Revised version published after City Executive Board – Updating
Appendix 2 paragraph 14and the headings on tables 4 and 5

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OXFORD CITY COUNCIL

To:	**City Executive Board** **Council**
Date:	**12th February 2015** **18th February 2015**
Report of:	**Head of Finance**
Title of Report:	**Treasury Management Strategy 2015/16**

Summary and Recommendations

Purpose of report: To present the Treasury Management Strategy for 2015/16together with the Prudential Indicators for 2015/16 to 2017/18.

Key decision Yes

Executive lead member: Councillor Ed Turner

Policy Framework: Sustaining Financial Stability

Recommendation(s): City Executive Board is asked to recommend that Council:

1. Approve the Treasury Management Strategy 2015/16, and adopt the Prudential Indicators 2015/16 – 2017/18 at paragraphs 8 to 37, and Appendix 2;
2. Approve the Investment Strategy for 2015/16 and investment criteria set out in paragraphs 23 to 37 and Appendix 1
3. Approve the Minimum Revenue Provision (MRP) statement at paragraphs 12 to 22 which sets out the Council's policy on debt repayment.

Appendices:
Appendix 1 – Credit and Counterparty Risk Management
Appendix 2 – Prudential Indicators

Executive Summary

1. The Council's Treasury Management Strategy has been written in accordance with the CIPFA prudential code and the CIPFA treasury management code of practice. The main change to the Strategy is the inclusion of the Ethical Investment Policy set out at paragraph 39.

2. The report presents the Council's prudential indicators for 2015/16 – 2017/18. Notable indicators include capital expenditure and borrowing limits, as these are areas of significant activity.

3. Members are required to agree the Council's Minimum Revenue Provision (MRP) policy, which is the charge to revenue each year for the repayment of debt.

4. The average value of investments during the financial year to date is£69.4m, they have ranged from £63.7m to £76.1m at any one time; an increase on the previous year, when average balances were £58.2m and ranged from £40.7m to £74.3m. This reflects slippage in the Council's Capital Programme.

5. The Council's external debt will reduce to £200.1m by the end of March 2015 from £200.5 at the same time last year. The debt is held at fixed rates with varying fixed periods to maturity. £198.5m relates to the Housing Revenue Account following the introduction of self-financing in April 2012.

6. The Council's General Fund Capital Programme over the next four years continues to be funded from a combination of government grants, capital receipts, revenue resources and Community Infrastructure Levy.

7. Whilst the majority of the Housing Capital Programme continues to be funded directly from Council House rents the Council's budget also allows for increased ' borrowing '(£32 million) to fund a package of Housing investments.

Treasury Management Strategy
Borrowing and Debt Strategy 2015/16

8. Under the prudential code, individual authorities are responsible for deciding the level of their borrowing. The system is designed to allow authorities that need, and can afford to, to borrow in order to pay for capital investment.

9. The arrangements also facilitate 'invest to save' schemes where they are affordable, prudent and sustainable.

10. The parameters for determining the level of prudential borrowing are:

- A balanced revenue budget that includes the revenue consequences of any capital financing ie: interest, debt repayment and running costs of any new project;
- That the impacts of the authorised borrowing limit on council tax or council rents is reasonable.

11. The draft Capital Programme which appears elsewhere on the Agenda; includes approximately £32m of HRA borrowing, to fund new build and estate regeneration over the next four years. This is utilising the Capital Financing Requirement (CFR) headroom available to the HRA.

Minimum Revenue Provision (MRP) Statement 2015/16

12. Prudential borrowing increases the Council's Capital Financing Requirement (CFR) or underlying need to borrow. Whether the Council actually borrows to finance capital expenditure is a treasury management decision unconnected to the capital financing decision. In practice the Council is unlikely to need to borrow externally in the medium term to fund the Capital Programme as it has sufficient cash balances. The Council is required to make a charge to its revenue account for internal borrowing. This charge is known as Minimum Revenue Provision (MRP) and reflects the repayment of principal borrowed.

