NORTH EAST DERBYSHIRE DISTRICT COUNCIL

COUNCIL

25 FEBRUARY 2013

REPORT NO: SECT151/02/13/BM OF THE SECTION 151 OFFICER (JOINTLY WITH COUNCILLOR P R KERRY PORTFOLIO MEMBER WITH RESPONSIBILITY FOR ECONOMY, FINANCE AND REGENERATION

7(b) TREASURY MANAGEMENT STRATEGY 2013/2014 to 2015/2016

Strategic Priority	**All**

1 Recommendations

1.1 It is recommended that Council approve the Treasury Management Strategy as set out in this report and in particular:

a) Approve the Capital Financing Requirement Strategy as summarised in Section 5.8 of this report.

b) Approve the Borrowing Strategy as summarised in Section 6.10 of this report.

c) Approve the Minimum Revenue Provision policy for 2013/14 as set out in Section 7.8.

d) Approve the Investment Strategy as set out in Section 8.9 for Specified Investments and Section 8.10 for Non Specified investments.

e) Approve the Prudential Indicators for 2013/14 detailed in Section 10 of this report and in particular:

Authorised Borrowing Limit	£184,678,000
Operational Boundary	£179,678,000
Capital Financing Requirement	£174,678,000
Temporary Borrowing Limit	£5,000,000

2 Explanatory Foreword

2.1 At the meeting of the Executive Committee on 27 August 2003 the Council approved the adoption of the CIPFA Treasury Management Code of Practice (the Code), which formally sets out the framework within which the Council's treasury management activities will be undertaken. The Code requires the Council to produce a Treasury Management Strategy each year which requires approval by full Council prior to the forthcoming financial year.

2.2 The Treasury Management Strategy sets out how the treasury management function will support the capital decisions approved within the MTFP and the parameters for all borrowing and lending associated with the day to day treasury management of the Council's cash flow requirements.

2.3 Within the strategy the Council is required to include a number of prudential indicators covering the next three financial years which show the impact of changes in the level of the Council's debt on its revenue accounts.

2.4 The Council is also required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge on the revenue accounts of the Council.

3 Introduction

3.1 The objectives of the Treasury Management Strategy are as follows:-

- To outline the Council's debt position and the impact this has on the revenue accounts
- to enable Members to reach appropriate judgements on long-term and short-term borrowing and investment strategies
- to provide a framework within which the day to day liquidity of the Council's cash balances can be managed
- to provide some key baseline information to enable immediate reaction to changes in the money market to meet the statutory requirements of the Local Government Act 2003
- to meet the requirements of the CIPFA Treasury Management Code of Practice.

3.2 This Strategy includes:

- An explanatory foreword
- An introduction
- An outline of the statutory powers relating to the Council's Borrowings
- A review of the Council's outstanding debt position
- A review of how the Council's debt is financed
- Minimum Revenue Provision Policy
- Investments
- Investments Strategy
- Interest rate projections
- The prudential indicators

4 The statutory powers relating to the Council's Borrowings

4.1 Before the report considers the full implications of the latest MTFP on the level of the Council's outstanding debt Members are reminded of the prudential code framework that applies to Local Government.

4.2 The Prudential Capital Finance System relies on the provisions of Part 1 of the Local Government Act 2003. The system commenced on 1 April 2004, replacing the capital finance legislation in Part 4 of the Local Government and Housing Act 1989 and the Local Authorities (Capital Finance) Regulations 1997.

4.3 The key objectives of the prudential code are to ensure that:-

- the capital investment plans of local authorities are affordable, prudent and at sustainable levels
- to ensure and demonstrate that the local authority is aware of its financial position and therefore able to take corrective action should it be in danger of failing to ensure the above
- to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability

4.4 By enabling a greater degree of local discretion the Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

4.5 Borrowing

The underlying principle of the Prudential Code is that local authorities are able to borrow without Government consent provided the authority can afford to enter into these commitments. This applies in respect of the General Fund but Council should note that with effect from April 2012 that the power to borrow for HRA purposes is limited by the HRA Debt Ceiling which was incorporated within the localisation of the HRA initiative.

4.6 It is a statutory duty under Section 3 of the Local Government Act 2003, 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 Authorised Borrowing Limit.

