CITY OF YORK COUNCIL	APPENDIX A
Cabinet	**17 July 2012**
Report of the Cabinet Member for Corporate Services	

Treasury Management Annual Report & Review of Prudential Indicators 2011/12

Summary

1. This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2011/12. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2. During 2011/12 the minimum reporting requirements were that the full Council receive the following reports:
   a) an annual treasury strategy in advance of the year (February 2011)
   b) a mid year (minimum) treasury update report (December 2011)
   c) an annual review following the end of the year describing the activity compared to the strategy (this report)

3. Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members. Prudential Indicators are attached at Annex A.

4. The Council has complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Audit & Governance Committee and member training on

treasury management issues was undertaken during the year on 13 February 2012 in order to support Members' scrutiny role.

5. The treasury management annual activities detailed in the report ensure the Council's treasury management activities are affordable sustainable and prudent as approved by Council on 24 February 2011 and the Council's debt and investment position ensures adequate liquidity for revenue and capital activities, security for investments and manages risks within all treasury management areas.

6. The Council's treasury position for 2011/12 is in the table below, compared to 2010/11. It shows that the Council's Capital Financing Requirement, borrowing and investment position. In 2011/12, £121.5m of debt was taken in accordance with the new HRA self financing reform. Further detail is included later in the report.

	31-Mar-12 £m	Rate %	31-Mar-11 £m	Rate %
GF Total Debt	**121.3**	**4.2%**	**114.3**	**4.2%**
HRA Debt	18.8	4.2%	18.8	4.2%
HRA Self Financing	121.5	3.2%		
HRA Total Debt	**140.3**	**3.4%**	**18.8**	**4.2%**
Total debt	**261.6**	**3.8%**	**133.1**	**4.2%**
Capital Financing Requirement	**293.2**		**152.5**	
Over/ (under) borrowing	**(31.6)**		**(19.4)**	
Investments:	**26.2**	**1.45%**	**35.2**	**1.15%**

Table 1 – Position of the treasury management portfolio

Background

Economic Background

7. The performance of the council's treasury management function is an outcome of the long-term borrowing and short-term investment decisions affected by the economic conditions during the 2011/12 financial year.

8. The financial year continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011-12 was that Bank Rate would start gently rising from quarter 4 2011. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the EU.

9. The EU sovereign debt crisis grew in intensity during the year until February 2012, when a second bailout package was eventually agreed for Greece. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October 2011 and another £50bn in February 2012. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September 2011 at 5.2% but then fell to 3.4% in February 2012, with further falls expected to below 2% over the next two years.

10. Gilt yields which affect the rate at which the Council can borrow, fell for much of the year, until February 2012, as concerns continued to build over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of quantitative easing during the year, combined to depress borrowing rates which continued at historically low levels.

11. Investment rates, the rate at which the Council can lend, remained low throughout 2011/12. This was due to widespread and multiple downgrades of many banks credit ratings and country sovereign ratings, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions.

12. Figure 1 shows the base rate movements since 1 January 2011 with predictions from economists and the Council's treasury management advisors – Sector - to March 2015. The graph shows how predictions have changed. The circle line shows Sectors prediction of the base rate in January 2011compared to their latest prediction in triangles. All forecasts show the base rate to remain flat at 0.5% until December 2013.

