Agenda item:

Decision maker:	Cabinet City Council
Subject:	Treasury Management Outturn 2013/14
Date of decision:	25 September 2014 (Cabinet) 26 September 2014 (Governance and Audit and Standards Committee) 14 October 2014 (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. Purpose of report

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. This information is shown in Appendix B of the report.

2. 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 10.3%;

(b) The actual ratio of HRA financing costs to the HRA net revenue stream of 12.2%;

(c) Actual non HRA capital expenditure for 2013/14 of £61,687,000;

(d) Actual HRA capital expenditure for 2013/14 of £30,110,000;

(e) The actual non HRA capital financing requirement as at 31 March 2014 of £267,848,000;

(f) The actual HRA capital financing requirement as at 31 March 2014 of £143,557,000;

(g) Actual external debt as at 31 March 2014 was £441,970,134 compared with £450,283,442 at 31 March 2013.

Appendix B - That the following actual Treasury Management indicators for 2013/14 be noted:

(a) The Council's gross debt less investments at 31 March 2014 was £145,209,000;

(b) 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	4%	1%	3%	5%	9%	13%	16%	49%

(c) The Council's sums invested for periods longer than 364 days at 31 March 2014 were:

	Actual £m
31/3/2014	108
31/3/2015	66
31/3/2016	51

(d) The Council's fixed interest rate exposure at 31 March 2014 was £247m, ie. the Council had net fixed interest rate borrowing of £247m

(e) The Council's variable interest rate exposure at 31 March 2014 was (£189m), ie. the Council had net variable interest rate investments of £189m

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 2013/14 on 19 March 2013.

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

This report is based on the Council's unaudited draft accounts as the audit is not due to be completed until the end of September. Basing the report on the unaudited draft accounts will enable the report to be considered in the September / October meeting cycle rather than in November.

4. Reasons for Recommendations

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.

6. 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.

7. Head of Finance's comments

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

………………………………………………………………….
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 City Council on 25 September 2014.

………………………………………………
Signed by: the Leader of the Council

APPENDIX A

ACTUAL PRUDENTIAL INDICATORS

1. RATIO OF FINANCING COSTS TO NET REVENUE STREAM 2013/14

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 2013/14 were as follows:

	Original Estimate	Actual
	£'000	£'000
Financing Costs:		
Interest Payable	17,541	17,738
Interest Receivable	(1,146)	(1,659)
Provision for Repayment of Debt	8,948	3,618
Effect of financial regulations on finance leases, premiums & discounts	(664)	(662)
Total Financing Costs	**24,679**	**19,035**
Net Revenue Stream	**186,054**	**184,415**
Ratio of Financing Costs to Net Revenue Stream	**13.3%**	**10.3%**

Interest Receivable was £0.5m more than the original estimates. This was due to the interest rates on the Council's investments being higher than had been anticipated.

The provision for the repayment of debt was £5.3m less than the original estimate. This is mainly because on 3 June 2013 the City Council resolved to use City Deal grant to repay the entire principal due on the Council debts in 2013/14 and to reduce the revenue provision for the repayment of debt by the amount of principal repaid using City Deal grant. The City Deal grant from the Government is conditional on it being applied to fund capital expenditure or to repay the principal on borrowing by 30 June 2015. This will help to ensure that the 30 June 2015 deadline is achieved.

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	12.4%	12.2%

The actual percentage of HRA financing costs to net revenue stream is lower than anticipated. This is because the actual HRA Item 8 Credit consolidated interest rate, ie. the interest rate applied to surplus HRA cash, was higher than estimated.

2. ACTUAL CAPITAL EXPENDITURE 2013/14

There has been significant under spending against the original budget. This is mostly due to slippage or funding not being available. Therefore the under spend does not represent additional capital resources. Actual capital expenditure in 2013/14 was as follows:

	Estimate £'000	**Actual £'000**
Culture & Leisure	4,283	2,245
Children's & Education Services	19,027	9,554
Environment & Community Safety	636	812
Health & Social Care (Adults Services)	1,162	1,455
Resources	7,770	3,368
Millennium	812	(254)
Planning, Regeneration & Economic Development	2,503	1,169
Commercial Port	1,379	959
Traffic & Transportation	29,375	31,643
Housing General Fund	2,810	2,061
Local Enterprise Partnership	-	8,675
Total Non HRA	**69,757**	**61,687**
HRA	34,723	30,110
Total	**104,480**	**91,797**

Actual capital expenditure was £12.7m below the original capital programme. The main variances were as follows:

Culture & Leisure - £2.1m Underspend

This underspend is due to slippage on a number of capital schemes. The relocation of the Council's archives to Southsea Library took longer to implement than had been anticipated. The final contract payment for the Mountbatten Centre upgrade is being withheld pending the outcome of a legal dispute over responsibility for the sports hall floor. The original proposal to build 100 new beach huts has been withdrawn following public consultation and a revised scheme has yet to be prepared and approved. Expenditure on the D Day Museum has been re-profiled over 5 years.

Children's and Education Services - £9.5m Underspend

The principal reason for this underspend was the removal of £7m of unsupported borrowing from the capital programme regarding the Schools Strategy scheme (formerly Building Schools for the Future). In addition there was £1.4m of slippage on the extension and re-modelling of Goldsmith Infants School due to changes to the design, and £1.1m of slippage due to the re-profiling of expenditure on the establishment of Milton Park Primary School.