4.7 The Council must have regard to the Prudential Code when setting its Authorised Borrowing 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/rent levels is acceptable.

4.8 Whilst termed an Authorised Borrowing Limit, the capital plans that need to be considered for inclusion within that limit incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements (leasing). The authorised borrowing limit is required to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

4.9 Details of the Authorised Borrowing Limits are shown in Section 10 of this report.

5 A review of the Council's outstanding Debt position

5.1 To establish the Treasury Management Strategy for the forthcoming financial year it is essential to understand the overall debt position of the Council. This is calculated through the Capital Financing Requirement (CFR). The CFR calculates the Council's underlying need to borrow in order to finance capital expenditure. The revised estimate of the CFR for 2012/13 and the estimated CFR for 2013/2014 through to the end of 2015/2016 are shown in table 1 below: -

Table 1

	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's
Capital Financing Requirement 1 April	**175,937**	**173,993**	**174,678**	**175,821**
Prudential Borrowing Gen Fund – Vehicle Replacement	701	204	525	1,380
Prudential Borrowing HRA – Tarran Regeneration Scheme	500	4,500	6,000	0
Leasing Repayments	(316)	(316)	(298)	(118)
Leasing Arrangements (adjustment from 2011/12)	81	0	0	0
Minimum Revenue Provision (MRP)	(344)	(460)	(654)	(741)
Repayment of other debt	(66)	(43)	(30)	(22)
HRA Debt Repayment per business plan	(2,500)	(3,200)	(4,400)	(5,100)
Capital Financing Requirement 31 March	**173,993**	**174,678**	**175,821**	**171,220**

5.2 Prudential Borrowing – General Fund

The increase in debt from prudential borrowing relates to the approval by Council to finance the replacement of operational vehicles by prudential borrowing rather than leasing arrangements. The outright purchase of the vehicles is considered to be more financially advantageous to the Council as through careful management of the vehicles they are lasting longer than the loan period assumed within leasing arrangements. Borrowing also avoids the requirement for managers to negotiate and meet specific leasing return conditions that can add costs to leasing deals that were not foreseen. Current low interest rates also reduce the overall cost of prudential borrowing. The sums shown in the CFR for the vehicle prudential borrowing would have previously been shown as an increase in the leasing arrangements. The figures for each year are in line with the capital programme for the vehicle replacement programme over the period of the MTFP. The cost of the debt charges (principal (MRP) and interest) are included in the General Fund revenue account to pay for the vehicles and these costs replace the leasing payments previously paid to the leasing company.

5.3 Prudential Borrowing - HRA

The capital programme includes details of the HRA scheme to replace the non-traditional "Tarran" properties in Eckington and Killamarsh. The scheme is estimated to cost £11.320m over the financial years 2012/13, 2013/14 and 2014/15. In order to finance the HRA scheme prudential borrowing of £11m will be required. It is important to ensure that the HRA prudential borrowing does not exceed the HRA debt ceiling imposed when the HRA settlement was made on 28 March 2012. The debt ceiling for the HRA was set at £178,984,000. The table below monitors the HRA debt position against the ceiling over the term of the MTFP based on the known capital expenditure plans within the capital programme.

Table 2 shows the position of the HRA Capital Financing Requirement along with the amount of the Credit Ceiling and any spare borrowing capacity.

Table 2

HRA Capital Financing Requirement	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's
HRA Capital Financing Requirement 1 April	**167,013**	**165,013**	**166,313**	**167,913**
Prudential Borrowing HRA - Tarran Scheme	500	4,500	6,000	0
HRA Debt Repayment per business plan	(2,500)	(3,200)	(4,400)	(5,100)
HRA Capital Financing Requirement 31 March	**165,013**	**166,313**	**167,913**	**162,813**
HRA Credit Ceiling	**178,984**	**178,984**	**178,984**	**178,984**
"Headroom" available 31 March	**13,971**	**12,671**	**11,071**	**16,171**

It should be noted that the Council will no longer receive any supported borrowing approval from the Government after 31 March 2012 and that the Decent Homes funding is now received as grant rather than borrowing approval.