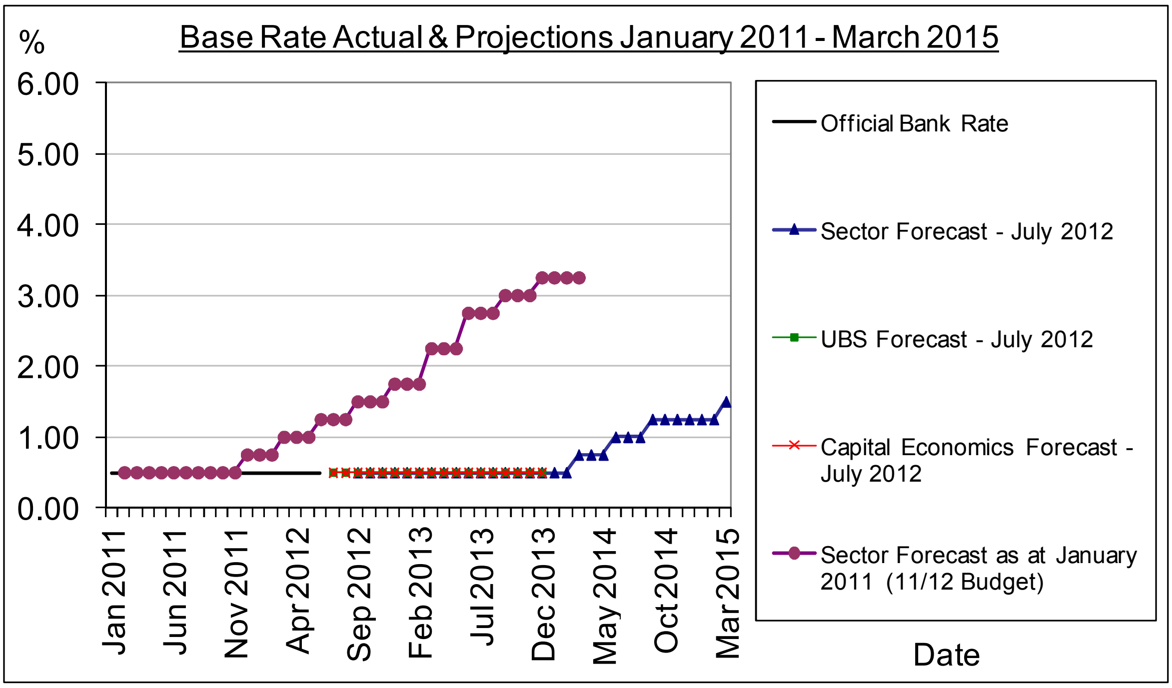

Figure 1 – Forecast Base Rates 2011- 2015

Treasury Management Strategy

13. The Council's borrowing strategy set for 2011/12 at full Council on 24 February 2011 followed advice from the council's treasury management advisors –Sector - to have a balanced approach and lock into some long term borrowing in 2011/12 where interest rates were expected to be lower than in the coming years, whilst also considering reducing the Councils surplus funds due to investment rates yielding relatively low returns compared to borrowing rates.

14. External borrowing would be taken throughout the financial year when interest rates seemed most favourable at a target interest rate of 5%. The target rate was revised at the midyear review report to Cabinet on 1 November 2012 to 4.3%. The maturity profile of the debt portfolio was taken into account, so the Council was not exposed to the concentration of debt being in any one year.

15. Also running down the investment portfolio and using the Council's surplus cash rather than taking further external borrowing was also deemed a favorable approach. Due to continued uncertainty in the aftermath of the 2008 financial crisis consideration was given to postponing borrowing to avoid the

cost of holding higher levels of investments and to reduce counterparty risk.

16. The actual movement in gilt yields meant borrowing rates fell sharply during the year and continued at historically very low levels.

17. Figure 2 shows the PWLB interest rates from 1 October 2010 to 31 March 2012 and includes the loans borrowed by the council. It illustrates that the Council took loans during the year as rates continued to fall. At the end of March, the triangle at the far right is the average loan rate for the 21 HRA self financing loans at 3.2%.

