Agenda item:

Decision maker:	Cabinet City Council
Subject:	Treasury Management Outturn 2014/15
Date of decision:	24 September 2015 (Cabinet) 25 September 2015 (Governance and Audit and Standards Committee) 13 October 2015 (City Council)
Report by:	Chris Ward, Director of Finance & Information Services and Section 151 Officer
Wards affected:	All

Key decision: No
Budget & policy framework decision: No

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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 8.7%;

(b) The actual ratio of HRA financing costs to the HRA net revenue stream of 13.4%;

(c) Actual non HRA capital expenditure for 2014/15 of £41,960,000;

(d) Actual HRA capital expenditure for 2014/15 of £26,370,000;

(e) The actual non HRA capital financing requirement as at 31 March 2015 of £250,599,000;

(f) The actual HRA capital financing requirement as at 31 March 2015 of £153,391,000;

(g) Actual external debt as at 31 March 2015 was £462,566,096 compared with £441,970,134 at 31 March 2014.

Appendix B - That the following actual Treasury Management indicators for 2014/15 be noted:

(a) The Council's gross debt less investments at 31 March 2015 was £140,649,000;

(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	1%	4%	3%	4%	15%	11%	20%	42%

(c) The Council's sums invested for periods longer than 364 days at 31 March 2015 were:

	Actual £m
31/3/2015	158
31/3/2016	126
31/3/2017	45

(d) The Council's fixed interest rate exposure at 31 March 2015 was £252m, ie. the Council had net fixed interest rate borrowing of £252m

(e) The Council's variable interest rate exposure at 31 March 2015 was (£198m), ie. the Council had net variable interest rate investments of £198m

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 2014/15 on 18 March 2014.

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.

5. 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.

6. Director of Finance & Information Services comments

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

…….
Signed by Director of Finance & Information Services and 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 13 October 2015.

……
Signed by: the Leader of the Council

APPENDIX A

ACTUAL PRUDENTIAL INDICATORS

1. RATIO OF FINANCING COSTS TO NET REVENUE STREAM 2014/15

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 2014/15 were as follows:

	Original Estimate	Actual
	£'000	£'000
Financing Costs:		
Interest Payable	17,463	17,340
Interest Receivable	(1,422)	(2,403)
Provision for Repayment of Debt	7,304	2,650
Total Financing Costs	**23,345**	**17,587**
Net Revenue Stream	**174,827**	**203,130**
Ratio of Financing Costs to Net Revenue Stream	**13.4%**	**8.7%**

Interest Receivable was £1.0m more than the original estimates. This was due to the Council having more cash to invest than had been anticipated and the interest rates on the Council's investments being higher than had been anticipated.

The provision for the repayment of debt was £4.6m 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 2014/15, 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 enable 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%	13.4%

The actual percentage of HRA financing costs to net revenue stream is higher than anticipated. This is because the actual HRA net revenue stream was significantly lower than estimated.

2. ACTUAL CAPITAL EXPENDITURE 2014/15

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 2014/15 was as follows:

	Estimate £'000	**Actual £'000**
Culture & Leisure	4,343	1,181
Children's & Education Services	9,422	10,309
Environment & Community Safety	13,192	897
Health & Social Care (Adults Services)	3,775	907
Resources	5.087	7,050
Millennium	-	6
Planning, Regeneration & Economic Development	23,214	5,238
Commercial Port	3,956	839
Traffic & Transportation	13,991	7,290
Housing General Fund	13,200	1,918
Local Enterprise Partnership	-	6,325
Total Non HRA	**90,180**	**41,960**
Housing Revenue Account (HRA)	34,510	26,370
Total	**124,690**	**68,330**

Actual capital expenditure was £56.4m below the original capital programme. The main variances were as follows:

Culture & Leisure - £3.1m Underspend

£1.7m of the underspend is due to slippage on the Coastal Communities ARTches Project and was caused by the planning consents associated with this historical site taking longer than originally anticipated. A £1.3m scheme to improve the Canoe Lake and nearby seafront has been abandoned because Heritage Lottery funding could not be secured.

Environment and Community Safety - £12.3m Underspend

This underspend is due to slippage on flood defence works as the preliminary works took longer than anticipated.

Health and Social Care (Adults Services) - £2.9m Underspend

This underspend is mostly due to slippage on the scheme to provide new and improved models of care. This scheme was put on hold pending a review of the Adult Social Care Accommodation Strategy.

Resources - £2.0m Overspend

There were significant additions to the program principally including the super connected cities project and improvements to the Guildhall. These two schemes incurred spending of £2M during 2014/15.

Planning, Regeneration and Economic Development - £18.0m Underspend

This underspend is principally due to slippage on the City Deal.

Commercial Port - £3.2m Underspend

This underspend is mostly due to slippage on the scheme to demolish the floating dock jetty whilst its economic viability is considered.

Traffic and Transportation - £6.7m Underspend

The majority of this underspend is due to the final accounts on the Tipner Park and Ride, and Northern Road Bridge replacement schemes being less than anticipated and slippage on the Local Transport Plan due to resources being diverted on to Local Sustainable Transport Fund projects.