13. Regulations require Full Council to approve the Council's MRP policy on an annual basis. The following statement is recommended:

    a) For capital expenditure incurred before 1st April 2008 or which in the future will be supported capital expenditure[1], existing practice, outlined in the former DCLG regulations will apply;
    b) For capital expenditure that relates to the assets transferred from HRA to GF- MRP will be based on the estimated useful life, but taking into account the number of years the assets have been in existence, and previous funding allocated to them;
    c) For all unsupported borrowing[2] incurred after 1st April 2008 the MRP policy will be the Asset Life Method, i.e. the MRP will be based on the estimated life of the asset and borrowing charged to the revenue account in equal instalments over the life of the asset.

14. TheHRA is not required to make a MRP but is required to make a depreciation charge. Regulations allow the Major Repairs Allowance (MRA) to be used as a proxy for depreciation for the first five year of the HRA self-financing scheme. Depreciation on HRA properties is estimated at £6.3m per annum and the MRA received is in line with

[1] Supported Capital Expenditure means the total amount of capital expenditure which a local authority has been notified by Government will be given as part of the grant payment
[2] Unsupported borrowing is any borrowing not covered by Government grants.

this. After the five year period depreciation will be a charge to the HRA with no offsetting available.

15. The S151 officer has delegated authority to determine the need for any future borrowing taking into account prevailing interest rates and associated risks. A combination of long-term and short-term fixed and variable rate borrowing may be considered. This may include borrowing in advance of future years' requirements.

16. Borrowing may be undertaken to fund the approved Capital Programme or to fund future debt maturities. The S151 officer will adopt a cautious approach and take into account the following factors:

    - The on-going revenue liabilities created, and the implications for the future plans and budgets;
    - The economic and market factors that might influence the manner and timing of any decision to borrow;
    - The pros and cons of alternative forms of funding including internal borrowing;
    - The impact of borrowing in advance on cash balances and the consequent increase in counterparty risk.

17. Council officers, in conjunction with our treasury advisors, Capita Asset Services - Treasury solutions, monitor both prevailing interest rates and market forecasts, thereby allowing the Council to respond to any changes that may impact on the timing and manner of borrowing decisions, to ensure these are optimised.

18. The Council had £200.5m of external debt as at 1st April 2014, all of which was held at fixed rates with varying maturity terms upto 2057. This debt is wholly related to housing.

19. Repayments during 2014/15 will reduce the debt to £200.1m as at 31st March 2015.

20. The Council's CFR as at 1st April 2014 exceeded the level of external borrowing, and is an indication of the Council's underlying need to borrow to fund its capital investments due to the level of internal borrowing that has been undertaken over the past few years.

21. This position is expected to continuein the short term and indicates a potential need to borrow on the external market in the medium term, if all schemes in the proposed Capital Programme go ahead.

22. In summary the main change to the borrowing strategy is to utilise the CFR headroom on the HRA to borrow a further £32m over the next four years.

Investment Strategy 2015/16
Interest rates

23. Average cash balances are currently £69.4m. They have fluctuated between £63.7m to £76.1m during the year to date.

24. Interest rates remain at an all-time low, with the Base Rate having been held at 0.50% since March 2009. The Council's advisors expectrates to begin to rise slowly during 2015 peaking at around 3% by 2017/18.

25. All existing investment dealterms are less than 364 days. The Strategy allows for investments beyond 364 days with high quality counterparties; howeverprevailing interest rates have not been attractive enough to outweigh the additional risk that a longer term investment brings.

26. Investments are made in accordance with the Council's Treasury Management Strategy such that returns are balanced against security of investment, liquidity of cash to ensure funding of day to day cash flows and yield. Consequently procedures are in place to determine the maximum periods that funds may be invested for, as well as the nature of those investments.

27. The Council works to achieve the optimum rate of return on its investments commensurate with proper levels of security and liquidity.

28. Investment instruments identified for use are listed in Appendix 1 under the specified and non-specified investment categories. Counterparty limits are set in accordance with the Council's Treasury Management Practices (TMPs).

29. The Council utilises the creditworthiness services provided by Capita Asset Services – Treasury Solutions. The model combines the credit ratings, credit watches and credit outlooks provided by the credit rating agencies - Fitch, Moody's and Standard and Poor's in a weighted scoring system which is then combined with an overlay of Credit Default Swap[3] (CDS) spreads and sovereign ratings for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration of investments.