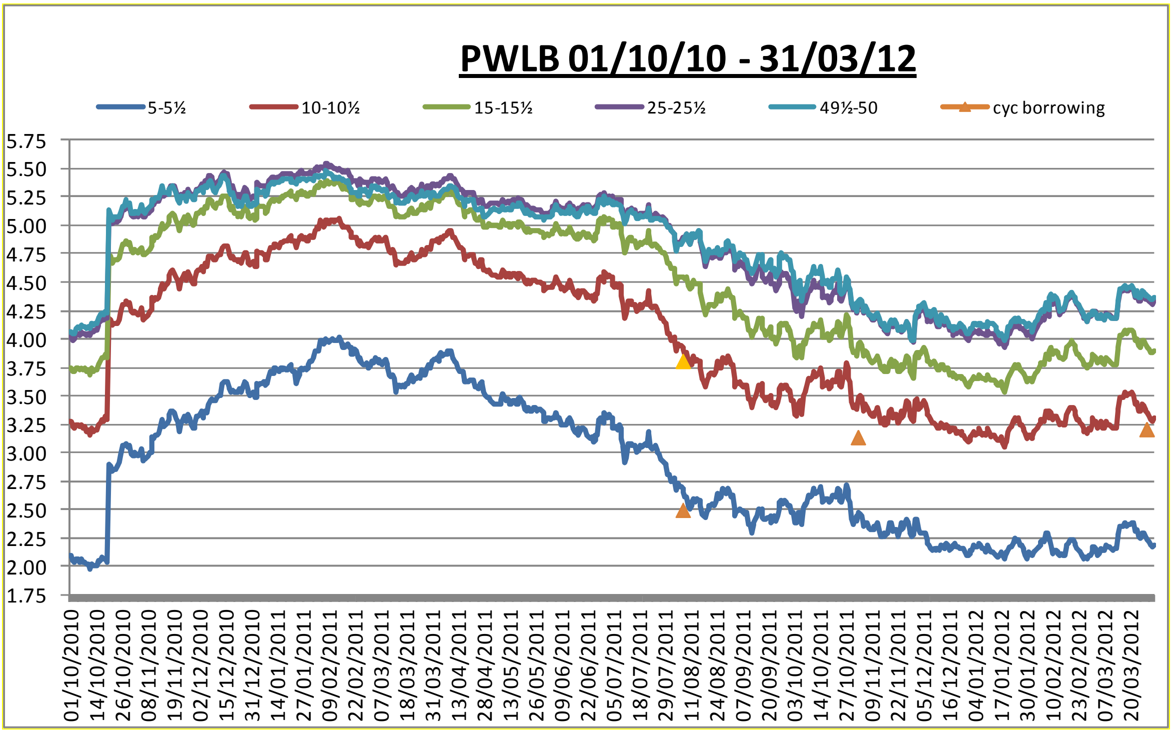

Figure 2 - PWLB rates and CYC borrowing levels

18. Figure 2, illustrates that over 2011/12, that PWLB rates have fallen significantly and have almost returned to the level that they were at prior to the government increasing all PWLB rates by 0.85 basis points on 20 October 2012.

Borrowing Outturn 2011/12

19. The Council undertakes capital expenditure on long-term assets as part of the Capital programme. The way that the capital

programme is financed affects the treasury management activity of the Council, and ultimately borrowing. The prudential indicators which control the borrowing activity of the Council are contained in Annex A.

20. The purpose of the Council's underlying need to borrow is to finance capital expenditure and this is termed the Capital Financing Requirement (CFR). In 2011/12 the Council's CFR significantly increased compared to previous years. This was due to the implementation of the housing finance reform at the end of the financial year, which abolished the housing subsidy system financed by central government. Consequently, all housing debt had to be reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £121.550m. This resulted in an increase in the CFR.

21. The total CFR for the council at the end of 2011/12 was £293.2m and this was split between the General Fund at £152.9m and the HRA at £140.3m. In accordance with the borrowing strategy, some external borrowing was taken to finance this requirement but also surplus funds were used and the investment portfolio was reduced.

22. Total borrowing at the start of 2011/12 was £133.1m (General Fund £114.3m / HRA £18.8m) and at the end of 2011/12 excluding the HRA self financing settlement £140.1m (General Fund £121.3m / HRA £18.8m). Total borrowing at the end of 2011/12 including the HRA self financing settlement of £121.55m, was £261.6m. This is split between the General Fund £121.5m and the HRA £140.3m. In accordance with the HRA Self Financing regulations, there will be two borrowing portfolios from 2011/12 which will be monitored separately in future.

23. It should be noted that there was no impact on HRA revenue budget in 2011/12 to finance the £121.550m payment made as compensating adjustments were made in the HRA subsidy determination. The HRA subsidy determination continued to 31/3/2012, from 1/4/2012 the new self financing system commences.

24. Table 2 and Table 3 show the movement in borrowing during the year split between the General Fund and HRA. Details on the interest rates obtained on new borrowing, the average rate of the portfolio and the year of maturity are also shown.

General Fund					
Loan Type	**Date Raised**	**Date Matured**	**Amount**	**Interest Rate**	**Duration**
Matured	28/05/2010	27/05/2011	5,000,000	0.700%	1.00
			5,000,000		
Raised	11/08/2011	10/08/2021	2,000,000	3.810%	10.00
Raised	11/08/2011	10/08/2016	5,000,000	2.500%	5.00
Raised	07/11/2011	07/11/2020	5,000,000	3.140%	9.00
			12,000,000		
Loans net position 2011/12			**7,000,000**		
Opening loan balance 2011/12			**114,271,110**		
Closing loan balance 2011/12			**121,271,110**		