Resources - £4.4m Underspend

The principal reason for this underspend is the re-phasing £3.6m of capital investment at the Council's subsidiary company, MMD (Shipping Services) Ltd over a further two years. This also has the effect of spreading the planned capital advances to MMD by the Council over a longer period. In addition, the contingency provision built into the landlord's maintenance budget was not required.

Millennium - £1.1m Underspend

The original capital programme included provision to complete the Millennium walkway from Gunwharf Quays to the Historic Dockyard. It was subsequently decided that this scheme did not provide the best value for money and it was abandoned. The abandonment of the scheme also meant that £0.3m of capitalised costs that had previously been incurred had to be written off to revenue.

Planning, Regeneration and Economic Development - £1.3m Underspend

This was due to delays in the design and planning of the Northern Quarter redevelopment scheme.

Local Enterprise Partnership - £8.7m Overspend

After the original capital programme was approved, the Council changed its accounting policy in relation to the Solent Local Enterprise Partnership (LEP) which receives government grants which are then used to lend to other organisations. The Council amended its accounting policy because it believes that it is the principal in the LEP's transactions as it has a veto on all lending and bears the credit risk of lending by the LEP. The new approach is to include the Solent LEP's income, expenditure (including capital expenditure), assets and liabilities in its accounts. This has resulted in the Council's accounts including £8.7m of capital expenditure that had not been included in the original estimates.

Housing Revenue Account (HRA) - £4.6m Underspend

The underspend of £4.6m, is due to a number of projects that have slipped from 2013/14 into future years of the capital programme. This slippage was partly due to wet weather conditions over the winter which hampered the progress of building projects.

3. 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 2014 were as follows:

	Original Estimate	**Actual**
	£'000	£'000
Non HRA	290,697	267,848
HRA	141,744	143,557
Total	432,441	411,405

The capital financing requirement is lower than the original estimate due to less capital works financed by borrowing being undertaken in 2012/13 which led to a lower than anticipated opening capital financing requirement at 1 April 2013, and further underspending on capital works financed by borrowing in 2013/14.

4. ACTUAL EXTERNAL DEBT

At 31 March 2014, the City Council's level of external debt amounted to £441,970,134 consisting of the following:

- Long Term Borrowing £354,822,109
- Finance leases £3,775,310
- Service concessions (including PFI schemes) £83,372,715

The overall level of debt, excluding debt managed by Hampshire County Council, has reduced between 2012/13 and 2013/14 by £8,313,308.

5. 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 2013/14

1. GOVERNANCE

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

Treasury management activities are also governed by the Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council. Treasury management activities were performed in accordance with these policies with the exception of investment activity on 28 March when the Council received £48.8m of City Deal Grant. The Council was only informed that it would be receiving this grant in 2013/14 on 25 March. Consequently this was not taken account in the Treasury Management Policy, and the limit on investments in money market funds and the variable interest rate exposure limit were exceeded for one day on 28 March.

When the City Deal Grant of £48.8m was received on 28 March, it had to be invested that day. Rather than invest all of this sum over a longer term on 28 March at the interest rates available on that day, it was decided to invest this sum in instant access AAA rated money market funds until better longer term investment opportunities arose. This resulted in the limit for investments in money market funds of £80m being exceeded by £5.2m on 28 March. AAA rated money market funds are a low risk form of investment as they are well diversified and the constituent investments are of short durations. However, money market funds can invest in the same institutions as the Council, and different money market funds can invest in the same institutions as each other, which can result in a concentration of risk in a particular institution.

This also resulted in the Council's variable interest rate exposure limit of (£189m), ie. net variable interest rate investments of £189m, being exceeded by £10.8m on 28 March. 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. However, these risks are currently mitigated by the very low interest rates currently offered by the market for investments.

2. FINANCING OF CAPITAL PROGRAMME

The 2013/14 capital programme was financed as follows:

Source of Finance	Anticipated £'000	Actual £'000
Corporate Reserves (including Capital Receipts)	12,380	2,581
Grants & Contributions	43,630	62,757
Revenue & Reserves	33,745	23,970
Long Term Borrowing	14,725	2,489
Total	104,480	91,797

There was significant slippage in the capital programme and some schemes were curtailed or abandoned. This meant that less capital resources were used to finance the capital programme.

In addition the Council received £48.8m of City Deal Grant which must be applied to finance capital expenditure or to the repayment of principal on borrowing by 30 June 2015. In order to ensure that this deadline is achieved, the amount of capital expenditure financed by City Deal Grant has been maximized. This has resulted in more capital expenditure being financed from grants and contributions than had been anticipated and less capital expenditure being financed from other sources than had been anticipated.

3. ECONOMIC BACKGROUND

After strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, it appears that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. In the February 2014 Inflation Report, the MPC therefore broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of indicators. Accordingly, markets are expecting a first increase around the end of 2014, though recent comments from MPC members have emphasised they would want to see strong growth well established, and an increase in labour productivity / real incomes, before they would consider raising Bank Rate.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.6% in March: forward indications are that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19.

The Federal Reserve has continued with its monthly $10bn reductions in asset purchases which started in December; asset purchases have now fallen from $85bn to $55bn and are expected to stop by the end of 2014, providing strong economic growth continues in the remainder of the year.