5.4 Lease Repayments

The Council still holds a number of finance lease agreements for operational vehicles (mainly refuse collection vehicles). This sum represents the principal repayments that will be made during 2012/13 and equates to the MRP charge that is made to the General Fund.

5.5 New Lease Arrangements

There was one new finance lease arrangement entered into by the Council during the late part of 2011/12 that needs to be accounted for within the CFR. This was for two tractors for the Grounds Maintenance section (£0.081m).

5.6 Minimum Revenue Provision (MRP)

The MRP is the amount of principal repayment being made by the Council in the financial year and is the sum charged to the revenue accounts (General Fund and HRA). The MRP policy is discussed in detail in section 7.

5.7 Other repayments of debt

This heading covers the debt transferred to the Council in 1974 with the repayment amount equal to the amount of debt repaid by the transferring authorities. This heading also covers the repayment of car loans which is the principal repayments received from employees with car loans.

5.8 Summary of Capital Financing Strategy

The overall outstanding debt of the Council shows an increase over the three financial years to 2015/16 due to the Tarran Regeneration Scheme. This new borrowing is offset by the commencement of debt repayments from the Housing Revenue Account. The annual repayments are being increased to the required annual level to repay the settlement debt over the 30 year period of the Business Plan. It should be noted that the level of repayments proposed are ahead of the original Business Plan. This reflects the fact that a cautious position was taken at the outset of the HRA localisation initiative concerning the ability of the HRA to repay debt in the early years of the settlement. The current position is that there is now more certainty around the operation of HRA reforms including the level of interest rates and the earlier commencement of the debt repayment enables the Council to reduce interest costs but also increases the HRA headroom to provide options for the financing of major HRA refurbishment Schemes such as the Tarran Scheme.

The main elements of the CFR strategy are:

- Prudential Borrowing is undertaken for the vehicle replacement programme shown within the MTFP – Capital Programme.
- Prudential Borrowing is undertaken for the Tarran Regeneration housing scheme shown within the MTFP – Capital Programme.
- MRP repayment of debt is agreed in accordance with Section 7.
- The CFR limits are approved as per table 1.

6 How the Council's debt is financed

6.1 The Capital Financing Requirement as set out above calculates the authorities underlying need to borrow for capital purposes. Arising out of the analysis of the debt position the Council can determine how this debt is financed. The CFR also helps to ensure that where an authority is undertaking long term borrowing that such borrowing is being utilised in order to fund capital expenditure, and is not being used inadvertently or otherwise to fund revenue expenditure.

6.2 Table 3 below outlines the current and planned debt financing arrangements over the term of the MTFP.

Table 3

	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's
PWLB	164,742	162,706	162,664	162,664
Leasing Arrangements	737	421	123	5
Temporary Borrowing	2,000	2,000	2,000	0
Internal Borrowing	6,514	9,551	11,034	8,551
Capital Financing Requirement	**173,993**	**174,678**	**175,821**	**171,220**

6.3 PWLB Loans

Any PWLB debt that matures will be assessed to see if replacement is necessary and if so replaced with careful consideration given to the term and rates selected to retain a balanced debt portfolio. If cash flow calculations permit then the Council will make use of internal balances in order to avoid entering into any external borrowing from the PWLB. Table 4 below outlines our estimated position for the Council as at 31 March 2013.

Table 4

PWLB BORROWING **Term**	**Estimated Maturity Profile as at 31 March 2013** **£**
12 Months	2,036,938
1 – 2 years	3,042,612
2 – 3 years	2,010,392
3 – 4 years	1,000,103
4 – 5 years	1,003,131
5 – 6 years	3,000,000
6 – 10 years	4,655,337
10 – 15 years	25,087,267
15 – 20 years	25,815,525
20 – 25 years	42,000,451
25 – 30 years	35,818,000
30 – 35 years	15,272,000
Over 35 years	4,000,000
Total PWLB Debt	**164,741,756**

6.4 Leasing Arrangements

The current leasing arrangements relate solely to vehicles utilised in the provision of services. The move away from leasing to prudential borrowing as a means of financing vehicle purchase is reflected in the reduction each year of outstanding leasing balance as the lease is repaid and not replaced. All current finance leasing arrangements will come to an end by 2016/17. While prudential borrowing is currently a more advantageous method of financing the acquisition of vehicles and similar items officers will continue to keep the position under review.