Table 2 - Movement in General Fund Borrowing 2011/12

HRA					
Loan Type	**Date Raised**	**Date Matured**	**Amount**	**Interest**	**Duration**
Raised	28/03/2012	31/03/2027	5,000,000	3.050%	15.01
Raised	28/03/2012	31/03/2032	3,750,000	3.320%	20.01
Raised	28/03/2012	31/03/2026	4,500,000	2.970%	14.01
Raised	28/03/2012	31/03/2031	6,000,000	3.328%	19.01
Raised	28/03/2012	31/03/2026	5,000,000	2.970%	14.01
Raised	28/03/2012	31/03/2024	1,900,000	2.760%	12.01
Raised	28/03/2012	31/03/2042	8,100,000	3.510%	30.01
Raised	28/03/2012	31/03/2025	4,000,000	2.870%	13.01
Raised	28/03/2012	31/03/2028	7,000,000	3.120%	16.01
Raised	28/03/2012	31/03/2029	7,900,000	3.180%	17.01
Raised	28/03/2012	31/03/2028	6,500,000	3.120%	16.01
Raised	28/03/2012	31/03/2030	5,600,000	3.230%	18.01
Raised	28/03/2012	31/03/2027	5,600,000	3.050%	15.01
Raised	28/03/2012	31/03/2025	4,400,000	2.870%	13.01
Raised	28/03/2012	31/03/2042	8,100,000	3.510%	30.01
Raised	28/03/2012	31/03/2030	6,000,000	3.230%	18.01
Raised	28/03/2012	31/03/2029	7,000,000	3.180%	17.01
Raised	28/03/2012	31/03/2031	6,100,000	3.280%	19.01
Raised	28/03/2012	31/03/2030	5,000,000	3.230%	18.01
Raised	28/03/2012	31/03/2042	8,100,000	3.510%	30.01
Raised	28/03/2012	31/03/2031	6,000,000	3.280%	19.01

	Loans net position 2011/12		**121,550,000**		
Opening loan balance 2011/12			**18,793,846**		
Closing loan balance 2011/12			**140,343,846**		

Table 3 - Movement in HRA Borrowing 2011/12

25. The General Fund new borrowing decisions were taken in light of the maturity structure of the Council's current long term borrowing and the advantageous interest rates available. The new HRA self financing borrowing was taken in accordance with the HRA self financing model, to ensure the most optimum position could be obtained for the HRA in this historical low interest rate environment.

26. The Council did not restructure any of its borrowing portfolio during the year as no opportunities were favourable due to the disparity in PWLB rates since November 2007 and the governments increase in PWLB rates in the comprehensive spending review October 2010 by 0.85 basis points. The graph at figure 2 does highlight however, that interest rates have substantially fallen during 2011/12 and that rates are almost as low as they were prior to the governments overnight interest rate increase. Therefore, in 2012/13 there could be potential rescheduling opportunities.

27. The overall position of the borrowing activity resulted in a fall in the average interest rate by 0.4% from 4.2% to 3.8%. If the HRA self financing debt is excluded to give a fairer comparison between 2010/11 and 2011/12 then the average interest rate remained the same at 4.2%.

28. Figure 3 shows the average rate of CYC borrowing in 2010/11 continues to be lower than other unitary authorities and the national average. No figures as yet are available for 2011/12.