4. GROSS AND NET DEBT

The Council’s net borrowing position at 31 March 2014 excluding accrued interest was as follows:

	1 April 2013	**31 March 2014**
	£’000	£’000
Borrowing	358,173	354,822
Finance Leases	4,538	3,775
Service Concession Arrangements (including PFIs)	84,221	83,373
Gross Debt	**446,932**	**441,970**
Investments	(246,068)	(296,761)
Net Debt	**200,864**	**145,209**

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 £84m of borrowing taken in 2011/12 to take advantage of very low PWLB rates has also temporarily increased the Council's cash balances. The Council's investments increased by £51m in 2013/14. This was mainly due to the receipt of £48.8m of City Deal grant on 28 March 2014. However these reserves are fully committed and are not available to fund new expenditure.

The current 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. The level of investments will fall as capital expenditure is incurred and commitments under the Private Finance Initiative (PFI) schemes are met.

5. DEBT RESCHEDULING

Under certain circumstances it could be beneficial to use the Council's investments to repay its debt. However this normally entails paying a premium to the lender, namely the Public Works Loans Board (PWLB). Debt rescheduling is only beneficial to the revenue account when the benefits of reduced net interest payments exceed the cost of any premiums payable to the lender. Debt rescheduling opportunities have been limited in the current economic climate and by the structure of interest rates following increases in PWLB new borrowing rates in October 2010.

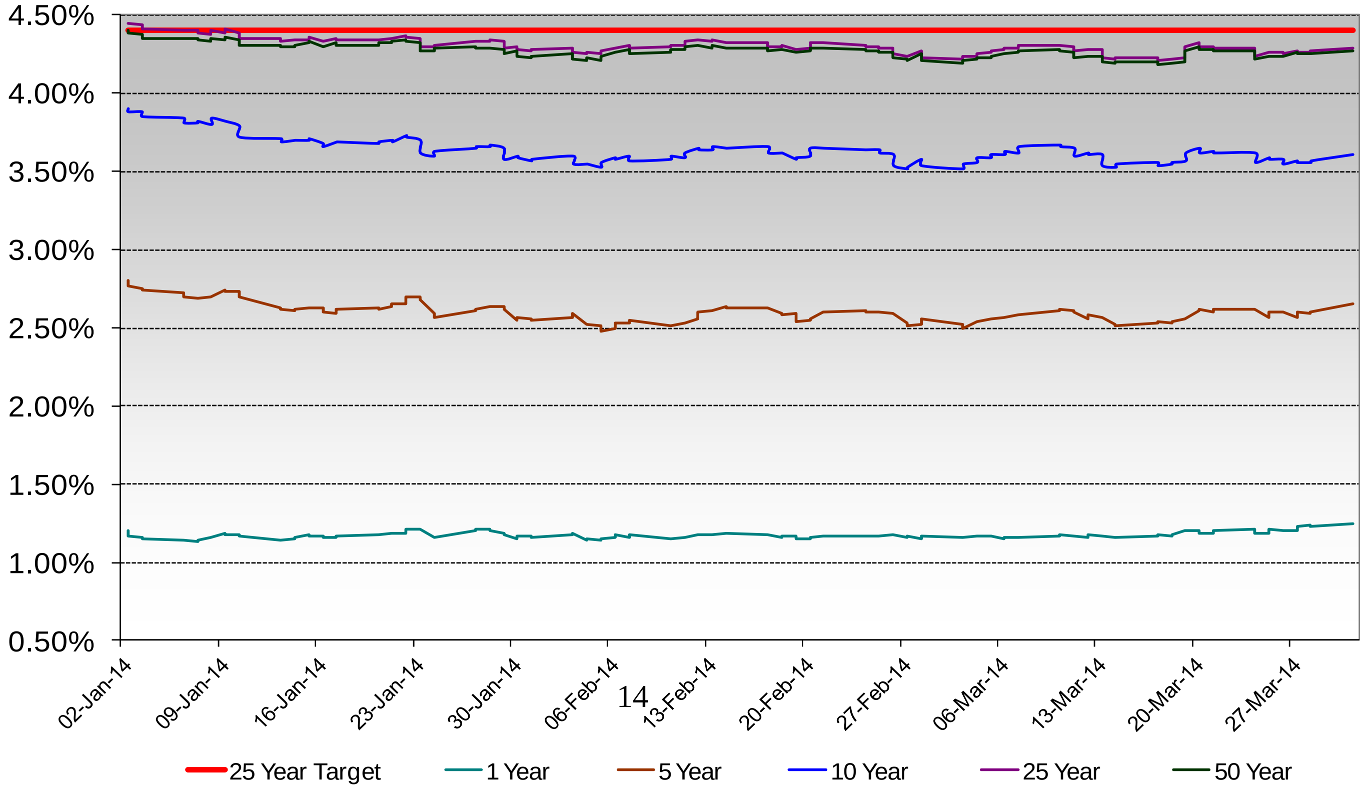
No debt rescheduling was undertaken in 2013/14.

6. BORROWING ACTIVITY

On 20th March 2012 the Council 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 in order to fund the HRA Self Financing payment at the National Loans Fund rates offered by the Government. This was the estimated borrowing required to support the Council's capital programme until 2016/17.

On 28th March 2012 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 £30.6m at 31st March 2014.

