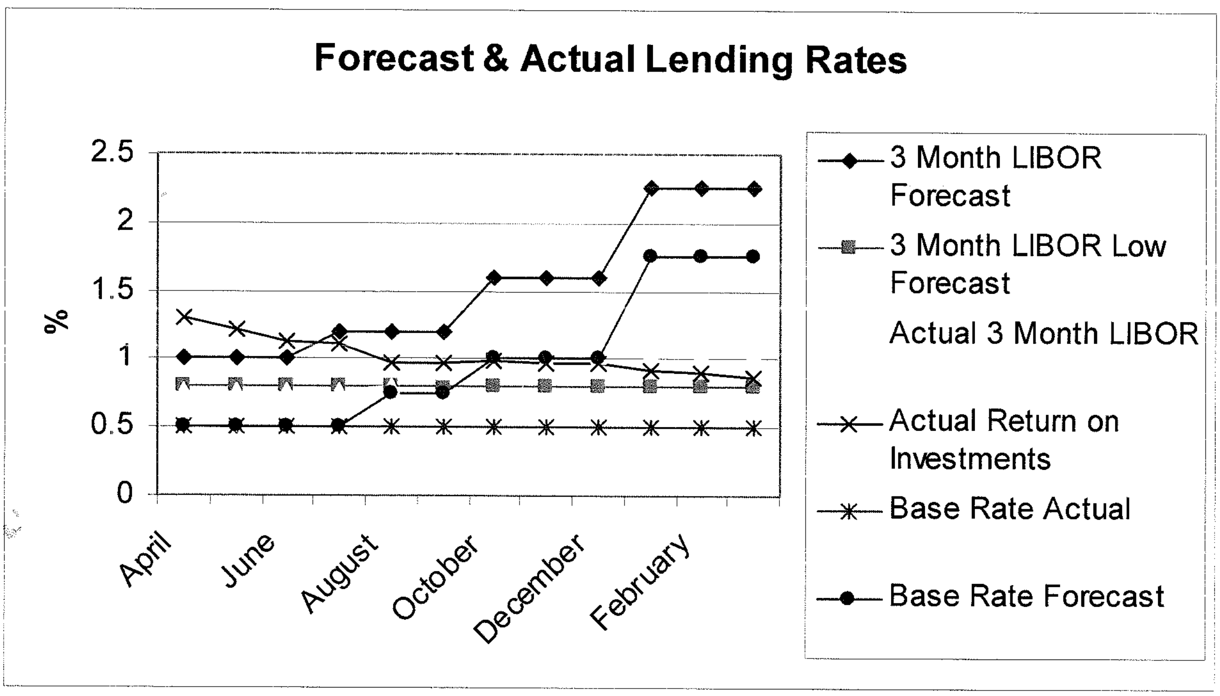
The City Council employed Sterling Consultancy Services to provide interest rate forecasts. When the policy statement was written in February 2011, it was anticipated that the bank base lending rate would remain at 0.5% until August 2011 and then gradually increase. Some monetary tightening was thought to be necessary to anchor inflation expectations to target and offset high imported inflation with lower domestically generated inflation.

The actual bank base lending rate remained at 0.5% for the whole of the financial year.

The table below shows a comparison of the interest rates used in calculating the City Council's annual estimates and the actual interest rates.