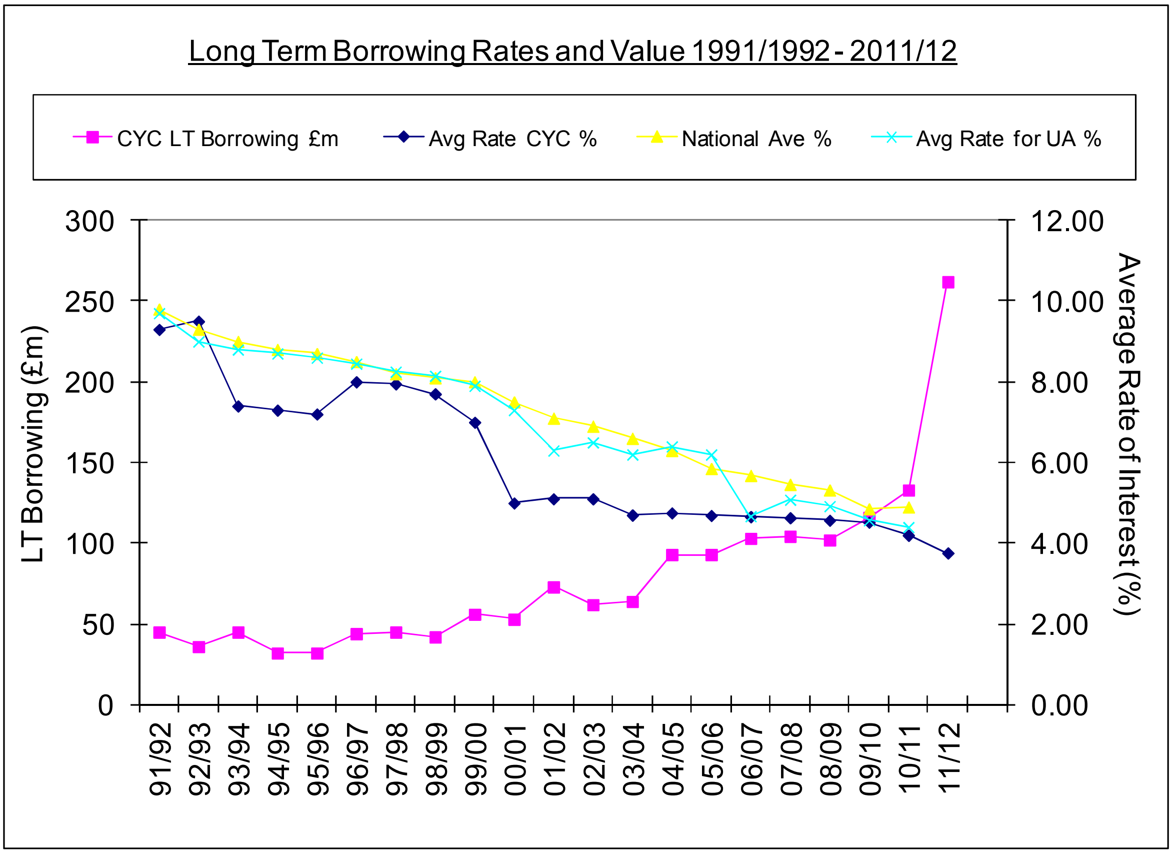

Figure 3 - CYC borrowing vs National Average vs Unitary Authority

Investment Outturn 2011/12

29. The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of monetary tightening and potential increase in interest rates, were gradually pushed further and further back during the year to the second half of 2013 at the earliest. Overlaying the relatively poor investment returns were the continued counterparty concerns generated by the Eurozone sovereign debt crisis.

30. The Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 24 February 2011. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies (Fitch, Standard & Poors, Moody's) supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

31. The continued credit rating concerns of counterparty's resulted in very few counterparties being available in which the Council could invest its surplus funds. Those counterparties which were available were also utilised by other investors as better credit rated institutions hold lower risk. Therefore interest rates remained low at all level.

32. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

33. The Council maintained an average investment balance of £63.8m compared to £43.1m in 2010/11. The surplus funds earned an average rate of return in 2011/12 of 1.45% compared to 1.15% in 2010/11. This is due to cash flow movements giving rise to an increased average investment balance during 2011/12. The comparable performance indicator is the average 7-day LIBID rate, which was 0.48% in 2011/12 and the three month LIBID rate of 0.82%. All investments occurred in line with the investment strategy that the security of capital is of prime importance.

34. Figure 4 illustrates the investment interest rates available for 2011/12 including the rate of return on investments achieved. The Council's rate of return is continually higher than all yields except 1 year. The Council could not invest further in 1 year deposits due to the security of the Councils surplus fund being of prime importance.