The table below shows the PWLB rates in 2013/14.



No new long term borrowing was undertaken in 2013/14.

7. REFINANCING RISK

In recent years the cheapest loans have often been very long loans repayable at maturity.

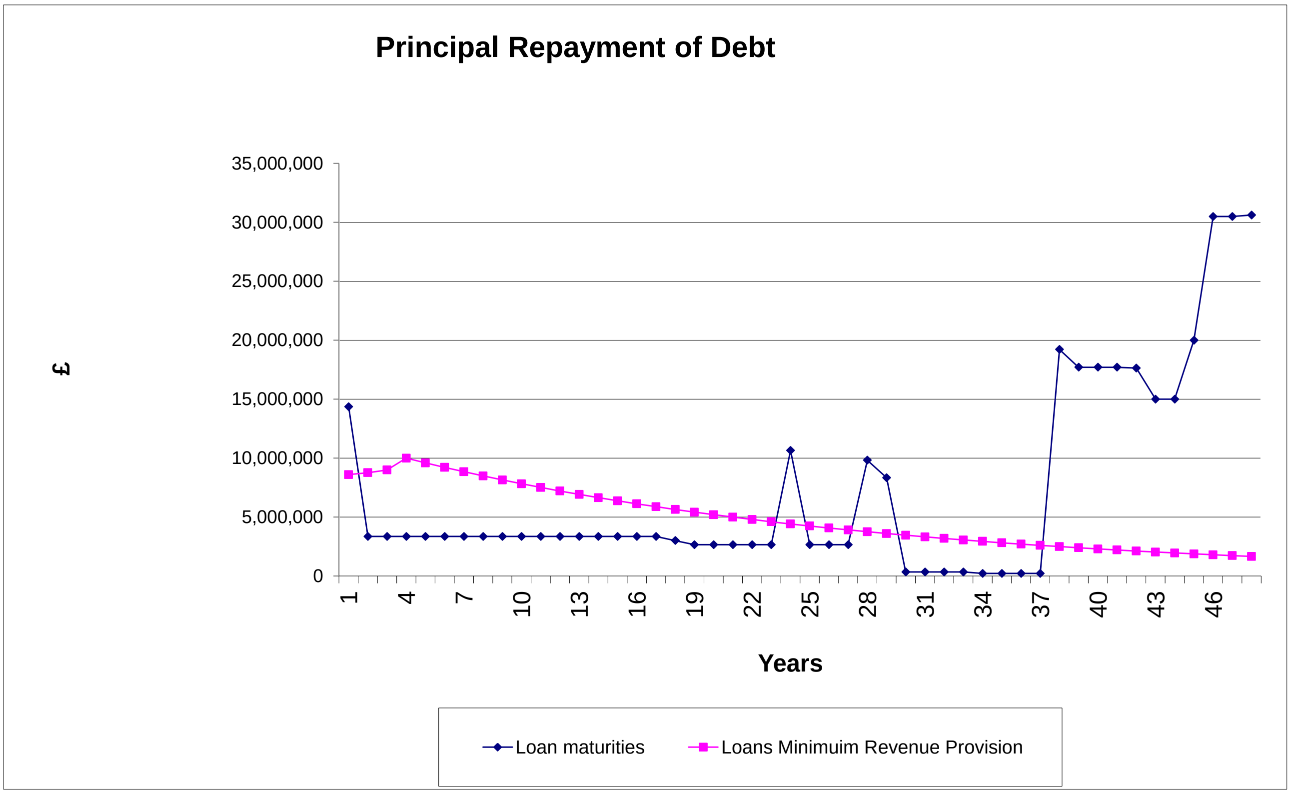
During 2007/08 the Council rescheduled £70.8m of debt. This involved repaying loans from the Public Works Loans Board (PWLB) early and taking out new loans from the PWLB with longer maturities ranging from 45 to 49 years. The effect of the debt restructuring was to reduce the annual interest payable on the Council's debt and to lengthen the maturity profile of the Council's debt.

£50m of new borrowing was taken in 2008/09 to finance capital expenditure. Funds were borrowed from the PWLB at fixed rates of between 4.45% and 4.60% for between 43 and 50 years.

A further £173m was borrowed in 2011/12 to finance capital expenditure and the HRA Self Financing payment to the Government. Funds were borrowed from the PWLB at rates of between 3.48% and 5.01%. £89m of this borrowing is repayable at maturity in excess of 48 years. The remaining £84m is repayable in equal instalments of principal over periods of between 20 and 31 years.

As a result of interest rates in 2007/08 when the City Council rescheduled much of its debt and interest rates in 2008/09 and 2011/12 when the City Council undertook considerable new borrowing 49% of the City Council's debt matures in over 40 years time.

The Government has issued guidance on making provision for the repayment of debt which the Council is legally obliged to have regard to. The City Council is required to make greater provision for the repayment of debt in earlier years. Therefore the City Council is required to provide for the repayment of debt well in advance of it becoming due. This is illustrated in graph below.