6.5 Temporary Borrowing

The table above reflects the forecast borrowing as at 31 March each year to finance the Council's CFR. The £2m shown for temporary borrowing relates to short term borrowing that is usually required in late February and March each year. This borrowing is required to cover the cash flow shortfall arising from rent free weeks and from the fact that council tax is not collected in February and March. The associated temporary borrowing is expected to be repaid in April each year.

6.6 Internal Borrowing

The balance between the level of the CFR and external borrowing is made up from the utilisation of internal cash balances held by the Council. This effectively minimises the need for the Council to borrow money. The Council could borrow externally for all of its CFR requirements which would free up the internal balances to be invested on the money markets. However, officers are of the view that with investment interest rate lows and uncertainty in the money markets that this is not an appropriate approach. The current approach is therefore that internal balances are utilised to reduce the overall borrowing requirement of the Council. This is considered the most effective and risk free approach in the current climate. This approach will be kept under review on a regular basis and as market conditions change.

6.7 If internal balances do increase more than anticipated over the MTFP then consideration will need to be given either to not replacing PWLB loans as they mature or whether to invest the additional balances to earn interest. The internal cash balances are made up from the General Fund Reserve, HRA balances, Provisions and Earmarked Reserves and any positive cash flows from within the main accounts of the Council.

6.8 Where the Council has internal borrowing it is required under accounting regulations to ensure that the funds of the relevant accounts (HRA and General Fund) are treated equitably. The internal balances of the General Fund and the HRA are therefore paid an interest rate to reflect the level of internal borrowing from each of these main accounts. The Council will apply the short-term interest rate (London Interbank Three Month Bid (LIBID)) to internal borrowing balances.

6.9 Summary of the Proposed Borrowing Strategy 2012/2013

- Any maturing PWLB loans will be replaced with new PWLB loans after taking account of available internal balances, a view on interest rates, market conditions and the Council's debt portfolio.
- Leasing debt will continue to be repaid in accordance with existing contractual arrangements.
- Temporary Borrowing will be utilised where short term cash flow shortages occur.
- Internal balances will be utilised to reduce the need for external borrowing and therefore to minimise investment balances. This approach is to be reviewed each quarter and will consider both changes in the level of balances available and market conditions.
- The debt financing arrangements as outlined in Table 3 are approved.

7 Minimum Revenue Provision Policy

7.1 The Council is required to determine a policy on the repayment of its debt each year through the Minimum Revenue Provision (MRP). The MRP is the amount of debt being repaid and is a charge on the revenue accounts of the Council. Details of the proposed MRP levels for 2013/14 are shown below:

7.2 Prudential Borrowing – General Fund

The Council has set a minimum revenue provision for the repayment of General Fund debt that has arisen from supported borrowing approvals (£256,000).

7.3 Prudential Borrowing – Pioneer House

The prudential borrowing for Pioneer House is being repaid over the remaining life of the asset (46 years) which equates to an MRP of £40,000 per annum. The revenue budgets for Pioneer House include the principal and interest charges relating to this debt.

7.4 Prudential Borrowing – Previous Vehicle replacement

The prudential borrowing undertaken in 2011/12 for the cost of operational vehicles is £0.285m. The repayment of this debt starts in 2012/13 and the MRP is calculated per vehicle over a 6 year period based on estimated life. The amount in total for 2013/14 is £0.047m.

7.5 Prudential Borrowing – New Vehicle replacement

The prudential borrowing undertaken in 2012/13 for the cost of operational vehicles is £0.701m. The repayment of this debt starts in 2013/14 and the MRP is calculated per vehicle over a 6 year period based on estimated life. The amount in total for 2013/14 is £0.117m.

7.6 Leased Assets

The current level of anticipated MRP in respect of leased assets along with the year end liability is set out in table 5 below:

Table 5

	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's
Leasing Liability 1 April	972	737	421	123
Less MRP	(316)	(316)	(298)	(118)
Add New Leases	81	0	0	0
Leasing Liability 31 March	737	421	123	5

7.7 HRA Debt Repayments

There is no statutory requirement for the Council to set an MRP in relation to HRA debt. The budgetary provision to repay HRA debt which is proposed for the period of the MTFP is effectively a voluntary MRP arrangement. Repayment of debt will be determined by a consideration of the position in the context of the HRA 30 Year Business Plan.