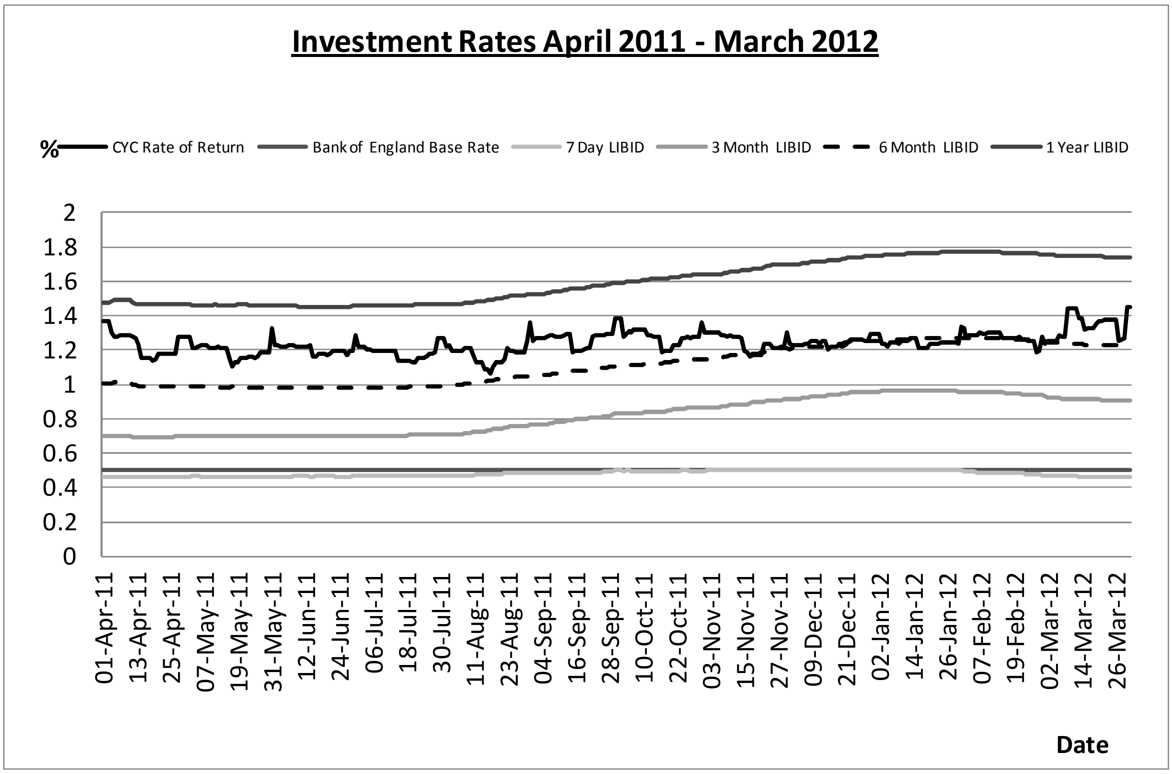

Figure 4 – Investment Rates vs. Rate of Return on CYC Investments

Consultation

35. This report is for information purposes and reports on the performance of the treasury management function. Members through the budget process set the level of budget and expected performance of the Councils treasury management function.

Options

36. In accordance with the Local Government Act 2003, it is a requirement under the CIPFA Prudential code and the CIPFA Treasury Management in Local Authorities that the Cabinet receives an annual treasury management review report of the previous year –2011/12- by 30 September 2012. It is also a requirement that the Council delegates the role of scrutiny of treasury management strategy and policies to a specified named body which in this Council is the Audit & Governance Committee. This annual treasury management report is scheduled at Audit & Governance Committee on 25th July 2012.

Corporate Priorities

37. Treasury Management is aimed at ensuring the Council maximises its return on investments and minimises the cost of its debts. This will allow more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Council's plan. Effective treasury management is concerned with the management of the council's cash flows, it's banking, money market and capital transactions, the management of debt, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

Implications

38.

(a) **Financial** These are detailed in the body of the report

(b) **Human Resources (HR)** There are no HR implications as a result of this report

(c) **Equalities** There are no equalities implications as a result of this report

(d) **Legal** Treasury Management activities have to conform to the Local Government Act 2003, which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice

(e) **Crime and Disorder** There are no crime and disorder implications as a result of this report

(f) **Information Technology (IT)** There are no IT implications as a result of this report

(g) **Property** There are no property implications as a result of this report

Risk Management

39. The treasury function is a high-risk area because of the level of large money transactions that take place. As a result of this there are strict procedures set out as part of the Treasury Management Practices statement. The scrutiny of this and other

monitoring reports is carried out by Audit & Governance Committee as part of the council's system of internal control.

Recommendations

40. The Cabinet, in accordance with the Local Government Act 2003 is advised to:
    - **(a)** **Note** the 2011/12 performance of the Treasury Management activity,
    - **(b)** **Note** the change in the funding of the HRA from the subsidy system to the HRA Self Financing system
    - **(c)** **Note** the movements in the Prudential Indicators in Annex A

Reason – to ensure the continued performance of the Council's Treasury Management function and the affects of the HRA reform on treasury management activities can be monitored.

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<tr><td colspan="5">Specialist Implications Officer(s</td></tr>
<tr><td colspan="3">Wards Affected: All wards</td><td>All</td><td>Y</td></tr>
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Background Papers:

Cash-flow Model 2011/12 Investment Register 2011/12, PWLB Debt Register, Capital Financing Requirement 2011/12 outturn, Prudential Indicators 2011/12, CIPFA Statistics 2010/11

Annexes

Annex A: Prudential Indicators 2011/12

Prudential Indicators 2011/12 Outturn — Annex A

	PRUDENTIAL INDICATORS		**2011/12 Estimate** Monitor 3	**2011/12 actual**	**2010/11 actual**
1)	**Capital Expenditure**		**£M**	**£M**	**£M**
	To allow the authority to plan for capital financing as a result of the capital programme. To enable the monitoring of capital budgets to ensure they remain within budget.	Non - HRA	48.2	41.5	46.9
		HRA	131.8	129.9	7.0
		TOTAL	180.0	171.4	53.9
2)	**Ratio of financing costs to net revenue stream**				
	This indicator estimates the cost of borrowing in relation to the net cost of Council services to be met from government grant and council taxpayers. In the case of the HRA the net revenue stream is the income from Rents and Subsidy.	Non - HRA	7.7%	6.5%	8.5%
		HRA	2.4%	2.0%	2.6%
3a)	**Incremental impact of capital investment decisions - Council Tax**		**£ p**	**£ p**	**£ p**
	Shows the actual impact of capital investment decisions on council tax. The impact on council tax is a fundamental indicator of affordability for the Council to consider when setting forward plans. The figure relates to how much of the increase in council tax is used in financing the capital programme and any related revenue implications that flow from it.	Increase in Council Tax (band D) per annum	19.81	19.62	20.13
3b)	**Incremental impact of capital investment decisions - Hsg Rents**		**£ p**	**£ p**	**£ p**