30. The Council is alerted to changes to ratings by Capita Asset Services - Treasury solutions creditworthiness service and takes the following action in respect of this update:

    - If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, it is withdrawn immediately from further use

[3] A financial swap agreement that the seller of the CDS will compensate the buyer in the event of default

- If a counterparty's credit rating is placed on negative watch or negative outlook, officers carry out a review to determine whether the institution is still worthy of inclusion on the counterparty list. If there is any doubt, the counterparty is temporarily suspended pending the credit rating agency's full review.

31. As part of the creditworthiness methodology a minimum sovereign rating of AA- from Fitch (or equivalent from other agencies if Fitch does not provide) has been determined.

32. For operational purposes, the Council's counterparty list is reviewed on a daily basis taking into account market information and changes to criteria provided. The list is maintained by the Treasury Team, and reported to the S151 Officer on a regular basis.

33. The Investment Strategyprovides delegated authorityfor the S151 Officer to determine the most appropriate form of investment dependant on prevailing interest rates and counterpartyrisk at the time.

34. Limits on countries and sectors are as follows:

    - No more than 20% of the previous year's average monthly investment balance with any one counterparty or group (currently at £15.8m)
    - Maximum of 10% of total investments to be with institutions in other countries that meet the required criteria

Specified and Non-Specified investments

35. In approving the Investment Strategy Members are approving the types of investments the Council can undertake. Investments are classified as either specified or non-specified and are show in more detail in Appendix 1.

36. A specified investment is one that is in sterling, no more than one year in duration or, if in excess of one year can be repaid earlier on requestand with counterparties that meet the council's credit rating criteria. Non-specified investments are any other type of investment including property funds. Whilst generally these investments will earn a higher rate of return they are inherently more risky in nature and a maximum level of 25% of the previous year's average monthly investment balance is placed on such investments.

37. The Council placed deposits with two Icelandic banks prior to their collapse in 2009; original balances were £3m with Heritable and £1.5m with Glitnir. Heritable has repaid 94% of the initial deposit plus interest, no further repayments have been received during 2014/15. The Council has received over 80% of the original deposit with Glitnir. The remaining balance is currently held in Iceland, under Icelandic law, and

the Council is seeking advice from Bevan Brittan, our solicitors acting on behalf of all local authorities, regarding its options on this matter.

Ethical Investment Policy

38. At its meeting on 14th July, Council proposed to adopt an ethical investment policy, which is set out below. This Strategy formally endorses and adopts it for the first time.

39. The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:

    a. Human rights abuse (eg child labour, political oppression)
    b. Environmentally harmful activities (eg pollutions, destruction of habitat, fossil fuels)
    c. Socially harmful activities (eg tobacco, gambling)

Banking Services

40. The Council's banking services have recently been tendered following the withdrawal of the Co-operative Bank from the local authority market. Barclays won the contract andare currently working with officers on an implementation plan. The new contract will commence on the 1st April 2015.

Prudential Indicators

41. The Council is required to set out a number of indicators, relating to the affordability and prudence of its treasury strategy. These indicators are detailed in Appendix 2 for the period 2015/16 – 2017/18, and should be monitored and reported on an annual basis.

42. The Council is on track to meet all of the prudential indicators for 2014/15.

Legal implications

43. This report fulfils four key requirements:
    - The reporting of the prudential indicators setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities). Agreeing the Council's Minimum Revenue Provision (MRP) policy, which sets out how the Council will pay for capital assets through revenue each year (as required by guidance under the Local Government and Public Involvement in Health Act 2007).
    - Agreeing the Treasury Management Strategy, which sets out how the Council's treasury services will support the capital

decisions taken, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing limit required by S3 of the Local Government Act 2003. Agreeing the Investment Strategy, this sets out the council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

44. The Local Government Act 2003 and supporting regulations require the council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set prudential and treasury indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

45. The Constitution requires the Strategy to be reported to the City Executive Board and Full Council outlining the expected treasury activity for the forthcoming four years on an annual basis.