Housing General Fund - £11.3m Underspend

There was a delay in securing funding for the Green Deal Project which resulted in this project slipping into 2015/16. In addition the take up on some schemes to support vulnerable people was less than had been anticipated.

Local Enterprise Partnership (LEP) - £6.3m Overspend

Capital expenditure by the LEP was not included in the original capital program, but the LEP has been accounted for as part of the City Council as the City Council is the accountable body, has a veto on all lending by the LEP, and bears the credit risk associated with lending by the LEP.

Housing Revenue Account (HRA) - £8.1m Underspend

The under spend is principally due to slippage on major repairs to Council dwellings.

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 2015 were as follows:

	Original Estimate	**Actual**
	£'000	£'000
Non HRA	247,846	250,599
HRA	166,785	153,391
Total	414,631	403,990

The capital financing requirement is lower than the original estimate due to less capital works financed by borrowing being undertaken in 2013/14 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 2014/15.

4. ACTUAL EXTERNAL DEBT

At 31 March 2015, the City Council's level of external debt amounted to £462,566,096 consisting of the following:

- Long Term Borrowing £376,470,939
- Finance leases £3,027,379
- Service concessions (including PFI schemes) £83,067,778

The overall level of debt, excluding debt managed by Hampshire County Council, has increased between 2013/14 and 2014/15 by £20,595,962.

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 2014/15

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 following two exceptions which have previously been reported.

It was reported in the Treasury Management Monitoring Report for the First Quarter of 2014/15 that the aggregate limit for investments in money market funds of £80m was exceeded on 22 days between 1 April and 8 May by up to £12.7m. This was because £48.8m City Deal Grant received at the end of 2013/14 and receipts of Government revenue grants early in 2014/15 were invested in AAA rated instant access money market funds pending reinvestment over a longer term. AAA rated market funds offer a generally very safe form of investment as they are well diversified and consist investments of a short duration.

It was reported in the Treasury Management Monitoring Report for the Third Quarter of 2014/15 that a deposit with a duration of 2 years and 2 days was placed with Furness Building Society which exceeded the duration limit in force at that time for unrated building societies of 364 days. This is considered to be a low risk given the inherent nature of building societies and the duration limits for the strongest unrated building societies, including Furness Building Society, was increased to two years in the 2015/16 Treasury Management Policy

2. FINANCING OF CAPITAL PROGRAMME

The 2014/15 capital programme was financed as follows:

Source of Finance	Anticipated £'000	Actual £'000
Corporate Reserves (including Capital Receipts)	13,840	2,373
Grants & Contributions	59,670	32,984
Revenue & Reserves	42,242	29,306
Long Term Borrowing	8,938	3,667
Total	124,690	68,330

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 was achieved, the amount of capital expenditure financed by City Deal Grant was maximized. This has resulted in more capital expenditure being financed from grants and contributions than would otherwise have been the case and less capital expenditure being financed from other sources than would otherwise be the case.

3. ECONOMIC BACKGROUND

The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016. The Governor of the Bank of England, Mark Carney, has subsequently indicated that the first rise in Bank Rate is likely to be in quarter 1 of 2016 although he has repeatedly stated that increases in Bank Rate will be slow and gradual.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.

The UK Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.

The EU sovereign debt crisis had subsided since 2012 until the Greek election in January 2015 sparked a resurgence of fears. While the UK and its banking system has little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to their banks.

4. GROSS AND NET DEBT

The Council's net borrowing position at 31 March 2015 excluding accrued interest was as follows:

	1 April 2014	**31 March 2015**
	£'000	£'000
Borrowing	354,822	376,471
Finance Leases	3,775	3,027
Service Concession Arrangements (including PFIs)	83,373	83,068
Gross Debt	**441,970**	**462,566**
Investments	(296,761)	(321,917)
Net Debt	**145,209**	**140,649**

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 £25.1m in 2014/15. This was mainly due to borrowing £25m from them Public Works Loans Board (PWLB) in November 2014 to fund future capital expenditure and slippage in the capital programme.

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.