	Shows the actual impact of capital investment decisions on HRA rent. For CYC, the HRA 2008/09 planned capital spend is based on the government's approved borrowing limit so there is no impact on HRA rents.	Increase in average housing rent per week	0.00	0.00	0.00
4)	**Net Borrowing not exceed the CFR** To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose and so not exceed the CFR.		**£M** 255.5	**£M** 235.4	**£M** 97.9
5)	**Capital Financing Requirement as at 31 March** Indicates the Council's underlying need to borrow money for capital purposes. The majority of the capital programme is funded through government support, government grant or the use of capital receipts. The use of borrowing increases the CFR.	 Non - HRA HRA TOTAL	**£M** 150.8 140.4 291.1	**£M** 152.9 140.3 293.2	**£M** 134.5 18.8 153.3
6a)	**Authorised Limit for external debt -** The authorised limit is a level set above the operational boundary in acceptance that the operational boundary may well be breached because of cash flows. It represents an absolute maximum level of debt that could be sustained for only a short period of time. The council sets an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long-term liabilities for 3 financial years.	 borrowing other long term liabilities TOTAL	**£M** 337.0 10.0 347.0	**£M** 337.0 10.0 347.0	**£M** 192.0 10.0 202.0

6b)	**Operational Boundary for external debt -** The operational boundary is a measure of the most likely, prudent, level of debt. It takes account of risk management and analysis to arrive at the maximum level of debt projected as part of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self-imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.		**£M**	**£M**	**£M**
		borrowing other long term liabilities	317.0 10.0	317.0 10.0	172.0 10.0
		TOTAL	327.0	327.0	182.0
7)	**Adoption of the CIPFA Code of Practice for Treasury Management in Public Services** Ensuring Treasury Management (TM) Practices remain in line with the Code of Practice.	TM Policy Statement	✓	✓	✓
		12 TM Practices	✓	✓	✓
		Policy Placed Before Council	✓	✓	✓
		Annual Review Undertaken	✓	✓	✓
		A&G named as specified Scrutiny body	✓	✓	✓
8a)	**Upper limit for fixed interest rate exposure** The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.	Net interest re fixed rate borrowing / investments Actual Net interest re fixed rate borrowing / investments	104%	107%	110%

8b)	**Upper limit for variable rate exposure** The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.	Net interest re variable rate borrowing / investments Actual Net interest re variable rate borrowing / investments	-4%	-7%	-10%
			£M	**£M**	**£M**
9)	**Upper limit for total principal sums invested for over 364 days**		10.0	10.0	10.0
	To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long-term loans mature in different periods thus spreading the risk.	Investments over 364 days	£0	£0	£0
10)	**Maturity structure of new fixed rate borrowing**		**Upper Limit**	**Actual** £M 261.6	**Actual** £M 133.1
	The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.	under 12 months	0%	1%	4%
		12 months & within 24 months	2%	0%	2%
		24 months & within 5 years	5%	5%	5%
		5 years & within 10 years	27%	15%	21%

		10 years & and above	66%	79%	68%

Glossary Of Abbreviations

HRA
Housing Revenue Account

CFR
Capital Financing Requirement

CYC
City of York Council

1. In accordance with the Prudential Code, the Prudential Indicators set by full Council on 24 February 2011 for the financial year 2011/12 must be monitored and reported at Outturn. The Prudential Indicators are detailed above and the key points are explained below:

2. **Indicator 1 - Capital Expenditure:** The capital programme expenditure at monitor 3 was estimated to be £180.0m, which includes £121.5m for HRA Self financing reform; outturn was £171.4mm. The Capital Programme Outturn 2011/12 report has further detail with regards to this movement. The reduced outturn compared to monitor 3 is due to a number of schemes being slipped to be completed during 2012/13.

2. **Indicator 2 – Ratio of Finance Costs to Net revenue Stream**: This indicator represents how much borrowing (where the finance costs are not supported by government grant), for the capital programme, will cost as a percentage of the net revenue stream of the Council. The General Fund indicator is 6.52% compared to a budgeted level of 7.7%, with the marginal decrease due to reduced finance costs, as a result of reduced MRP. Further details are contained in paragraph 9... The Housing Revenue Account (HRA) version of the indictor is 2.0% compared to the budgeted level of 2.4%, the difference is mainly due to a higher HRA balance which earned investment income than was originally estimated.

