A.1 Corporate Management Scrutiny Committee – Annual Treasury Strategy for 2014/15 (Including Prudential and Treasury Indicators)

There was submitted a report, from the Corporate Management Scrutiny Committee, seeking the Cabinet's agreement to the Annual Treasury Strategy for 2014/15 (including the Prudential and Treasury Indicators) for submission to Council for approval.

Accordingly, it was moved by Councillor Page, seconded by Councillor Goggin and **RESOLVED** that the comment of the Corporate Management Committee be noted and the Annual Treasury Strategy for 2014/15 (including Prudential and Treasury Indicators), attached as Appendix A to the report, be submitted to **COUNCIL** for approval.

RECOMMENDED TO COUNCIL – That the Annual Treasury Strategy for 2014/15 (including Prudential and Treasury Indicators) be approved.

Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

28 FEBRUARY 2014

REPORT OF FINANCE AND TRANSFORMATION PORTFOLIO HOLDER

A.1 ANNUAL TREASURY STRATEGY FOR 2014/15 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS)

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To agree the Annual Treasury Strategy for 2014/15 (including Prudential And Treasury Indicators) for submission to Council.

EXECUTIVE SUMMARY

- The Annual Treasury Strategy for 2014/15 including Prudential and Treasury Indicators was initially considered and agreed by Cabinet on 24 January 2014 for submission to the Corporate Management Committee for review.
- Corporate Management Committee considered the Strategy at its meeting on 12 February 2014 and resolved (minute 67 refers):

  That the Committee COMMENTS to CABINET that it recognised the Annual Treasury Strategy as a comprehensive report and endorsed its progress onto Cabinet.

- Cabinet are now asked to agree the Annual Treasury Strategy for 2014/15 (including Prudential and Treasury Indicators) that is attached as **Appendix A** for submission to Council.

RECOMMENDATION
That Cabinet notes the comment of the Corporate Management Committee and agrees that the Annual Treasury Strategy for 2014/15 (including Prudential And Treasury Indicators) attached at Appendix A be submitted to Council for approval.

APPENDICES
Appendix A – Annual Treasury Strategy for 2014/15 (including Prudential And Treasury Indicators)

Tendring
District Council

PRO BONO OMNIUM
FOR THE GOOD OF ALL

ANNUAL TREASURY STRATEGY FOR 2014/15

February 2014

Annual Treasury Strategy for 2014/15

The Annual Treasury Strategy has been prepared in accordance with the CIPFA Code and includes the following sections.

1. Background
2. Treasury Limits for 2014/15 to 2016/17
3. Prudential and Treasury Indicators for 2014/15 to 2016/17
4. Current Portfolio Position
5. Borrowing Requirement
6. Economic Position
7. Interest Rates
8. Borrowing strategy
   - 8.1 External v internal borrowing
   - 8.2 Gross and Net Debt Positions
   - 8.3 Policy on borrowing in advance of need
9. Debt Rescheduling
10. Annual Investment Strategy
    - 10.1 Investment Policy
    - 10.2 Creditworthiness Policy
    - 10.3 Credit Limits
    - 10.4 Country Limits
    - 10.5 Investment Strategy
    - 10.6 Allocation of Investment returns between GF and HRA.
    - 10.7 End of year investment report

1. Background

The Local Government Act 2003 (the Act) 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 for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Council's risk appetite is low and it has taken, historically, a risk-averse approach to Treasury Management, with the security and liquidity of the investment the prime concern, and the budget for income from investments being formulated on this basis. The Annual Strategy for 2014/15 is based on this risk-averse approach continuing.

For a number of years the Council has engaged the services of treasury advisors to provide its officers with advice on treasury management issues. The current advisors are Capita Asset Services, Treasury solutions (Formerly called Sector Treasury Services) (Sector). However the final decision and responsibility for the actions taken sits with the Council's own officers after considering that advice.