7.8 Summary of MRP policy arrangements for 2012/13

Table 6

	MRP 2013/14 £
General Fund	
General	256,000
Pioneer House	40,000
Vehicle Replacement	164,333
Leased Assets	316,330
Total – General Fund	**776,663**

Housing Revenue Account	**MRP 2013/14 £**
Debt Repayment	3,200,000
Total – HRA	**3,200,000**
Overall MRP Total	**3,976,663**

8 Investments

8.1 The Council monitors its day to day cash flow and forecasts when surplus cash flows will be available for investment during the financial year. This element of the Treasury Management Strategy informs Members concerning the main principles governing the Council's investment criteria.

8.2 The prime consideration when it comes to investments is first of all the security of the investment closely followed by the liquidity of the investment. Subject to adequate security and liquidity then the yield or return on the investment becomes a consideration.

8.3 In order to ensure that the key principles of security and liquidity are adhered to the Council needs to ensure the following.

- That it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators which have been reported separately. This is set out in greater detail in the section on the Liquidity of Investments below.

- That it maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and for monitoring their security. Further details are provided in the Specified and Non-Specified investment sections below.

8.4 Security of Investments

The Chief Financial Officer will maintain a counterparty list of organisations where the Council can place its investments in compliance with the criteria set out below and should it prove necessary these criteria will be revised and submitted to Council for approval. External treasury management advisors Sector are engaged to provide regular updates on the Counterparties who meet the Council's investment criteria.

8.5 Liquidity of Investments

The Council will consider and carefully balance the use of specified investments (less than one year) and non-specified investments (greater than one year) to ensure there is appropriate operational liquidity (i.e. that it has sufficient funds to meet the expenditure incurred).

8.6 Specified Investments

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. These would include investments with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority or parish council.
4. An investment scheme that has been awarded a high credit rating (where a borrower (or its parent) is required to have a F1 and above short-term credit rating).
5. A body that has been awarded a high credit rating by a credit rating agency (see 4 above) such as a bank, building society or money market fund.
6. Rated Building Societies from the top 20 Building Societies.

8.7 Non-Specified Investments

The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments will only be used where the council's liquidity requirements are safeguarded. Under the Prudential Code the council is required to review and set limits for the maximum level of long term investments over the forthcoming three years. These limits are part of the mechanisms which ensure that the Council has sufficient funds to meet its expenditure requirements over the period in question.

8.8 Non-specified investments are any other type of investment:

1. Supranational Bonds greater than 1 year to maturity

   (a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).

   (b) A financial institution that is guaranteed by the United Kingdom Government -The security of interest and principal on maturity is on a par with that of the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

2. Gilt edged securities

   Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category 1 above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

3. Building Societies not meeting the basic security requirements under the specified investments.

   The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. These would include the non-rated building societies from the top 20 building societies.

4. Any bank or building society that has a minimum long term credit rating of A- and above. For deposits with a maturity of greater than one year.

5. Any non rated subsidiary of a credit rated institution included in the specified investment category.

6. Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. However this category of investments may be used for a treasury management purpose not related to a service, and in this instance will not be considered as capital expenditure.

8.9 Specified Investments Strategy

Specified Investments (less than 12 months) can be made with the counterparties covered by the list in Section 8.6. The Council however is advised to reaffirm the specified investments list criteria which are designed to minimise risk as set out below:

Who we will invest our money with:

- UK Government
- Top 10 UK banks (including part Nationalised Banks)
- The top 20 UK building societies
- Other local authorities
- AAA rated money market funds
- Co-Operative Bank

Limits and Controls on these investments

- A limit of £3m to be invested with any individual counterparty.
- A limit of £5m to be invested in any AAA rated money market fund.
- Co-Operative bank – limited to overnight cash balances up to £3m (in line with the recommendation from the Council's Audit and Corporate Governance Scrutiny Committee)
- All lending subject to "on the day" cleared credit checks being undertaken on the proposed counterparty.