3. **Indicator 3 (a) & (b) - Incremental Impact of Capital Investment Decisions on the Level of Council Tax (3a) and Housing Rents (3b):** This indicator shows the impact of capital investment decision on the bottom line level of Council Tax. The Council can fund its discretionary capital programme from two main sources, from borrowing or using capital receipts from the sale of surplus assets. The Council's policy is to use capital receipts to fund the Capital programme, where possible. However in the current economic environment with reduced capital receipts there is the requirement to use borrowing to support the capital programme, which has an impact on Council Tax through the

revenue cost of financing the borrowing. The borrowing is not taken unless it is affordable, sustainable and prudent and can be supported by an existing budget.

4. **Indicator 4 – Net Borrowing not exceed the CFR:** In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12. The table highlights the Council's net borrowing position against the CFR, it confirms that no borrowing occurred in advance of need and the net borrowing position was below the CFR.

5. **Indicator 5 - Capital Financing Requirement (CFR)**: The CFR at outturn was £293.2m, which is the Council's underlying need to borrow for all capital investment over time. At year-end when the Capital programme is financed, the CFR can change when decisions are made with regards to the use of external funding, capital receipts etc to support the Capital investment of the Council

6. The CFR represents the capital expenditure (which has not yet been paid for by revenue or other resources) which is required to be funded by borrowing. Under Statute, the council is permitted to borrow to fund capital expenditure. When borrowing is undertaken it is not taken for a specific capital scheme but rather to fund the council's capital financing requirement as a whole. The Council is allowed to borrow in advance of need; it can borrow the CFR in the current year and also 2 years in advance. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR).

7. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This cash requirement may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or through utilising temporary cash resources within the Council.

8. The Council's underlying borrowing need (Capital Financing Requirement) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

9. The Council's 2011/12 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2011/12 on 24 February 2011. The calculations underpinning the MRP calculation have been reviewed against current financial reporting requirements and the requirements of the prudential code. This is to ensure that the MRP calculation is consistent with the current years MRP policy statement and also consistent in the Statement of Accounts. It should be noted that this is a review of the calculation and not a change in policy, there is therefore no approval required. The Statement of Accounts in the explanatory forward references an increase in earmarked reserves in relation to provision for debt repayments, which accounts for the reduced MRP charged in 2011/12, but with provision for debt repayments held in reserve for future repayments.

10. **Indicator 6(a) - Authorised Limit**: The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level, which is approved at Full Council every year. The Authorised Limit was revised during 2011/12 due to the HRA Self Financing reforming being approved in the government white paper during the year. This resulted in the Council borrowing an additional £121.5m which had not been included the initial Authorised Limit calculation. The revised prudential indicators were approved at Council on 8 December 2012. The table confirms that during 2011/12 the Council has maintained gross borrowing within its authorised limit of £347.0m. The Council's highest level of borrowing during the year was when the £121.5m borrowing was taken for the HRA Self financing reform on 28 March 2012 at £261.6m. The headroom available within this limit allows the Council the ability to borrow in advance of need in accordance with its 3 year forecast Capital programme. Debt levels have remained within the limits set.

11. **Indicator 6(b) – Operational Boundary:** This is approximately the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. In 2011/12, the actual borrowing level was below the operational boundary due to the Council not borrowing the total amount is was permitted to do so during the year and not taking any borrowing in advance of need. This was in accordance with the strategy to hold off borrowing due to borrowing rates being much higher than investment rates.

12. **Indicator 7 - Adoption of the CIPFA Code of Practice in Treasury Management:** In accordance with the Prudential Code, the Council has adopted the CIPFA Treasury Management in the Public Services Code of Practice "the Code" prior to the beginning of the financial year. The table shows the code has been adhered to.

13. **Indicator 8(a) & (b) - Upper Limit for Fixed and Variable Interest rate Exposure:** Interest rate exposure on debt is positive due to it being in relation to interest paid and on investments is negative as it is interest being received. When the variable and fixed interest rates are totalled, it will always be 100%. The majority of the interest received for the Council relates to variable rated investments, where as the interest paid on debt is fixed. The limits set in the budget were not breached and the outturn stands at 107% for fixed interest rate exposure and –7% for variable interest rate exposure.

14. **Indicator 9 - Upper Limit for total principal sums invested for over 364 days:** This has been set at £10m and is approximately 25% of the average portfolio throughout the year. In the year no investments for longer than 364 days have been taken due to the credit ratings assigned to counterparties. In the current environment it is viewed as high risk to have long term exposure. The banks which are nationalised have the backing of government and therefore investment up to 1 year is considered.

15. **Indicator 10 - Maturity Structure of Fixed rate Borrowing:** The borrowing portfolio is spread across different time periods to ensure that the Council is not exposed to the requirement to take new borrowing in any one year and be exposed to interest rates in any one year. In 2011/12 the borrowing portfolio maturity profile was within the limits set.