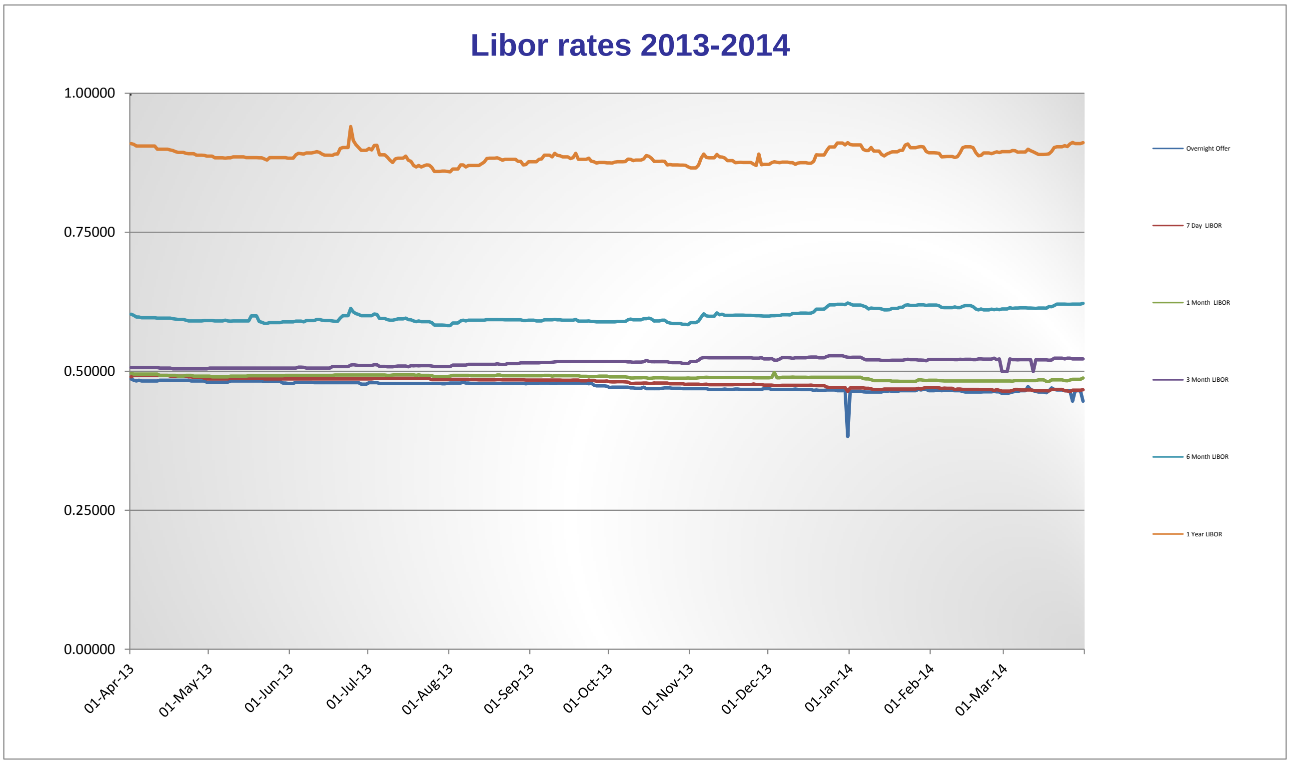
This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see sections 9 and 11). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders.

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	25%	25%	25%	25%	30%	30%	30%	70%
Actual	4%	1%	3%	5%	9%	13%	16%	49%

8. INVESTMENT ACTIVITY

London inter bank lending rates in 2013/14 are shown in the graph below:



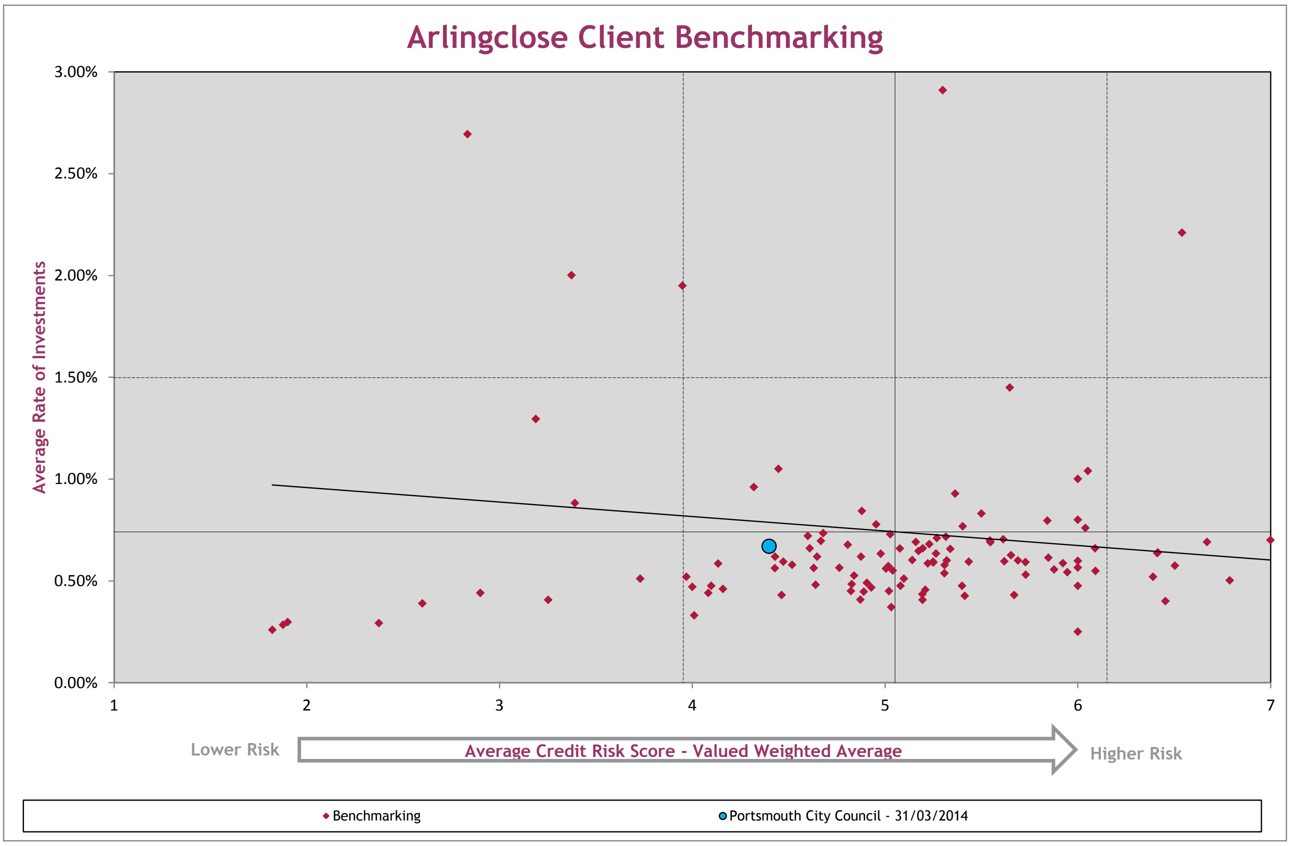
Bank base rate remained at 0.5% over the financial year and has remained unchanged since March 2009.