The details of the delegations and responsibilities for treasury management are contained within the Council's Constitution as follows:-

- Part 3 – delegated powers - Responsibilities of Cabinet
- Part 3 – delegated powers – Finance and Asset Management Portfolio and delegation to officers
- Part 5 – Financial Procedure Rules. (Section 14)

2. Treasury Limits for 2014/15 to 2016/17

It is a statutory duty under Section 3 of the Act and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in **Annex 1** of this report.

The authorised limit reflects the additional borrowing requirement as part of the Housing Revenue Account (HRA) self-financing reforms. The Housing self-financing reforms also set an overall ‘debt cap’ for the HRA which in itself reflects an affordability level based on the Government’s model of how much debt can be supported by the HRA after considering the forecast of income from rents and management and maintenance costs over a 30 year period.

As part of the Autumn Statement 2013, the Government announced that they will increase local authority HRA borrowing limits by £150 million in 2015-16 and £150 million in 2016-17, allocated across authorities on a competitive basis and agreed by LEPs. Access to this additional borrowing would be subject to separate review during the year if required but would be undertaken within the framework of this strategy.

3. Prudential and Treasury Indicators for 2014/15 to 2016/17

Prudential and Treasury Indicators (as set out in **Annex 1**) are relevant for the purposes of setting an integrated Treasury Management Strategy. The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The latest revision to the Code is effectively adopted via the approval of this Strategy which reflects the most up to date code and guidance.

4. Current Portfolio Position

The Council’s treasury position at the end of December 2013 comprised:

- GF borrowing from The Public Works Loan Board (PWLB) of £2.672m at fixed rates at an average rate of interest of 8.67%
- HRA borrowing from the PWLB of £51.433m at fixed rates at an average rate of 3.15%
- Investments of cash flow surpluses, which include reserves and capital receipts, on a short-term basis (less than 1 year) totalling £41.897m at an average rate of interest of 0.32%.

5. Borrowing Requirement

The Council’s current forecasted borrowing requirement is as follows:

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£’000	**£’000**	**£’000**	**£’000**	**£’000**
	actual	estimate	estimate	estimate	estimate
New borrowing – GF	0	0	0	0	0
New borrowing – HRA	0	0	0	0	0
Alternative financing arrangements	Nil	Nil	Nil	Nil	Nil

Replacement borrowing – GF	Nil	Nil	Nil	Nil	Nil
Total new borrowing requirement	**0**	**0**	**0**	**0**	**0**

This position excludes any assumptions on additional borrowing undertaken as part of the HRA business plan which will be subject to further consideration as necessary.

6. Economic Position

The Eurozone debt crisis has easied during 2013 and the Eurozone finally escaped from recession, but growth is likely to remain weak and so will damp UK growth. However, the very high and increasing debt to GDP ratios of the bailed out countries remain a cause of concern as any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries, but the foundations of this are weak. There are particular concerns that democratically elected governments may lose the support of electorates suffering under austerity programmes.

The US economy has managed to return to reasonable growth during 2013, in spite of sharp cuts in federal expenditure and increases in taxation. The quantitative easing programme has started to be tapered down in early 2014. The housing market has improved and banks have largely repaired their balance sheets so they can resume healthy levels of lending. Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics.

UK economy

Growth strongly rebounded in 2013 quarters 1, 2 and 3 as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has therefore upgraded growth forecasts for 2013 and 2014. Growth is expected to be strong for the immediate future. However, wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have helped this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The Bank of England has issued forward guidance that it will not start to consider raising interest rates until the jobless rate (Labour Force Survey/ILO so not the claimant count measure) is 7% or lower. With the economy performing better and some signs of returning bubbles in the UK housing market in London, concerns over inflation and financial stability may outweigh the prospect of reducing the unemployment rate below 7%. The economic outlook is improving, and should do further in the next two years, but risks remain.

Economic growth is helping the UK public finances turn the corner as tax receipts are also higher than predicted. Public sector net borrowing by the end of 2013-14 is likely to be on track to meet the Office of Budget Responsibilities forecasts for the first time in several forecasting rounds. However, the original planned timeframe to reduce the deficit is still unlikely to be met.