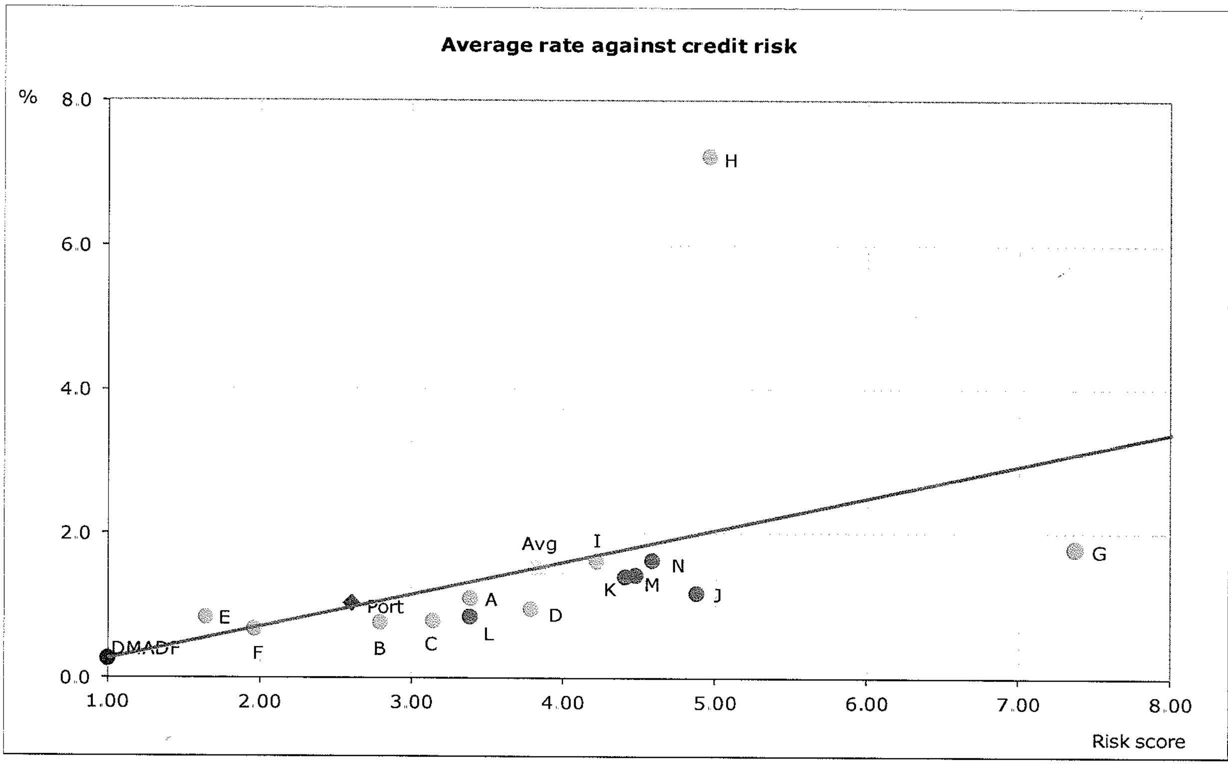
	Anticipated for New Loans %	Actual for New Loans %
Short Term Interest Rates		
- Temporary Lending	1.00	0.93
Long Term Rates		
- Borrowing	5.55	4.00

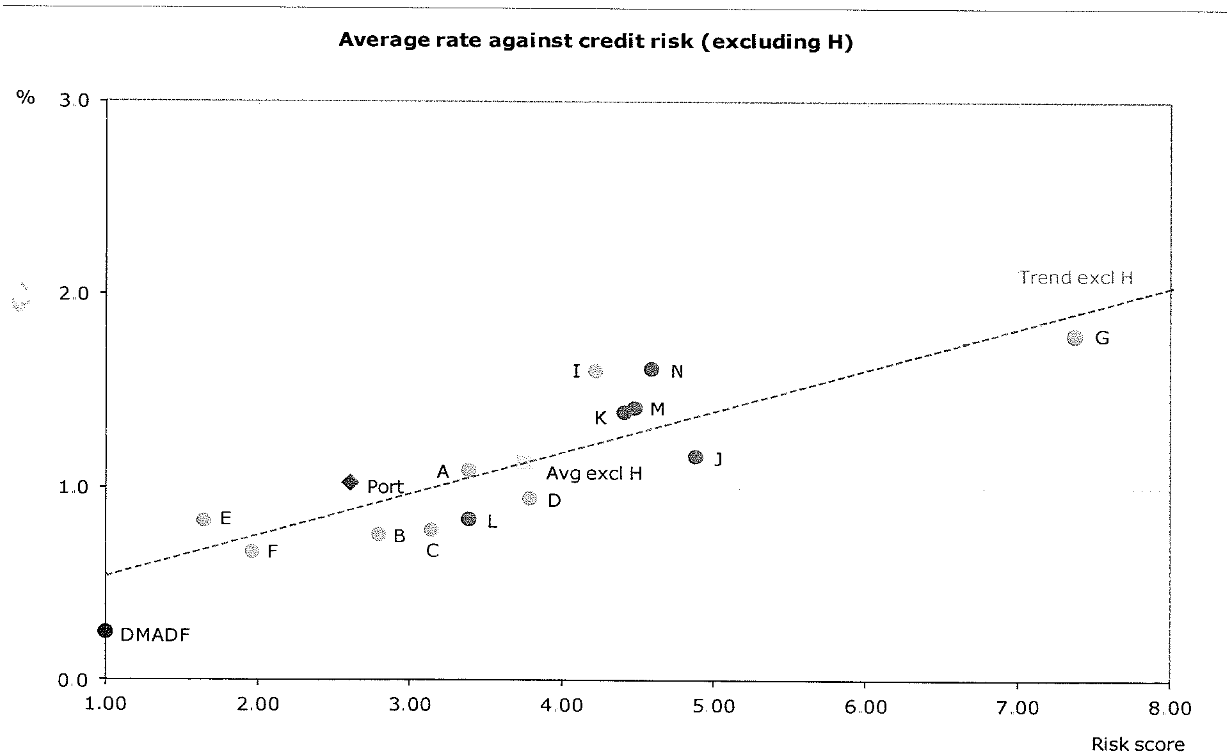
The overall return on the City Council's investments is shown in the graph below:



The City Council's overall returns on its investments fell as existing investments made in previous years matured and were replaced by new investments at the lower rates which were available at the time. The decline in investment returns was compounded by financial institutions being downgraded by the credit rating agencies which reduced the number of counter parties that met the Council's investment criteria. This meant that more funds had to be invested in other local authorities and money market funds that pay lower rates of interest.

The City Council's investment activities are benchmarked by Sterling Consultancy Services against 14 other councils. The graphs below show the councils' average rates of return against credit risk.





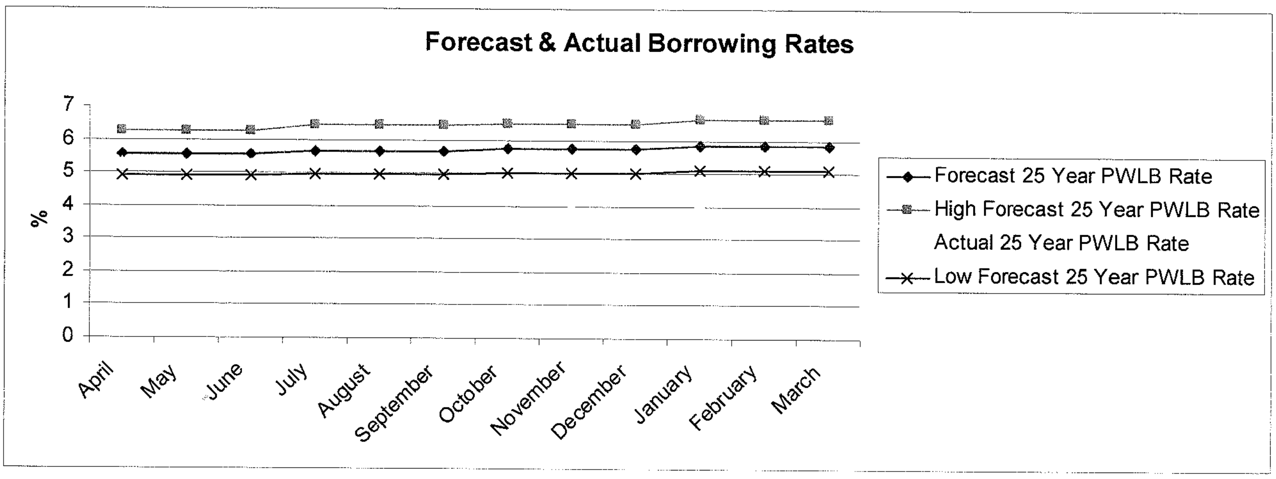
The top graph charts the whole group, whereas the bottom excludes council H.

Authority H on the graph significantly out performed the rest of the benchmarking club with a portfolio of long term tradable investments with an average maturity of 23 years. Authority H's return of 7.4% was made through net gains on the sale of tradable investments. This is a high risk portfolio as either the authority has borrowed well in advance of need or the average maturity of the portfolio greatly exceeds the time frame when the portfolio will need to be liquidated to meet the authority's need for cash. The high risk nature of this portfolio is illustrated by the fact that the value of authority H's investments varied from a 23% gain in October to a 10% loss in February and March.

The trend excluding H is a better fit for the remaining authorities and is perhaps more representative of the risk / reward payoff of pure cash portfolios.

Portsmouth is above both lines of best fit, suggesting it has received investment returns broadly commensurate with the risk accepted.

The City Council uses Sterling Consultancy Services 25 year Public Works Loans Board (PWLB) forecast to estimate the cost of new borrowing. The 25 year PWLB rate started between Sterling Consultancy Services low and probable forecasts, but then fell below the low forecasts as the Euro zone debt crisis deepened.