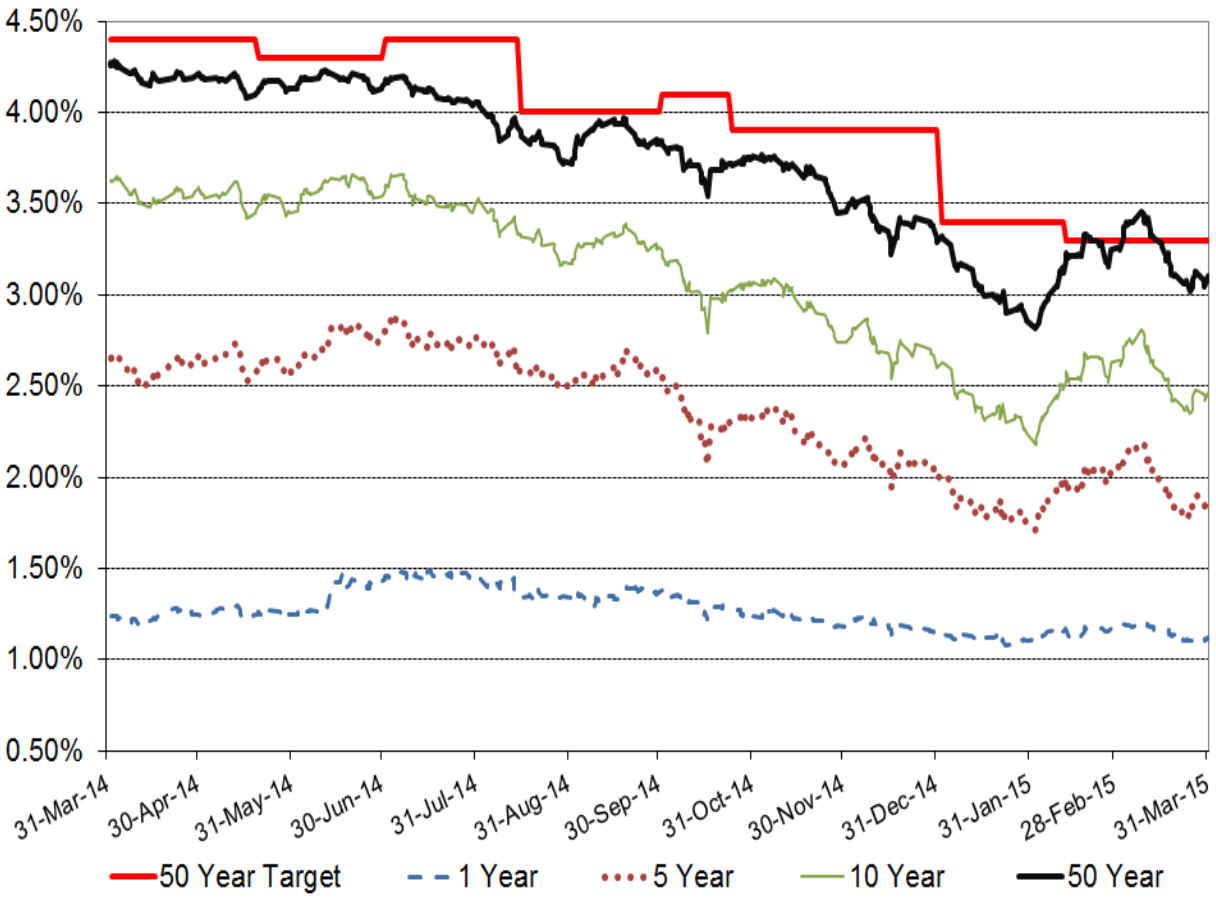
5. DEBT RESCHEDULING

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 2014/15.

6. BORROWING ACTIVITY

The table below shows the PWLB's certainty rates in 2014/15.



There were many small movements in PWLB rates in 2014/15, both upwards and downwards, but overall rates fell until January. Any one of the movements upwards could have marked the start of an upward trend which was expected, but in the event, did not start until February. PWLB rates were below the target rate recommended by the Council's advisors, Capita Asset Services, for considering new borrowing for most of the year. Consequently £25m was borrowed from the PWLB for 15 years repayable at maturity in November 2014. The loan was taken out at the PWLB's project rate which was 3.19% at that time. The project rate is 0.20% below the certainty rate. The loan was taken out to fund the City Deal and the development of Dunsbury Hill Farm.

This borrowing, in addition to £88.6m borrowed at National Loans Fund Rates to fund the HRA Self Financing payment in March 2012, has resulted in the Council's external debt exceeding its capital financing requirement by £58.6m.