Inflation Inflation has fallen from a peak of 3.1% in June 2013 to 2.2% in October 2013. It is expected to reach the 2% target level within the next two years.

AAA rating. The UK has lost its AAA rating from Fitch and Moodys but that caused little market reaction.

Economic forecasting remains difficult with so many extermal influences weighing on the UK. The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas, in particular a resurgence of the Eurozone debt crisis, consumer spending confidence and recovery in the housing market.

7. Interest Rates

The following table gives the Council's External Treasury Advisor's view on Bank Rate movements and their forecast for the PWLB new borrowing rate based on that view. The PWLB rates are based on the new Certainty Rate introduced by the Government for local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans, and for which the Council submitted a successful application.

	Bank Rate	LIBID			PWLB Borrowing Rate			
		3 month	6 month	12 month	5 yr.	10 yr.	25 yr.	50 yr.
Mar 2014	0.50	0.50	0.60	0.80	2.50	3.60	4.40	4.40
Jun 2014	0.50	0.50	0.60	0.80	2.60	3.70	4.50	4.50
Sep 2014	0.50	0.50	0.60	0.80	2.70	3.80	4.50	4.50
Dec 2014	0.50	0.50	0.60	0.80	2.70	3.80	4.60	4.60
Mar 2015	0.50	0.50	0.60	0.80	2.80	3.90	4.60	4.70
Jun 2015	0.50	0.50	0.60	0.80	2.80	3.90	4.70	4.80
Sep 2015	0.50	0.50	0.60	1.00	2.90	4.00	4.80	4.90
Dec 2015	0.50	0.50	0.60	1.20	3.00	4.10	4.90	5.00
Mar 2016	0.50	0.50	0.70	1.40	3.10	4.20	5.00	5.10
Jun 2016	0.75	0.60	0.80	1.60	3.20	4.30	5.10	5.20
Sep 2016	1.00	0.70	1.00	1.80	3.30	4.30	5.10	5.20
Dec 2016	1.00	0.90	1.20	2.00	3.40	4.40	5.10	5.20
Mar 2017	1.25	1.30	1.40	2.30	3.40	4.50	5.10	5.20

Given the weak outlook for economic growth Sector sees the prospects for any changes in Bank Rate before 2016 as very limited. There is potential for the start of increases to be delayed even further if actual economic growth does not follow current forecasts or unemployment does not fall as predicted.

8. Borrowing Strategy

8.1 External v Internal Borrowing

The main Prudential Indicator relevant to capital investment is the Capital Financing Requirement (CFR). This is the total outstanding capital expenditure that has not yet been funded from either revenue or capital resources and is therefore a measure of the Council's underlying borrowing need after taking into account the provision included in the revenue budgets for the repayment of outstanding debt.

The borrowing to finance the capital expenditure can be either from external sources or the Council can use its own internal resources.

The planned external debt compared to the CFR over 5 years is shown in the following table, the difference between the two being the amount the Council has funded from internal resources. This is also set out separately for the GF and the HRA. This excludes other long term liabilities such as long term creditors and pensions which form part of the separate Financial Strategy process of the Council from a prudential perspective.

Total External Debt

	Revised 2013/14	Estimate 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	55,737	52,550	50,344	48,117	45,869
Estimated change in debt	(3,187)	(2,206)	(2,227)	(2,248)	(1,971)
Estimated debt as at 31 March	52,550	50,344	48,117	45,869	43,898
CFR as at 31 March	**57,952**	**55,710**	**53,479**	**51,258**	**49,348**
Difference - internally financed	5,402	5,366	5,362	5,389	5,450

General Fund External Debt

	Revised 2013/14	Estimate 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	2,781	1,558	1,316	1,053	769
Estimated					

repayment of debt	(1,223)	(242)	(263)	(284)	(307)
Estimated debt as at 31 March	1,558	1,316	1,053	769	462
CFR as at 31 March	**6,960**	**6,682**	**6,415**	**6,158**	**5,912**
Forecast of internal financing	5,402	5,366	5,362	5,389	5,450