Financial Issues

46. All financial issues have been addressed in the body of the report.

Environmental Impact

47. Following the inclusion of the Ethical Investment Policy, this ensures that through our investments we will not knowingly, directly invest in businesses that undertake harmful environmental activities.

Equalities Impact

48. There is no equalities impact relating to this report.

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List of background papers:

APPENDIX 1

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The Department of Communities and Local Government(CLG) issued Investment Guidance in 2010, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced Treasury Management Practices (TMPs). This part, TMP 1, covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are that Councils set an annual Investment Strategy, as part of theirTreasury Strategy for the following year, covering the identification and approval of the following:

- The guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use.
- Non-specified investments, clarifying the greater risk implications, and the overall amount of various categories that can be held at any time.

Specified Investments – These investments are sterling investments that do notexceed a maturity period of more than one year, or those which could be for a longer period but where the Council has the right to be repaid within twelve months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or Gilts with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A Local Authority, Parish Council, Community Council, Fire or Police Authority
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4, this

covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society) meeting the minimum 'high' quality criteria where applicable.

Additionally, and in accordance with the Code, the Council has set duration and value limits as follows:

	Minimum credit criteria/colour banding	**Max % of total investments /£ limit per institution**	**Max maturity period**
Debt Management Office– UK Government	Not applicable	100%	364 days
UK Government Gilts	UK Sovereign rating	20%	364 days
UK Government Treasury Bills	UK Sovereign rating	20%	364 days
Bonds issued by multilateral development banks	UK Sovereign rating	20%	6 months
Money Market Fund	AAA	£20m	Liquid
Local Authorities, Fire and Police Authorities		100%	364 days
Term deposits with banks and rated building societies	Blue Orange Red Green	£15m or 20% of total investments whichever is the greater	Up to 1 year Up to 1 year Up to 6 Months Up to 100 days
certificate of Deposit or corporate bonds with banks and building societies	Blue Orange Red Green	£10m or 20% of total investments whichever is the greater	Up to 1 year Up to 1 year Up to 6 Months Up to 100 days
Enhanced Cash funds		20%	6 months
Corporate bond funds		20%	6 months
Gilt Funds	UK sovereign rating	20%	6 months

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Overall non specified investments will not exceed more than 25% of the previous yearsinvestment portfolio. If the Council's average investment balance increases further over the medium term decisions will need to be made on the viability of undertaking additional non specified investments. Non specified investments would include any sterling investments with:

	Minimum Credit Criteria	**Max % of total investments/£ limit per institution**	**Max maturity period**
Local Authorities, Fire and Police Authorities		15% of total investments	Up to 2 years
Fixed term deposits with variable rate and variable maturities	Orange	15% of total investments	Upto 1 year
Fixed term deposits with variable rate and variable maturities	Yellow Purple	£10m or 20% of total investments	Up to 5 years Up to 2 years
Commercial paper issuance covered by a specific UK Government (explicit) guarantee		10% of total investments	Upto 1 year
Fixed term deposits with unrated Building Societies	Asset Base over £9bn	£3m – 20% of total investments	100 days
Commercial paper other		15% of total investments	Upto 1 year
Corporate bonds		15% of total investments	Upto 1 year
Other debt issuance by UK banks covered by UK Government (explicit) guarantee		15% of total investments	Upto 1 year
Floating rate notes		15% of total investments	Upto 1 year
Housing Associations		15% of total investments	Medium to long term
Property funds		25% of total investments	Medium to long term

The Monitoring of Investment Counterparties - The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services – Treasury Solutions on a weekly basis, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

APPENDIX 2

Prudential Indicators

Prudence

A. Capital Expenditure Plans

1. The Council's capital expenditure plans are the key driver of treasury management activity. Estimates of capital expenditure for the period 2015/16 to 2017/18 are summarised below and this forms the first of the prudential indicators. The revenue consequences of associated borrowing and any on-going maintenance costs are accommodated within the Council's revenue budgets.

2. Capital expenditure can be paid for immediately, by applying capital resources such as capital receipts, capital grants, external funding or revenue contributions, but if these resources are insufficient any residual expenditure will be undertaken by Prudential Borrowing and will add to the Council's borrowing need, or Capital Financing Requirement (CFR).