The City Council’s overall returns on its investments fell as existing investments made in earlier periods matured and were replaced by new investments at the lower rates which were available at the time.

The average return on the Council's investments fell from 0.96% in 2012/13 to 0.74% in 2013/14. The average return on the Council's investments on 31 March 2014 was 0.67%. This is largely a consequence of the Council receiving £49m of City Deal grant from the Government on 28 March 2014 as it had to be invested in instant access money market funds which pay a relatively low rate of interest until it could be invested over a longer term.

The Councils Annual Investment Strategy sets an investment limit for each institution. A number of investment limits were revised as part of the Mid-Year Review approved by the City Council on 10 December 2013. The investment limits for unrated building societies are set at 0.5% of their total assets. As part of the review the investment limits of unrated building societies were revised to reflect the latest data published by KPMG. As part of this review the investment limit for Darlington Building Society was reduced by £0.1m from £2.7m to £2.6m, and the investment limit for Hanley Economic Building Society was also reduced by £0.1m from £1.7m to £1.6m. The Council had invested £2.7m in Darlington Building Society and £1.7m in Hanley Economic Building Society prior to the investment limits being reviewed. As a consequence of this, the Council's investments in both of these building societies now exceeded their investment limit by £0.1m. These investments matured on 10 January 2014 and 17 April 2014 respectively.

The City Council’s investment activities are benchmarked by Arlingclose against its other clients. The graph below shows the councils’ average rates of return as at 31 March 2014 against credit risk.



Portsmouth is below the line of best fit and to the left of the average. This indicates that Portsmouth's investment portfolio has a relatively low risk, but that its returns are below average. This situation has arisen following the receipt of £48.8m of City Deal grant on 28 March 2014 which was invested in instant access money market funds, which are low risk but offer low returns, pending investment over a longer term.

9. SECURITY OF INVESTMENTS

The risk of default has been managed through limiting investments in any institution to a maximum £26m, setting investment limits for individual institutions that reflect their financial strength and spreading investments over countries and sectors.

The 2013/14 Treasury Management Policy approved by the City Council on 19 March 2013 and amended by the City Council on 10 December only permitted deposits to be placed with the Council's subsidiaries, namely MMD (Shipping Services) Ltd, the United Kingdom Government, other local authorities and institutions that have the following minimum credit ratings:

Short Term Rating

F2 (or equivalent) from Fitch, Moody's (P-2) or Standard and Poor (A-2)