8.10 Non Specified Investments Strategy

The Council in practice has not invested any money for a period of over 12 months. This position also reflects the fact that the Council does not have significant financial reserves available for longer term investment and the approach taken to minimise external borrowing. It is considered unlikely that the Council would seek to make loans for a period over 12 months and the Strategy reflects that reality. To comply with the Treasury Management Code of Practice the following limits have been set for Non Specified Investments, which effectively prevent officers from undertaking such investment:

Table 7

Non specified investment category	**Limit (£ or %)**
Supranational Bonds greater than 1 year to maturity	0
Gilt edged securities	0
Building societies not meeting the basic security requirements under the specified investments	0
Any bank or building society (A- and above) for deposits with a maturity of greater than 1 year	0
Any non rated subsidiary of a credit rated institution in the specified investment category	0
Share capital or loan capital in a body corporate	0

9 Interest rate projections

9.1 Officers have made the following base rate assumptions with regards interest rates over the term of the MTFP

2012/13	0.50%
2013/14	0.50%
2014/15	0.75%
2015/16	1.25%

It should be noted that the current Bank Base Rate is one of 0.5%

10 The Prudential Indicators

10.1 In putting together the Medium Term Financial Plan 2012/2015, the Council has had regard to the requirements of the Prudential Code.

10.2 The following are the prudential indicators that have been calculated in respect of this period:-

10.3 Ratio of financing costs to the net revenue stream

Table 8

Ratio of financing costs to net revenue stream

	2013/2014 Estimate %	**2014/2015 Estimate %**	**2015/2016 Estimate %**
General Fund	4.71	6.32	7.20
HRA	46.10	44.35	43.19

The General Fund ratio reflects the impact of the capital programme and the estimated borrowing costs incurred to finance the vehicle replacement each year from prudential borrowing. Each years figure is a separate calculation which reflects the existing and adds the new borrowing undertaken in that year to finance the capital programme. Therefore if the value of the vehicles to be replaced in the year is particularly high then the calculation will reflect that. A further impact on the calculation of these percentages is the reducing level of general Government Grant received by the Council which reduces the base over which the borrowing costs are divided. Also, the forecast interest rates will affect the interest costs in each calculation.

The HRA ratio reduces due to the proposed debt repayments over the period of the MTFP and the continuation of the rent convergence policy which increases the base for the calculation.

Impact on Council Tax and Rents from prudential borrowing

This indicator measures the impact of prudential borrowing on the revenue accounts of the Council. The indicator takes the cost of the principal (MRP) and interest charges arising from any new borrowing and calculates how much Council Tax and Rents is required to cover these costs. The prudential borrowing in the General Fund relates to the replacement of operational vehicles with the impact on Council Tax amounts being shown in table 9 below. It should be noted however, that the impact on Council Tax that is required to be shown in this indicator does not take account of the fact that there is a reduction on the General Fund from reduced leasing charges.

Table 9

Impact on Council Tax	**2013/14**	**2014/15**	**2015/16**
Prudential Borrowing for Vehicle Replacement	£1.43	£3.68	£9.70

The prudential borrowing in the HRA relates to the Tarran housing scheme with the impact on Rent amounts being shown in table 10 below.

Table 10

Impact on Housing Weekly Rents	**2013/14**	**2014/15**	**2015/16**
Prudential Borrowing for Tarran scheme	£0.38	£0.51	£0.00

10.4 Authorised Borrowing Limit

The Authorised Limit for External Debt sets out the maximum level of borrowing which a local authority should enter into, and it covers both borrowing for capital purposes and borrowing for temporary purposes to cover any potential shortfall of revenue cash flow. It is recommended that the limit is set as £10m above the forecast CFR levels.

Table 11

	2012/13 £'000	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**
Authorised Borrowing Limit	183,993	184,678	185,821	181,220

10.5 Operational Boundary

The Operational Boundary is intended to provide a management tool which helps to assess whether the authority's level of borrowing is in line with its agreed Medium Term Financial Plan and in particular the capital expenditure and capital financing plans. In normal operating circumstances the level of borrowing should not exceed the Operational Boundary. The limit is set at £5m above the forecast CFR levels.