7. REFINANCING RISK

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

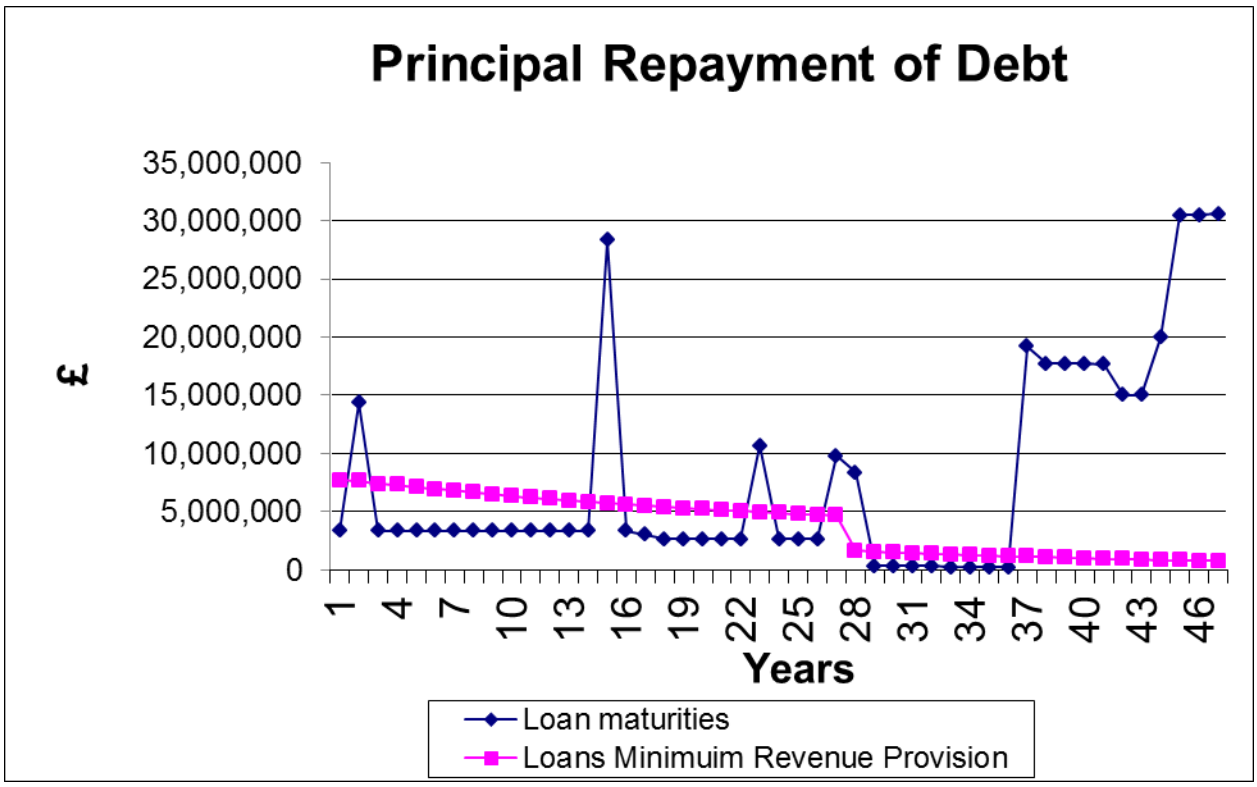
During 2007/08 the Council rescheduled £70.8m of debt. This involved repaying loans from the Public Works Loans Board (PWLB) early and taking out new loans from the PWLB with longer maturities ranging from 45 to 49 years. The effect of the debt restructuring was to reduce the annual interest payable 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 45 years. The remaining £84m is repayable in equal instalments of principal over periods of between 17 and 27 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 62% of the City Council’s debt matures in over 30 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.

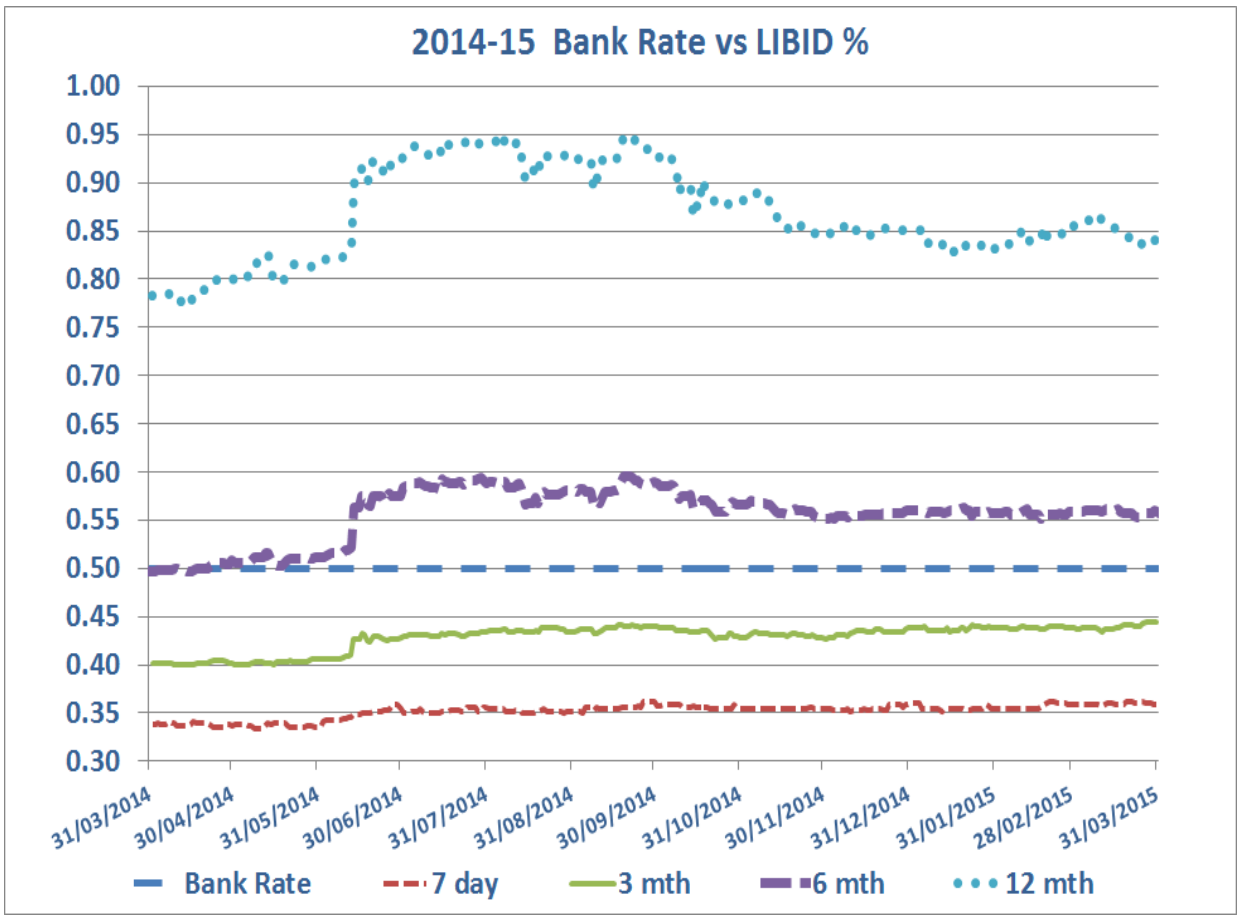
The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper and lower limits for the maturity of borrowings in defined periods. The Council's performance against the limits set by the City Council is shown below.