4. SOURCES OF FINANCE

(a) Long Term Borrowing 2011/12 (more than 364 days)

The following loans were taken out from the Public Works Loans Board (PWLB) in 2011/12:

Date of Advance	**Amount**	**Term**	**Interest Rate**	Repayment*
9th May	£20m	31 years	5.01%	EIP
16th May	£14m	20 years	4.52%	EIP
16th August	£25m	30 years	4.44%	EIP
23rd August	£25m	30 years	4.19%	EIP
28th March	£30.5m	49 years	3.49%	Maturity
28th March	£30.6m	50 years	3.48%	Maturity
28th March	£27.5m	48 years	3.49%	Maturity

* EIP = Equal Installment of Principal

Substantial new borrowing was undertaken in 2011/12 as PWLB rates were very low. The three loans advanced in March were taken out at a special concessionary rate made available to local authorities required to make HRA Self Financing Payments to the Government. These arrangements were not announced by the Government until 29th September.

(b) Short Term Borrowing Requirements 2011/12 (less than 365 days)

The Section 151 Officer has delegated powers to undertake long and short term borrowing within an approved limit set by the City Council. The authorised limit for borrowing in 2011/12 was £507m.

The City Council was in a lending position for the whole of the financial year so this limit was not exceeded at any time during 2011/12 and no temporary borrowing was outstanding at the year-end.

(c) Long Term Lending

The Council had £30.5m of long term investments at the start of 2011/12. £16.5m of these investments matured in 2011/12 including £2m taken back by a borrower exercising an option. £2m was invested long term with another local authority in May 2011 bringing total long term investments to £16m at 31 March 2012. The average return on long term investments was 1.75%. Interest rates on long term investments at 31 March 2012 ranged from 1.0% to 1.45%.

(d) Temporary Lending

The remaining surplus funds were invested in the short term, ie. for less than 365 days. The average return on short-term investments was 0.93%. Interest rates on short-term investments at 31 March 2012 ranged from 0.40% to 2.05%.

5. NET DEBT

The Council's net borrowing position at 31 March 2012 was as follows:

	31 March 2011 £'000	**31 March 2012** £'000
Borrowing	193,652	364,885
Finance Leases	6,109	5,363
Service Concession Arrangements (including PFIs)	88,055	85,483
Gross Debt	**287,816**	**455,731**
Investments	(136,242)	(238,367)
Net Debt	**151,574**	**217,364**

The Council's gross debt less investments is well within the upper limit set by the Council on 20th March 2012 of £263,740k. This is a new treasury management indicator introduced by CIPFA's 2011 revision of the Treasury Management Code of Practice. The Council has a high level of investments relative to its gross debt due to a high level of reserves, partly built up to meet future commitments under the Private Finance Initiative schemes and future capital expenditure.

The £172.6m of borrowing taken in 2011/12 to take advantage of the very low PWLB rates has also temporarily increased the Council's cash balances.

The high level of investments increases the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. In the interim period where investments are high because loans have been taken in advance of need, there is also a short term risk that the rates (and therefore the cost) at which money has been borrowed will be greater than the rates at which those loans can be invested . Those loans however, are at very favorable rates. The level of investments will fall as capital expenditure is incurred and commitments under the PFI schemes are met.

6. SECURITY OF INVESTMENTS

The risk of default has been managed through investing only in financial institutions that meet minimum credit ratings, limiting investments in any institution to £20m and spreading investments over countries and sectors.

The 2011/12 Treasury Management Policy approved by the City Council on 22 March 2011 only permitted deposits to be placed with the Council's subsidiaries, namely MMD (Shipping Services) Ltd, the United Kingdom Government, other local authorities and financial institutions that have the following minimum credit ratings:

<u>Short Term Rating</u>

F1 (or equivalent) from Fitch, Moody's (P-1) or Standard and Poor (A-1)

<u>Long Term Rating</u>

A+ (except for the Co-operative Bank who hold the Council's main current accounts) or equivalent from Fitch, Moody's or Standard & Poor

<u>Individual / Financial Strength Rating</u>

C from Fitch or Moody's (Standard & Poor do not provide these ratings)