Long Term Rating

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

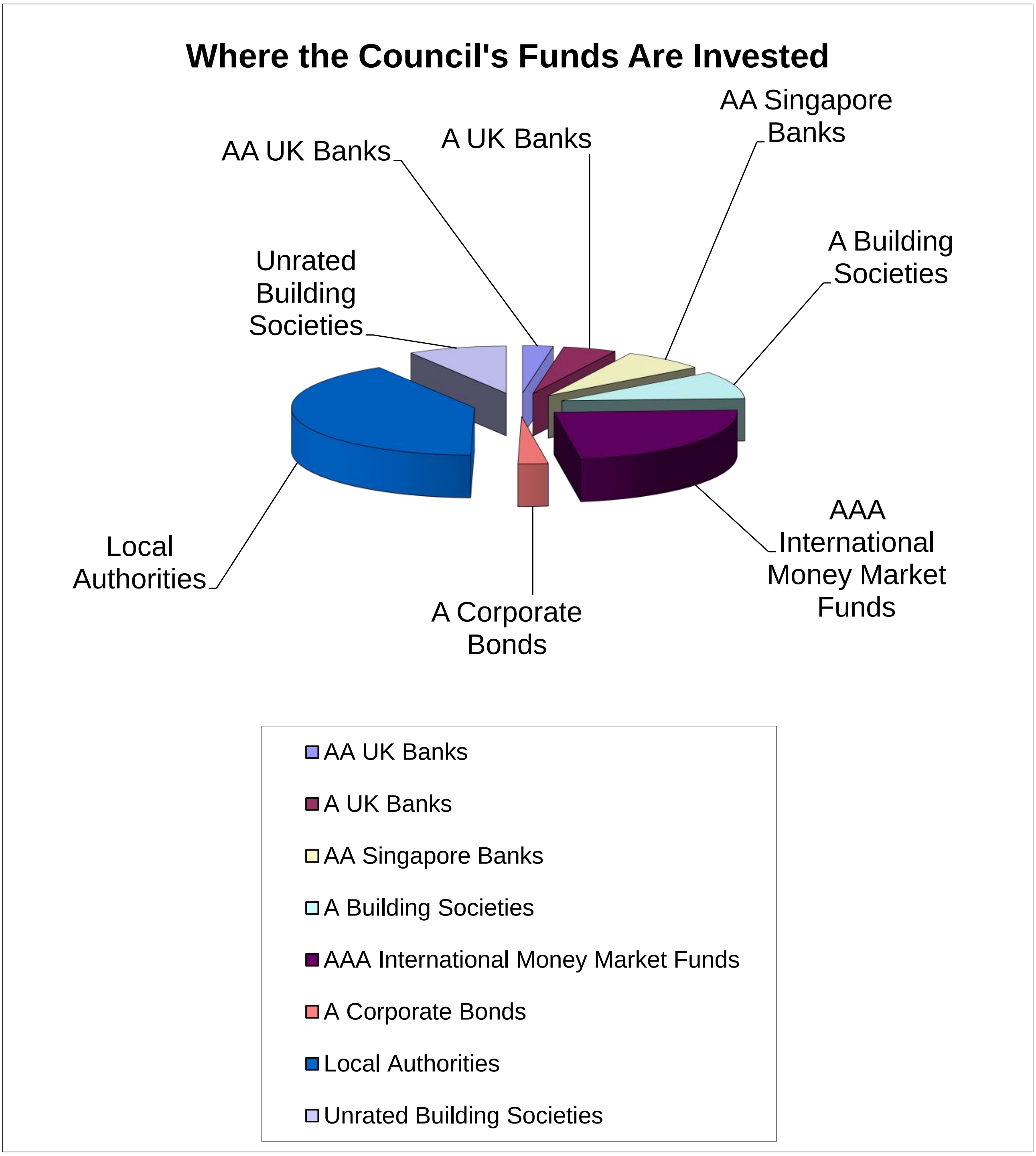
Individual / Financial Strength Rating

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

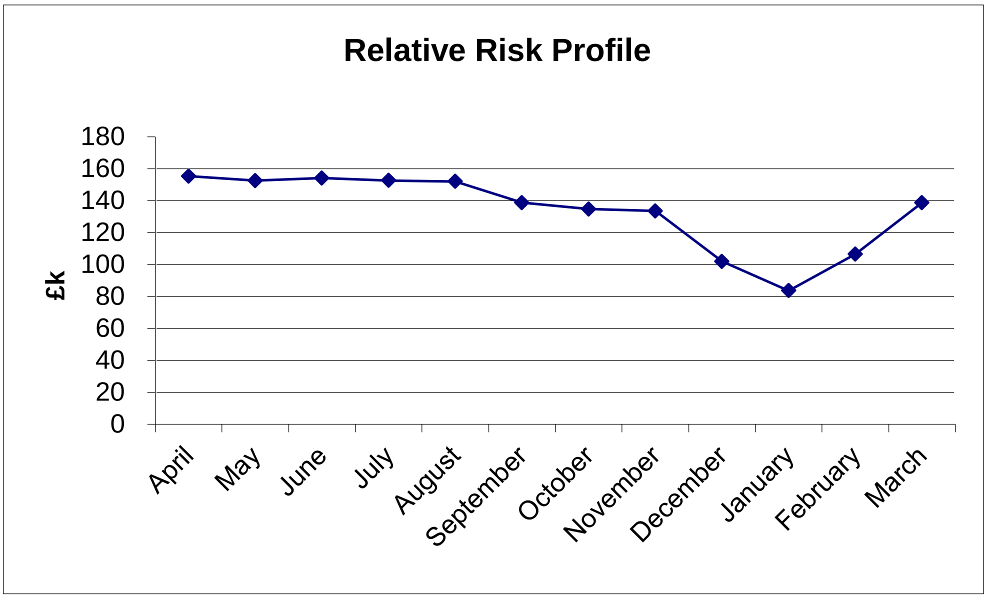
In addition the Council may invest in 23 unrated building societies and one building society with a single credit rating. These were drawn from the 36 largest building societies, but excluding those with especially large proportions of non-mortgage lending or wholesale funding, and those with particularly low levels of capital or liquidity, compared with the sector average.

At 31 March 2014 the City Council had on average £6.7m invested with each institution.

The chart below shows how the Council's funds were invested at 31 March 2014.