	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	20%	20%	30%	30%	40%	40%	60%	70%
Actual	1%	4%	3%	4%	15%	11%	20%	42%

8. INVESTMENT ACTIVITY

The Council's investments of surplus cash were higher than anticipated, principally due to the receipt of all of the £48.8m City Deal Grant on 28 March 2014 which had been expected to be received at a later date and be over the next two financial years. In addition, the proportion of the investment portfolio consisting of short term investments of under one year, which are not considered to be fixed rate because of their short term nature, has increased from 64% on 1 April to 72% on 30 September as long term investments of over a year have matured and not generally been replaced. This resulted in the variable interest rate exposure limit of (£196m - investments) being exceeded by £22m. The City Council therefore increased the variable interest rate exposure limit by (£45m) from (£196m) to (£241m), ie. from net investments of £196m to net investments of £241m on 11 November 2014.

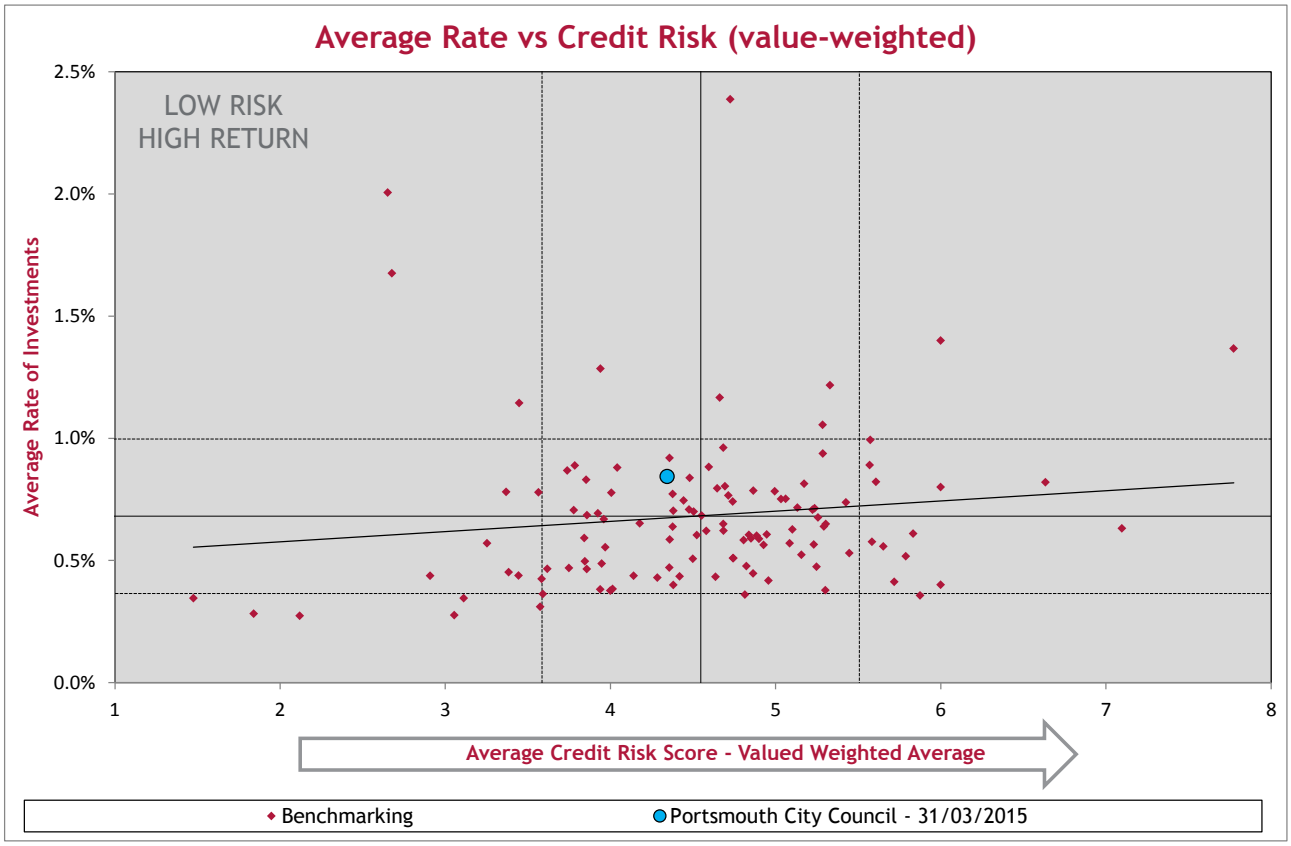
London inter-bank lending rates in 2014/15 are shown in the graph below:



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

The average return on the Council's investments was 0.76% in 2014/15 which was similar to the average return of 0.74% in 2013/14.

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 2015 against credit risk.



Portsmouth is above the line of best fit and a little to the left of the average. This indicates that Portsmouth's investment portfolio has a relatively low risk, but that its returns are above average.

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 2014/15 Treasury Management Policy approved by the City Council on 18 March 2014 and amended by the City Council on 6 November 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

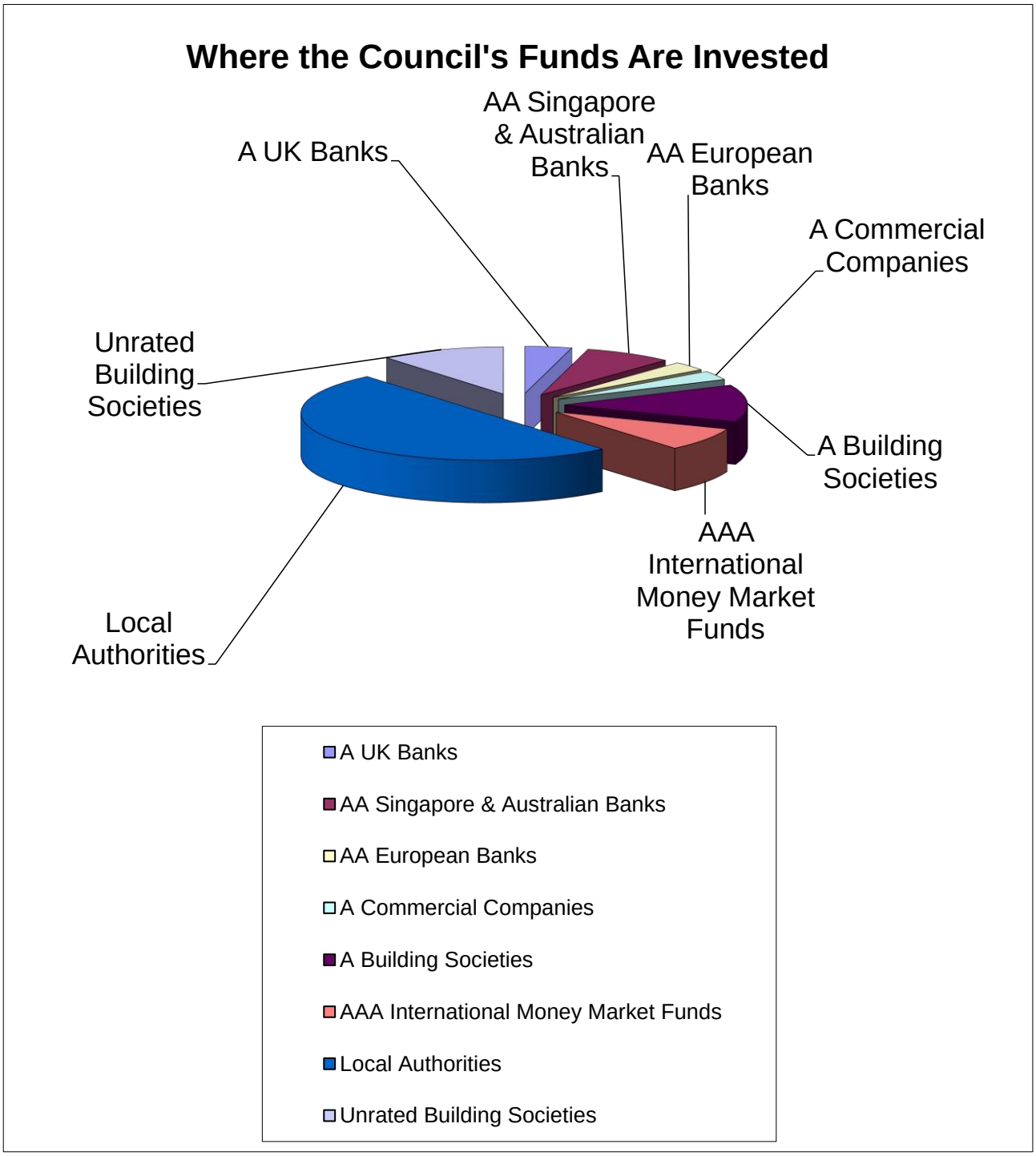
BBB (except for the Co-operative Bank who hold the Council's main current accounts) or equivalent from Fitch, Moody's or Standard & Poor

In addition the 2014/15 Treasury Management Policy approved by the City Council on 18 March 2014 and amended by the City Council on 6 November also permitted deposits to be placed with the stronger unrated building societies.