<u>Support Rating</u>

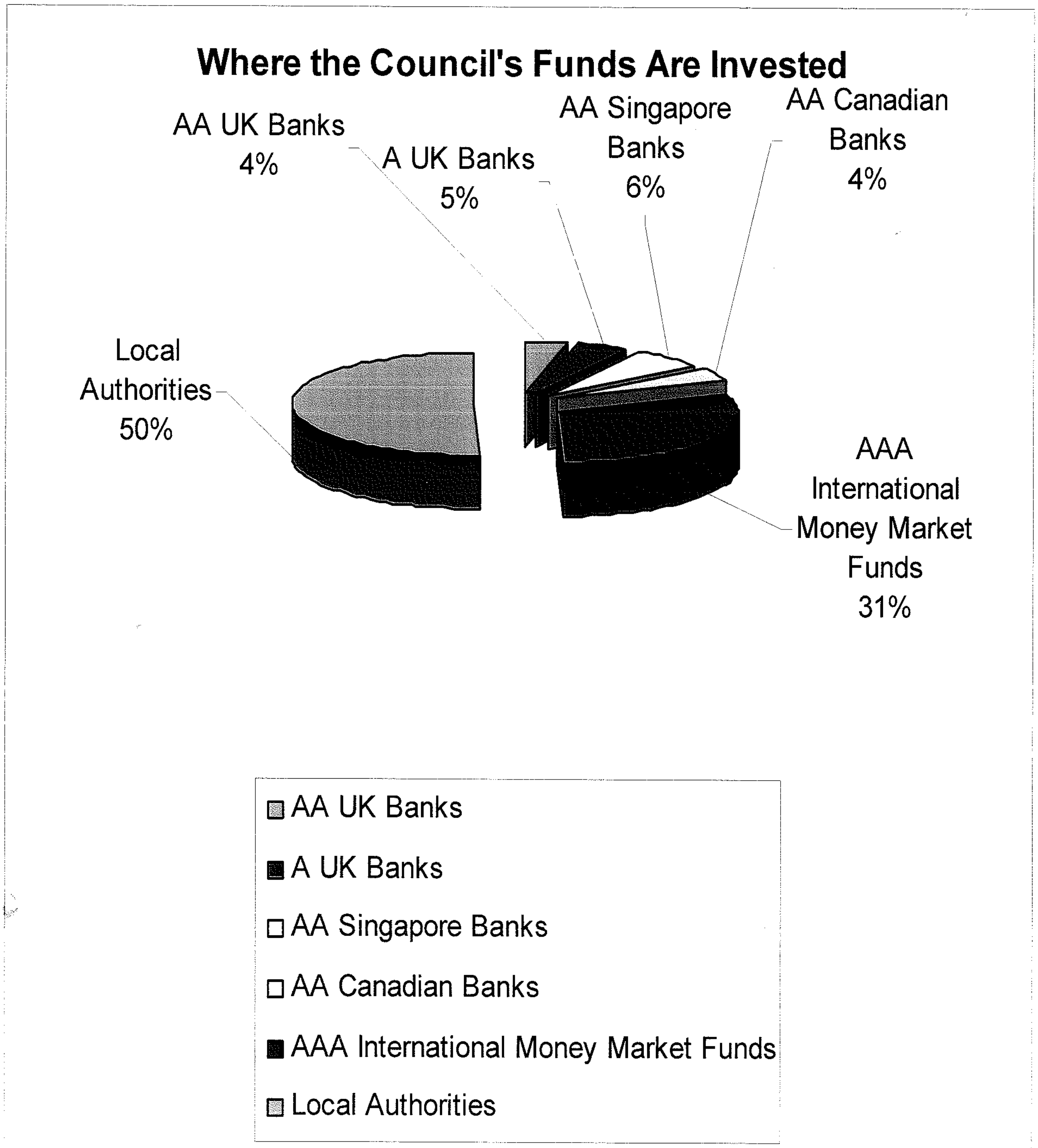
1 from Fitch

The credit rating agencies have down rated many financial institutions in recent years following the economic recession. The possibility of the government providing less financial support and requiring wholesale depositors to bear some of the losses if a bank or building society fails has been a particular concern to the credit rating agencies.

Consequently at 31st March 2012 the City Council had £10.4m invested with institutions that met the Council's criteria at the time the investment was made, but which no longer meet the Council's criteria. This accounted for 4% of the Council's investment portfolio. Once funds have been invested in a fixed term deposit, there is no provision in the contract for funds to be withdrawn prematurely.

At 31 March 2012 the City Council had on average £8.2m invested with each institution.

The chart below shows how the Council's funds were invested at 31 March.



7. LIQUIDITY OF INVESTMENTS

The 2011/12 Treasury Management Policy sought to maintain the liquidity of the portfolio, ie. the ability to liquidate investments to meet the Council's cash requirements, through maintaining at least £10m in instant access accounts. At 31st March 2012 £72.9m was invested in instant access accounts. Whilst short term investments provide liquidity and reduce the risk of default, under normal circumstances they do also leave the Council exposed to falling interest rates. However, with interest rates close to zero that risk is now negligible.