Table 12

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Operational Boundary	178,993	179,678	180,821	176,220

10.6 To summarise the Operational Boundary is effectively a check to ensure that the Council does not borrow significantly above its CFR at any one time. It provides an operational check on the level of borrowing that the Council is entering into. The Authorised Limit provides the overall control for Treasury Management activity throughout the year.

10.7 Independent of the prudential limits above treasury management officers currently operate with a temporary borrowing limit of £5m. If temporary borrowing ever reached this limit then officers will examine the cause of the breach against cash flow projections which in most cases will prompt the need to consider longer term borrowing arrangements.

10.8 Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services

One of the key indicators to ensure that a Council demonstrates sound treasury management practice is compliance with the CIPFA Code of Practice for Treasury Management in the Public Services. This Council has complied with the Code since its introduction on 1st April 2004, and one of the key purposes of the current report is to demonstrate continued compliance with the Code.

10.9 Interest Rate Exposures

In determining its borrowing policy the Council has a choice between opting for fixed or variable interest rates. While variable interest rates are generally cheaper in the short term by their very nature these rates can move up or down in relation to the wider movements on the money markets. While a greater reliance on variable rates will obviously tend to reduce costs in the short term, it does leave the authority open to fluctuations in market interest rates.

In order to protect local authorities against unforeseen fluctuations in interest rates the Prudential Code requires that all authorities establish the following ratios: -

An Upper limit for borrowing that is at fixed rates less investments that are fixed rate investments.

An Upper limit for borrowing that is at variable rates less investments that are variable rate investments

These prudential indicators are designed to ensure that the authority considers the risk that fluctuations in the levels of interest rate can create an unexpected or unbudgeted burden on the authority's finances, against which the authority has to protect itself adequately.

With respect to North East Derbyshire it is recommended that the Council continues to adhere to the limits set out below:

Table 13

	Upper Limit Fixed Interest Rate	Upper Limit Variable Interest Rate
2013/2014	**100%**	**10%**
2014/2015	**100%**	**10%**
2015/2016	**100%**	**10%**

10.10 Maturity Structure of Borrowing
Amount of projected borrowing that is fixed rate maturing in each period

This indicator is designed to be a control over an authority having large concentrations of fixed rate debt that need to be replaced over a relatively short period of time. This ensures that an authority does not find itself in a position of having to replace a large proportion of its debt at a time when interest rates are adverse or uncertain.

Table 14

	Lower Limit	**Upper Limit**	**Forecast Position at 31 March 2013.**
Under 12 months	0 %	20%	1.24%
12 months and within 24 months	0 %	20 %	1.85%
24 months and within 5 years	0 %	40 %	2.44%
5 years and within 10 years	0 %	40 %	4.65%
10 years and above	0 %	90 %	89.82%

10.11 Upper limit for principal sums invested for periods longer than 364 days

The risk inherent in the maturity structure of the authority's investment is that it may be forced to realise an investment before it reaches final maturity and thus at a time when its value may be dependent on market conditions that cannot be known in advance.

Where the authority invests, or plans to invest for periods longer than 364 days, the authority is required to project the maturing of such investments. The authority is required to set an upper limit for the total principal sum invested to final maturities beyond the period end less projected cash balances in the period.

The current strategy does not anticipate that the Council will undertake any non specified investments (see Section 8.10) and as such this prudential indicator will be set at zero for the three year period.

Table 15

Year	Limit of investments maturing beyond the year end
2013/2014	£0 million
2014/2015	£0 million
2015/2016	£0 million

11 Legal Implications

11.1 Under the Treasury Management Code of Practice the Council is required to develop and approve a Treasury Management Strategy before the start of each financial year which sets out the proposed treasury management activities and policy.

12 Other Considerations (eg Human Resources, Environmental, Crime and Disorder, Design and Community Safety)

12.1 There are no issues arising from this report.

13 Equalities Issues

13.1 There are no equalities issues arising from this report.

14 Risk Management and Policy and Performance Issues

14.1 The whole report focuses on the treasury management activity proposed for 2013/14 and the necessary controls that will be put into place to manage and minimise risk.

14.2 Regular reports will be prepared for Cabinet and Council on the performance and management of the treasury management function.

Source Document**:** Internal records of the Council/Room 317