HRA External Debt

	Revised 2013/14	Estimate 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	52,956	50,992	49,028	47,064	45,100
Estimated repayment of debt	(1,964)	(1,964)	(1,964)	(1,964)	(1,664)
Estimated debt as at 31 March	50,992	49,028	47,064	45,100	43,436
CFR as at 31 March	**50,992**	**49,028**	**47,064**	**45,100**	**43,436**
Forecast of internal financing	0	0	0	0	0

In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk is high, and will be continued.

The Council's officers have made an assessment, based on advice from treasury advisors, of the amount of internal resources that it is prudent to use to finance capital expenditure and it is felt, taking into account the Council's financial position, that approximately £4m-£5m would at the present time and over the medium term be an appropriate level of internal borrowing. A maturity loan of £1m fell due for repayment in 2013-14 but this was not replaced which has led to the current internal borrowing position running just ahead of the £5m level. However given the continuing low return on investments and no significant increases in PWLB interest rates in the immediate future, it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors.

The use of internal resources is only a temporary solution as, in time, these reserves and capital receipts will be utilised to finance service initiatives and capital investment and at that point will not be available. This will need to be balanced against the replacement external borrowing which will be required at some point in the future which may attract higher rates of interest, so timing of such borrowing will need to consider forecasted rates of interest against the various types of borrowing structure to determine the most advantageous approach. Against this approach consideration may be required to borrow in advance of need, as set out in section 8.3 below, so as to reduce the need to borrow when interest rates may be higher.

8.2 Gross Debt v Investments

A comparison between the Council's gross and net borrowing position helps to assess the credit risk that would apply if the Council has surplus resources invested at a low interest rate which could be used to repay existing debt or to negate the need for additional new debt if at higher interest rates than that being achieved on the investments.

The table below sets out the Council's probable position taking account of both the individual GF and HRA debt figures.

Comparison of gross and net debt positions at year end	2012/13	2013/14	2014/15	2015/16	2016/17
	actual	Probable out-turn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
General Fund external debt (gross)	2,781	1,558	1,316	1,053	769
HRA external debt (gross)	52,956	50,992	49,028	47,064	45,100
Investments	33,744	30,250	15,000	15,000	15,000
Net debt	**21,993**	**22,300**	**35,344**	**33,117**	**30,869**

The net debt positions show that the Council does not have excess resources which could be used to repay long term debt.

Given the severe reductions in Local Government funding and capital receipts along with earmarked reserves being applied in the short term, the overall strategy is to keep external borrowing to the minimum. This both restricts the additional cost falling to the revenue account and ensures repayments can be made. If opportunity arises, external debt will be repaid early, although this is difficult under current arrangements as set out in section 9. If borrowing is required then any requirement will be considered whilst balancing internal resources and forecasted interest rates within the parameters previously set out.

Against this background caution will be adopted within the 2014/15 treasury operations. Interest rates will be monitored and a pragmatic approach adopted to changing circumstances with appropriate action taken in accordance with the Council's Financial Procedure Rules.

8.3 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

9. Debt Rescheduling

Officers together with the treasury advisors examine on a regular basis the potential for undertaking early repayment of some external debt to the PWLB in order to maximise any potential financial advantages to the Council. However, the continuing and significant difference between new borrowing and repayment rates has meant that large premiums would be incurred by such action and cannot be justified on value for money grounds. This situation will be monitored in case the differential is narrowed by the PWLB or repayment rates change substantially.

As short term borrowing rates will be considerably cheaper than longer term rates there may be some potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing these short term loans once they mature compared to the current rates of longer term debt in the existing portfolio.