Under CIPFA's Treasury Management Code it is necessary to specify limits on the amount of long term investments, ie. Investments exceeding 364 days that have maturities beyond year end in order to ensure that sufficient money can be called back to meet the Council's cash flow requirements. The Council's performance against the limits set by the City Council on 22nd March 2011 is shown below.

	Limit (Not Exceeding) £m	**Actual** £m
31/3/2012	16	16
31/3/2013	0	0
31/3/2014	0	0

8. INTEREST RATE RISK

This is the risk that interest rates will move in a way that is adverse to the City Council's position.

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for fixed interest rate exposures. Fixed interest rate borrowing exposes the Council to the risk that interest rates could fall and the Council will pay more interest than it need have done. Long term fixed interest rate investments expose the Council to the risk that interest rates could rise and the Council will receive less income than it could have received. However fixed interest rate exposures do avoid the risk of budget variances caused by interest rate movements. The Council's performance against the limits set by the City Council is shown below.

	Limit £m	Actual £m
Maximum Projected Gross Borrowing – Fixed Rate	374	362
Minimum Projected Gross Investments – Fixed Rate	(16)	(16)
Fixed Interest Rate Exposure	358	346

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes also require local authorities to set upper limits for variable interest rate exposures. Variable interest rate borrowing exposes the Council to the risk that interest rates could rise and the Council's interest payments will increase. Short term variable interest rate investments expose the Council to the risk that interest rates could fall and the Council's investment income will fall. Variable interest rate exposures carry the risk of budget variances caused by interest rate movements. The Council's performance against the limits set by the City Council is shown below.

	Limit £m	Actual £m
Minimum Projected Gross Borrowing – Variable Rate	-	-
Maximum Projected Gross Investments – Variable Rate	(374)	(223)
Variable Interest Rate Exposure	(374)	(223)

The City Council is particularly exposed to interest rate risk because all the City Council's debt is made up of fixed rate long term loans at relatively low interest rates, but most of the City Council's investments are short term. Future movements in the Bank Base Rate tend to affect the return on the Council's investments, but leave fixed rate long term loan payments unchanged.

The risk of a 0.5% increase in interest rates to the Council is as follows:

Effect of +/- 0.5% Rate Change	**2012/13** £'000	**2013/14** £'000	**2014/15** £'000
Long Term Borrowing	-	2	55
Investment Interest	(793)	(1,072)	(998)
Net Effect of +/- 0.5% Rate Change	**(793)**	**(1,070)**	**(943)**

9. REFINANCING RISK

This is the risk that maturing borrowings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings. It is therefore preferable that the maturity structure of the Council's borrowing should be reasonably even.

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper and lower limits for the maturity of borrowings in defined periods. The Council's performance against the limits set by the City Council is shown below.

	Under 1 Year	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**11 to 20 Years**	**21 to 30 Years**	**31 to 40 Years**	**41 to 50 Years**
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	6%	6%	18%	30%	60%	60%	60%	80%
Actual	1%	4%	3%	5%	9%	12%	8%	58%

10. REVENUE COSTS OF BORROWING 2011/12

(a) Interest & Provision for Debt Repayment

Interest 2011/12	Revised Estimate 2011/12 £	Actual 2011/12 £	Variance +/- £
PWLB – Maturity Loans	7,480,655	7,506,050	25,395
PWLB - E.I.P Loans	3,247,597	3,247,597	0
Other Long Term Loans	511,500	512,901	1,401
HCC Transferred Debt	516,590	516,056	(534)
Interest on Finance Lease	288,589	298,981	10,392
Interest on Service Concession Arrangements (including PFIs)	9,271,935	9,275,819	3,884
Interest Payable to External Organisations	173,810	202,791	28,981
Net Discounts on Early Redemption of Loans	(2,631)	(2,640)	(9)
	21,488,045	21,557,555	69,510
Deduct			
Temporary Lending	(2,271,997)	(2,211,482)	60,515
	19,216,048	19,346,073	130,025
Provision for Repayment of Debt	9,817,342	9,791,834	(25,508)
	29,033,390	29,137,907	104,517

(b) Debt Management Costs

The Council's debt management expenses for 2011/12 were as follows.

Debt Management Costs

	£
PWLB & Brokers Commission	60,417
Other Expenses	9,624
Support Service Charges	79,786
	149,827