3. Estimates of resources such as capital receipts may be subject to uncertainty i.e. anticipated asset sales may be postponed or reduced due to changes in the property market or planning issues.

4. Elsewhere on the agenda the draft Capital Programme is recommended for approval, a summary of these figures is in the table below, showing the capital expenditure and how it will be financed. Any shortfall of financing results in a borrowing need.

Table 1:-Capital Expenditure and Financing

	2013/14 Actual £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's
Expenditure					
General Fund	11,121.0	30,519.3	15,820.2	8,059.3	5,371.0
HRA	10,882.0	28,309.1	21,047.3	32,339.4	35,947.4
Total expenditure	**22,003.0**	**58,828.4**	**36,867.5**	**40,398.7**	**41,318.4**
Finance by:					
Developer Contributions	470.0	1,229.6	2,544.2	3,000.0	2,240.0
Capital Grants	10,378.0	32,898.3	7,305.1	6,513.0	6,752.2
Capital Receipts	3,876.0	8,413.3	5,991.5	-396.0	-508.6
Revenue	4,538.0	13,296.0	17,758.4	17,539.3	18,979.6
Prudential Borrowing	2,741.0	2,991.1	3,268.4	13,742.4	13,855.2
Total Funding	**22,003.0**	**58,828.3**	**36,867.6**	**40,398.7**	**41,318.4**

B. Capital Financing Requirement (CFR).

5. The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Prudential borrowing is explored in more detail below.

6. The CFR includes any other long term liabilities (eg finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

Table 2:- Capital Financing Requirement

	2013/14 Actual £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's
General Fund	-1,746	23,578	22,570	21,563	20,555
HRA	222,297	199,384	202,653	216,395	230,250
Total	**220,551**	**222,962**	**225,223**	**237,958**	**250,805**

Movement in CFR	20,107	2,411	2,261	12,735	12,848

Affordability

7. The Strategy also includes the Prudential Indicators, which the authority is required to consider before determining its budget and treasury management arrangements for the new financial year. These indicators are a statutory requirement and therefore have to be reported to Council each year. These indicators are split into two categories the first is affordability. The affordability indicators are listed below:

C. Ratio of financing costs to the net revenue stream

8. This indicator represents the estimate of the ratio of financing costs to the net revenue stream for HRA and General Fund.

Table 3:- Ratio of financing costs to net revenue stream

	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
General Fund	-0.7%	-4.4%	-5.7%	-7.4%	-8.6%
HRA	18.5%	18.1%	17.0%	16.1%	16.0%

D. Incremental impact of capital investment decisions on Council Tax and Rents

Council Tax

9. The estimate of the incremental impact of capital investment decisions on the Council Tax is shown below; this shows the impact of any decisions that are made on investment through the Capital Programme and how it affects the Band D Council Tax.

10. The figures in Table 4 below have been calculated by looking at those schemes that are uncommitted in the current Capital Programme and looking at the impact they will have on Council Tax after taking into account capital receipts and revenue contributions

11. The Council will not enter into any uncommitted capital scheme until the source of funding is confirmed, e.g. Capital receipts, grants, S106 or prudential borrowing. This will ensure we can avoid any unplanned revenue consequences as a result of capital expenditure.

Table 4:- Potential Impact of Capital Expenditure on Council Tax

	2013/14 Actual £	**2014/15 Estimate £**	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**
Overall net impact on Council Tax Band D per week	0.26	0.70	0.36	0.18	0.12

Housing Rents

12. The estimated incremental impact of capital investment decisions on weekly housing rents is shown in Table 5below. The figures have been calculated by looking at those schemes that are currently in the Capital Programme and deducting alternate funding resources.

13. The key drivers for setting housing rents with effect from 1st April 2015 will be affordability and the need to cover net expenditure . Formula rent guidance states that for 2015/16 for properties not at target rent will be CPI + 1% + £2, and those at target rent CPI + 1%. At September 2014 CPI was 1.2%.