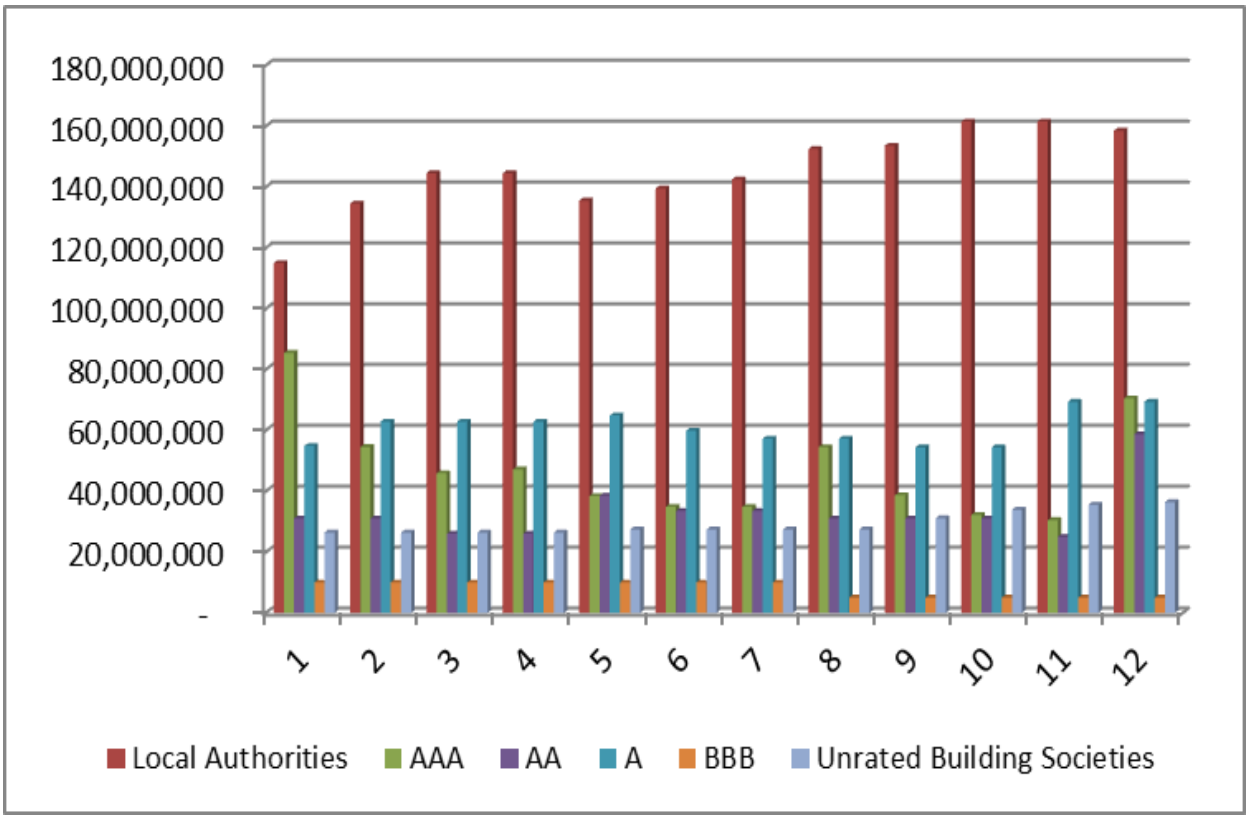
At 31 March 2015 the City Council had on average £5.7m invested with each institution.

Credit risk also exists from the Council's current bank accounts. This arises not only from the Council's overnight current account bank balances, but also from settlement risk, ie. the Council's intra-day exposure can temporarily exceed the balance on the accounts after all transactions have been processed. This counter party exposure is in addition to the Council's investment limits.

The chart below shows how the Council's funds were invested at 31 March 2015.



The chart below shows how the Council's investment portfolio has changed in terms of the credit ratings of investment counter parties over 2014/15.