Any opportunities for debt rescheduling will be considered if such action would be advantageous to the Council. The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings
- helping to fulfil the strategy outlined above
- enhance the balance of the portfolio

Consideration will also be given to identifying if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

10. Annual Investment Strategy

10.1 Investment Policy

The Council will have regard to the Department of Communities and Local Government's (CLG) Guidance on Local Government Investments, the latest CIPFA Treasury Management in Public Services Code of Practice and Guidance Notes (the Code) along with any relevant revisions or updates. The Council's investment priorities when investing are: -

- The security of capital and
- The liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with these main priorities. It is important to note that the borrowing of monies purely to invest or on-lend and make a return is unlawful.

Investment instruments identified for use in the financial year are listed in Annex 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

The majority of the Council's investments will be in Specified Investments although limited investments may be made in Non- Specified investments.

The Council does not intend to use derivative instruments as part of its treasury activities during the year.

10.2 Creditworthiness Policy

This Council uses credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. In determining the appropriate credit rating the Council will use the lowest rating available to determine the investment limits both in terms of amount and period for a particular counterparty. This is in accordance with the recommendations of The Code. Counterparties rated by only one agency will not be used.

One of the credit rating agencies may be more aggressive in giving lower ratings than the other two agencies and this could result in the Council's counterparty list becoming too restrictive. If this happens the position will be discussed with the Council's treasury advisors and the Annual Treasury Strategy may need to be revised and approved by Council.

- All credit ratings will be monitored daily**.** The Council is alerted to changes to ratings of all three agencies through its use of the Creditworthiness Service provided by the Council's external advisors which is received each morning via email and uploaded to the Treasury Management system.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use for a new investment will be withdrawn immediately.

The Code also recommends that credit ratings are not the sole determinant of creditworthiness and therefore the Council will also use available market information from a variety of sources including

1. The Creditworthiness Service utilises movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. This creditworthiness service information will be used to confirm the assessed creditworthiness derived from the three ratings agencies. Where the information from this service indicates a lower standing for a particular counterparty than that derived via the credit ratings then the investment limits and length of investments applicable to that counterparty will be adjusted accordingly or the counterparty removed from the list.
2. Market data and information,
3. Information on government support for banks and the credit ratings of that government support

10.3 Credit Limits

Through its approved Treasury Management Practices the Council will set maximum limits for the amount that can be invested with any counterparty. This limit will be determined by reference to the counterparty's credit rating and other criteria. In addition the amount invested in building societies and Certificates of Deposit is also limited to 50% of the total investment portfolio.

100% of the Council's investments may be in Treasury Bills or Gilts or invested with the Government's Debt Management Office (DMO). Although these sums are very secure the rate of interest is usually lower than the market rate, however Treasury Bills are a valuable tool in providing security and liquidity whilst the DMO offers a variety of investment terms and is a valuable source of investment should credit ratings of other financial institutions result in a reduction in the number of counterparties that meet the Council's minimum credit rating criteria. There is no limit on the amount that can be invested with other local authorities in total, although there is a limit of £4 million with each individual local authority.

10.4 Country Limits

The Council has determined that it will only use approved counterparties from the UK and those countries with a minimum sovereign credit rating of AA or equivalent from the relevant rating agencies.

In a similar way that individual counterparties have a maximum investment limit, countries other than the UK will also have a limit.

10.5 Investment Strategy

The Council's funds are managed in-house and are mainly cash flow based but there is a core balance that could be available for investment for longer periods (2-3 years). Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

The bank rate is not now forecast to commence rising until 2016 but then to rise steadily from thereon (see Section 7). The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile without compromising the Council's priority of security of the investments.

For 2014/15 the Council has budgeted for investment returns based on the principles set out in this strategy including the forecast position on interest rates.

For its cash flow generated balances the Council will seek to utilise its business reserve accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest. At the present time these short dated deposits are paying interest rates at or above base rate and provide a good level of liquidity to help manage the Council's cash flow.

10.6 Allocation of Investment returns between GF and HRA

As part of the introduction of HRA Self Financing a policy on the allocation of investments returns across the GF and HRA now forms part of the Annual Treasury Strategy.