14. The expected expenditure on the HRA Capital Programme could have the following impacton council rents:

Table 5:- Potential Impact of Capital Expenditure on Housing Rents

	2013/14 Actual £	**2014/15 Estimate £**	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**
Overall net impact on Weekly Housing Rents	1.34	3.48	2.59	3.98	4.42

E. Authorised limit for external debt

15. This represents a limit beyond which external debt is prohibited. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table 6:- Authorised Limit for external debt

	2013/14 Actual £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's
General Fund	5,000	4,000	2,000	2,000	2,000
HRA	242,199	242,199	245,566	259,308	273,163
Other Long Term Liabilities	1,000	0	0	0	0
Total	**248,199**	**246,199**	**247,566**	**261,308**	**275,163**

16. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The Council intends to utilise this headroom over the next three years to fund the Capital Programme, it is considered prudent to withhold £10m of the borrowing headroom as a contingency for potential changes in capital costs and interest charges. These limits are:

Table 7: HRA Capital Financing Requirement

HRA Debt Limit	2013/14 Actual £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's
Total	242,199	242,199	242,199	242,199	242,199

F. Operational boundary for external debt

17. This is based on the expected maximum external debt during the course of the year, it is not a limit, and actual external debt can vary around this boundary for short times during the year.

Table 8:- Operational boundary for external debt

	2013/14 Actual £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's
Borrowing	3,000	2,000	0	0	0
Additional HRA Settlement	234,000	234,000	234,000	240,000	255,000
Other Long Term Liabilities	1,000	0	0	0	0
Total	**238,000**	**236,000**	**234,000**	**240,000**	**255,000**

G. Net Borrowing Compared to the Council's Capital Financing Requirement

18. Table 9 below shows the Council's net borrowing position compared to its Capital Financing Requirement. As can be seen, the figures show that the Council is currently borrowing below its financing requirement which indicates a need to borrow in the short to medium term. The Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

Table 9:- Net borrowing compared to CFR

	2013/14 Actual £000's	**2014/15 Estimate £000's**	**2015/16 Estimate £000's**	**2016/17 Estimate £000's**	**2017/18 Estimate £000's**
Gross Borrowing	220,440	200,133	201,770	215,570	229,470
Other Long Term Liabilities	607	0	0	0	0
Total Gross Debt 31 March	**201,047**	**200,133**	**201,770**	**215,570**	**229,470**
CFR	220,551	222,962	225,223	237,958	250,805
Net Borrowing v CFR	**19,504**	**22,829**	**23,453**	**22,388**	**21,335**

H. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Sector

19. The Council can confirm that it has complied with this code throughout 2014/15 and will continue to do so.

I. Upper limit on fixed and variable interest rate borrowing and investments

20. The purpose of this and the following two prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. This indicator identifies the maximum limit for fixed interest rates based upon the debt position net of investments.

Table 10:- Upper limit on borrowing and investments

	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Upper limit on fixed rate borrowing	100	100	100	100	100
Upper limit on fixed rate investments	100	100	100	100	100
Upper limit on variable rate borrowing	100	100	100	100	100
Upper limit on variable rate investments	100	100	100	100	100

J. Upper and Lower limit for the maturity structure of borrowing

21. These are used to reduce the Council's exposure to large fixed rate sums falling due for repayment at the same time.

Table 11:- Upper and lower limit on borrowing maturity

	2014/15 Estimate Upper %	2014/15 Estimate Upper %	2014/15 Estimate Upper %	2014/15 Estimate Upper %	2014/15 Estimate Upper %	2014/15 Estimate Upper %	2014/15 Estimate Upper %	2014/15 Estimate Upper %
< 12 mths	30	0	30	0	30	0	30	0
1 – 2 years	30	0	30	0	30	0	30	0
2 -5 years	80	0	80	0	80	0	80	0
5-10 years	100	0	100	0	100	0	100	0
10 years +	100	0	100	0	100	0	100	0

22. Upper limit for principle sums invested for periods longer than 364 days; this indicator is used to reduce the need for early sale of an investment, and is based on the availability of funds after each year end. This has been set at zero due to the uncertainty of the market and reducing the risk posed by longer term investments.

Table 12:- Upper limit for investments longer than 364 days

	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Upper Limit for investments for periods longer than 364 days	20	20	20	20

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