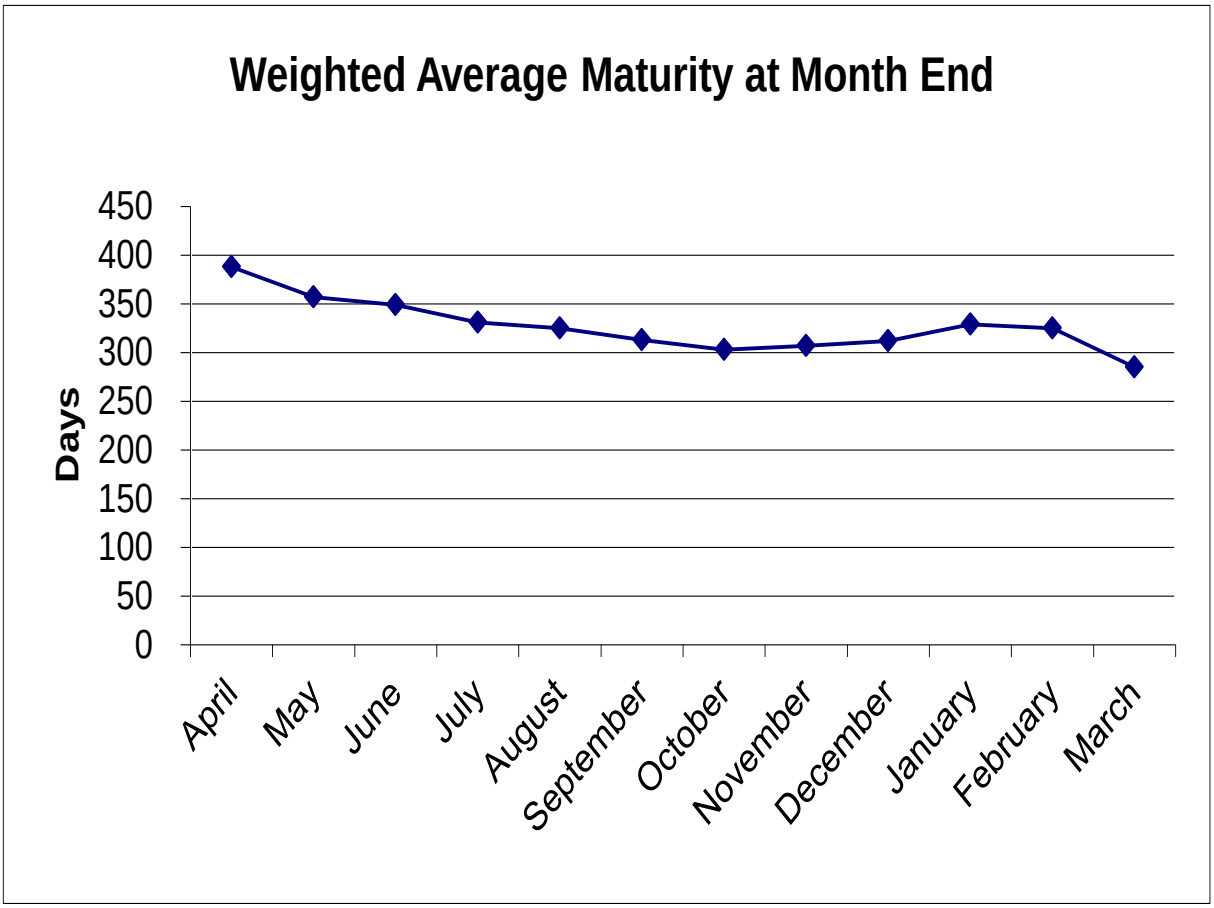


It can be seen from the graph above that investments in AAA rated counter parties, consisting of AAA rated instant access money market funds have declined over 2014/15. These investments have largely been replaced by investments in other local authorities which generally offer a better return than investments in AAA rated money market funds.

10. LIQUIDITY OF INVESTMENTS

The 2014/15 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 2015 £25.6m 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 388 days in April and fell to 285 days in March. Investment rates are currently low and the shorter average maturity will facilitate the Council taking advantage of any increases in investment rates. 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 is shown below.

	Limit **(Not Exceeding)** £m	**Actual** £m
31/3/2015	265	158
31/3/2016	243	126
31/3/2017	231	45

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	395	376
Minimum Projected Gross Investments – Fixed Rate	(123)	(124)
Fixed Interest Rate Exposure	272	252

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 is shown below.

	Limit £m	**Actual £m**
Minimum Projected Gross Borrowing – Variable Rate	-	-
Maximum Projected Gross Investments – Variable Rate	(241)	(198)
Variable Interest Rate Exposure	(241)	(198)

12. REVENUE COSTS OF TREASURY MANAGEMENT ACTIVITIES IN 2014/15

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

Interest 2014/15

	Revised Estimate 2014/15 £	Actual 2014/15 £	Variance +/- £
PWLB – Maturity Loans	10,863,177	10,863,177	-
PWLB - E.I.P Loans	3,850,900	3,850,900	-
Other Long Term Loans	511,500	511,500	-
HCC Transferred Debt	464,766	449,685	(15,081)
Interest on Finance Lease	189,960	188,385	(1,575)
Interest on Service Concession Arrangements (including PFIs)	8,927,514	8,923,380	(4,134)
Interest Payable to External Organisations	4,730	6,562	1,832
	24,812,547	24,793,589	(18,958)
Deduct			
Investment Income	(2,928,747)	(2,645,913)	282,834
	21,883,800	22,147,676	263,876
Provision for Repayment of Debt	5,590,728	5,604,024	13,296
Debt Management Costs	324,321	374,308	49,987
	27,798,849	**28,126,008**	**327,159**

There is a £0.3m overspend against the revised estimate. This is principally because investment income was £0.3m less than the revised estimate due to cash balances being lower than anticipated in the final quarter.