The credit rating agencies publish default rates for each rating category. Multiplying these default rates by the amount invested in each credit rating category provides a measure of risk that can be used as a benchmark to determine whether the City Council's investment portfolio is becoming more or less risky over time as shown in the graph below.



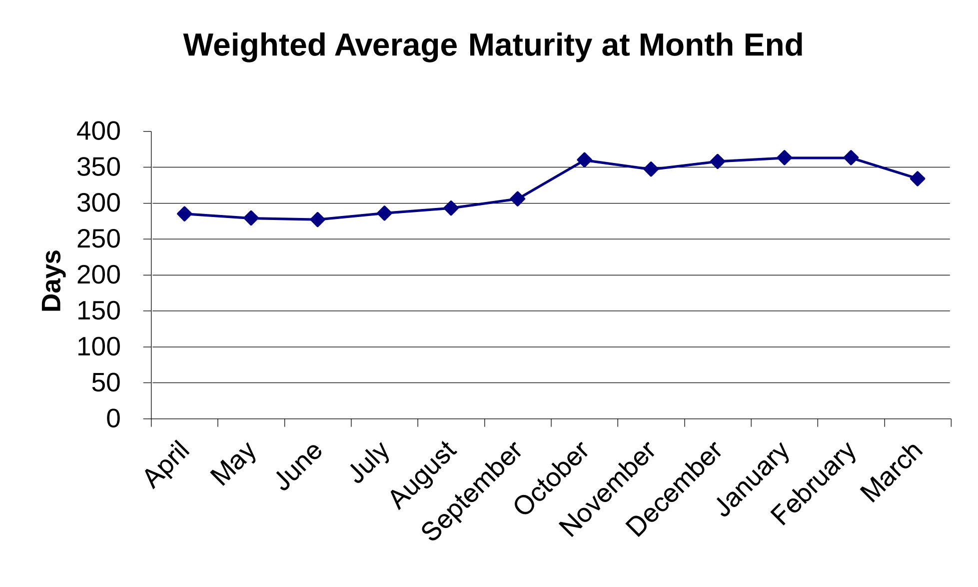
The City Council's investment portfolio became relatively less risky in December and January. This is largely due to much less use being made of unrated building societies. More investments in unrated building societies were made in February and March.

The above graph should be read in relative terms. A default occurs when sums due are not paid on time. A default does not mean that the sum invested will be lost permanently.

10. LIQUIDITY OF INVESTMENTS

The 2013/14 Treasury Management Policy seeks 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 31 March 2014 £69.5m was invested in instant access accounts. Whilst short term investments provide liquidity and reduce the risk of default, they do also leave the Council exposed to falling interest rates.

The weighted average maturity of the City Council's investment portfolio started at 285 days in April and increased to 334 days in March as funds were available to invest longer to get a higher return. The weighted average maturity of the City Council's investment portfolio dipped in March due to the receipt of £48.8m of City Deal grant which had to be invested in instant access money market funds until it could be invested over a longer term in 2014/15. This is shown in the graph below.



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 19th March 2013 is shown below.

	Limit **(Not Exceeding)** £m	**Actual** £m
31/3/2014	218	108
31/3/2015	208	66
31/3/2016	198	51

11. 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 limit set by the City Council as at 31 March is shown below.

	Limit **£m**	**Actual** **£m**
Maximum Projected Gross Borrowing – Fixed Rate	401	355
Minimum Projected Gross Investments – Fixed Rate	(39)	(108)
Fixed Interest Rate Exposure	362	247

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 limit set by the City Council as at 31 March is shown below.

	Limit **£m**	**Actual** **£m**
Minimum Projected Gross Borrowing – Variable Rate	-	-
Maximum Projected Gross Investments – Variable Rate	(189)	(189)
Variable Interest Rate Exposure	(189)	(189)

12. REVENUE COSTS OF TREASURY MANAGEMENT ACTIVITIES IN 2013/14

Expenditure on treasury management activities against the revised budget is shown below.

Interest 2013/14

	Revised Estimate 2013/14 £	Actual 2013/14 £	Variance +/- £
PWLB – Maturity Loans	10,570,396	10,570,396	-
PWLB - E.I.P Loans	3,997,745	3,997,745	-
Other Long Term Loans	511,500	511,500	-
HCC Transferred Debt	521,347	518,986	(2,361)
Interest on Finance Lease	218,998	214,662	(4,336)
Interest on Service Concession Arrangements (including PFIs)	8,984,691	8,995,048	10,357
Interest Payable to External Organisations	8,556	(2,242)	(10,798)
	24,813,233	24,806,095	(7,138)
Deduct			
Investment Income	(3,541,004)	(3,503,396)	37,608
	21,272,229	**21,302,699**	**30,470**
Provision for Repayment of Debt	**10,775,990**	**5,909,524**	**(4,866,466)**
Debt Management Costs	**310,942**	**323,394**	**12,452**
	32,359,161	**27,535,617**	**(4,823,544)**

There is a £4.8m underspend against the revised estimate. This is principally due to the City Council resolving to use part of the City Deal Grant to repay the principal on borrowing. This reduced the provision for the repayment of debt to be met from revenue by £4.9m. This saving has been appropriated into the City Deal earmarked reserve in accordance with the Revised Minimum Revenue Provision for the Repayment of Debt Policy approved by the City Council on 3 June 2014. This reserve will be required to finance future capital expenditure on the City Deal.