The HRA holds balances and would benefit from cash flow advantages, which are amalgamated for the purposes of the overall investment activity of the Council. At the end of each year the transfer to the HRA of its share of the authorities overall investment returns will be agreed by the S151 Officer in consultation with the relevant officers based on the following principles:

- Equity
- Risk Sharing
- Minimising volatility between years

10.7 End of year investment report

At the end of the financial year the Cabinet will receive a report on its investment activity.

GLOSSARY OF TERMS

Affordable borrowing limit – limit that the Council has to set under the CIPFA Prudential Code that shows how much the Council considers it can afford to borrow taking all its outgoings into consideration and how much income it considers it can generate.

Alternative financing arrangements – how the Council intends to finance its capital expenditure by other means besides borrowing.

Authorised limit – the amount the Council determines is the maximum that can be borrowed that is affordable and has been calculated in accordance with the legislation behind the CIPFA Prudential Code.

Borrowing requirement – how much the Council considers it needs to borrow to fund its spending plans.

CFR – Capital Financing Requirement – this calculation shows how much the Council needs to borrow or finance by some other measure to meet its planned capital spend.

Counterparty – the other party that participates when a loan or investment is placed.

CPI – Consumer Price Index – the Government's preferred measure of inflation, based on a set basket of goods and services. It excludes housing costs such as mortgage interest payments and council tax.

Credit arrangement – any quasi-loan, to ensure the legislation and Code pick up any unusual arrangements to provide funding other than from a straightforward loan

Credit default swap - A swap designed to transfer the credit exposure of fixed income products between parties. A credit default swap is also referred to as a credit derivative contract, where the purchaser of the swap makes payments up until the maturity date of a contract. Payments are made to the seller of the swap. In return, the seller agrees to pay off a third party debt if this party defaults on the loan. A CDS is considered insurance against non-payment. A buyer of a CDS might be speculating on the possibility that the third party will indeed default.

Credit limit – the maximum amount that can be lent to an individual organisation or group of organisations.

Credit rating – provided by one of the three credit rating agencies, an assessment of how likely the organisation is to repay any monies lent to it.

Creditworthiness - An assessment of the likelihood that a borrower will default on their debt obligations. It is based upon factors, such as their history of repayment and their credit score. Lending institutions also consider the availability of assets and extent of liabilities to determine the probability of default.

Debt cap (HRA) – the limit on the amount that can be borrowed by the HRA, set by central government.

Earmarked reserves – reserves that have been set aside for a specified purpose.

GDP – Gross Domestic Product – measures the output from the economy, if it rises then the economy is growing, if it falls the economy is in recession.

iTraxx - A group of international credit derivative indexes that are monitored by the International Index Company (IIC). The credit derivatives market that iTraxx provides allows parties to transfer the risk and return of underlying assets from one party to another without actually transferring the assets. iTraxx indexes cover credit derivatives markets in Europe, Asia and Australia.

Non-specified investment – those types of investment the Council has not determined it is appropriate to use.

Prudential indicators – a series of calculated figures specified in the CIPFA Prudential Code which are used to assess how affordable and realistic the Council's spending and financing plans are.

PWLB – Public Works Loans Board – central government lending to other public sector bodies, specifically local government.

PWLB Certainty Rate – The PWLB sets various rates for borrowing. From 1 November 2012 the Government reduced the interest rates on loans from PWLB to Councils who provide information as required on their planned long-term borrowing and capital spending by 0.20%. This reduced rate is called the Certainty Rate.

Replacement borrowing – borrowing taken out to replace other borrowing or other forms of credit that have been repaid.

RPI – Retail Price Index – another inflation index, this one includes the cost of housing.

Specified investments – those types of investment the Council has determined it is appropriate to use.

Prudential Indicators

Indicator Title	2012/13 Actual	2013/14 Revised	2014/15	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Capital Expenditure	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**
Non -HRA	1,227	7,713	1,493	1,617	1,123	1,147
HRA	2,414	5,456	4,242	3,242	3,242	3,263
TOTAL	**3,641**	**13,169**	**5,735**	**4,859**	**4,365**	**4,410**
Ratio of Financing Costs to Net Revenue Stream						
Non –HRA	2.06%	2.09%	2.01%	1.14%	0.96%	0.73%
HRA	46.67%	56.04%	54.13%	45.83%	44.53%	43.26%
TOTAL	**48.73%**	**58.13%**	**56.14%**	**46.98%**	**45.49%**	**43.99%**
If the Council had funded the proposed capital investment and associated ongoing costs by a direct charge on Council Tax alone the **estimate of the incremental impact of capital investment decisions on the Council Tax** would have been as follows.	-	-	**£6.33**	**£1.15**	**£1.15**	**£0.00**

Prudential Indicators (cont.)

Indicator Title	2012/13 Actual	2013/14 Revised	2014/15	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Estimate of the Incremental Impact of Capital Investment Decisions on Housing Rents	-	-	**£6.08**	**£0.00**	**(£0.13)**	**£0.00**
Estimates of Capital Financing Requirement						
Non -HRA	7,250	6,960	6,682	6,415	6,158	5,912
HRA	52,956	50,992	49,028	47,064	45,100	43,436
TOTAL	**60,206**	**57,952**	**55,710**	**53,479**	**51,258**	**49,348**
Gross Debt and the Capital Financing Requirement						
Capital Financing Requirement	60,206	57,952	55,710	53,479	51,258	49,348
External Debt	55,737	52,550	50,344	48,117	45,869	43,898
Internal borrowing	4,469	5,402	5,366	5,362	5,389	5,450
Debt Cap (Housing Revenue Account)						
Debt cap amount as determined by CLG	60,285	60,285	60,285	60,285	60,285	60,285

Treasury indicators

Indicator Title	2012/13 Actual	2013/14 Revised	2014/15	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Has the Authority adopted the *'CIPFA Code of practice for Treasury management in the public sector'*	Yes	Yes	Yes	Yes	Yes	Yes
Authorised Limit (of external debt)						
Borrowing	55,804	79,628	75,834	75,465	75,195	75,068
Other long Term Liabilities	-	-	-	-	-	-
	55,804	**79,628**	**75,834**	**75,465**	**75,195**	**75,068**
Operational Boundary (of External Debt)						
Borrowing	55,804	68,816	67,594	67,352	67,090	66,806
Other long Term Liabilities	-	-	-	-	-	-
	55,804	**68,816**	**67,594**	**67,352**	**67,090**	**66,806**
Interest Rate Exposures						
Upper Limit for Fixed Interest Rates	52,550	57,952	55,710	53,479	51,258	49,348
Upper Limit for Variable Interest Rates	30,557	17,386	16,713	16,044	15,378	14,805
Gross and Net Debt						
Upper limit on the proportion of net debt compared to gross debt	-	100.00%	100.00%	100.00%	100.00%	100.00%
Prudential Limits for Principal Sums Invested for Periods Longer than 364 days	Nil	3,500	3,500	3,500	3,500	3,500

Maturity Structure of Fixed rate Borrowing

Indicator Title	2012/13 Actual	2013/14 Revised	2014/15	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Upper and Lower Limits for the Maturity Structure of Borrowing						
Upper Limit for the Maturity Structure of Borrowing						
Under 12 months	25%	25%	25%	25%	25%	25%
12 months and within 24 months	30%	30%	30%	30%	30%	30%
24 months and within 5 years	60%	60%	60%	60%	60%	60%
5 years and within 10 years	75%	75%	75%	75%	75%	75%
10 years and above	95%	95%	95%	95%	95%	95%
Lower Limit for the Maturity Structure of Borrowing						
Under 12 months	0%	0%	0%	0%	0%	0%
12 months and within 24 months	0%	0%	0%	0%	0%	0%
24 months and within 5 years	0%	0%	0%	0%	0%	0%
5 years and within 10 years	0%	0%	0%	0%	0%	0%
10 years and above	25%	25%	25%	25%	25%	25%