



Derby City Council

COUNCIL CABINET
18 February 2015

Report of the Cabinet Member for Housing,
Finance and Welfare

ITEM 19

Treasury Management Strategy and Prudential Code Indicators 2015/16

SUMMARY

- 1.1 This report outlines and seeks approval of the Council's Treasury Management Strategy for the financial year 2015/16 and the Prudential Indicators derived from this strategy. Specifically, the report includes:
- The External Outlook
 - The Capital Financing Requirement
 - The Annual Borrowing Strategy
 - The Annual Deposits Strategy
 - Prudential Code Indicators and limits
 - Financial Derivatives
 - Minimum Revenue Policy.

RECOMMENDATION

- 2.1 To approve and recommend to Council the Treasury Management Strategy for 2015/16.
- 2.2 To approve and recommend to Council the Prudential Indicators and limits for 2015/16 to 2017/18.

REASONS FOR RECOMMENDATION

- 3.1 Under the Chartered Institute of Public Finance and Accountancy Code of Practice – CIPFA - 2011, the Prudential Code for Capital Finance, the Council is required to approve an annual treasury management strategy before the start of each financial year.

SUPPORTING INFORMATION

4. Background

- 4.1 Treasury Management - TM - is about the management of the Council's cash flows, its banking, money market and capital market transactions; and the effective control of the risks associated with those activities in pursuit of optimum performance.
- 4.2 As the Council borrows and invests significant sums of money and will continue to do so in 2015/16, it is exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Annual Treasury Management Strategy and are outlined in the report.
- 4.3 The Council continues to procure the services of Arlingclose to advise on treasury management issues. In particular Arlingclose, provides the Council with a list of investment counterparties which satisfy the criteria determined by Cabinet as part of this report, as well as advising on other issues, such as economic and interest rate forecasts and client benchmarking against other Council's.
- 4.4 Staff also regularly attend training courses, seminars and workshops provided by Arlingclose and CIPFA to ensure that they keep up to date with treasury management principles as required through the latest legislation.

5. External Outlook

- 5.1 The information relating to the overall global position of the UK financial markets is provided by Arlingclose, who continues to update the Council with on-going market activity surrounding inflation, interest rates and the banking sector.
- 5.2 Although inflation is currently falling due to a drop in the price of oil, Arlingclose forecasts the first rise in official interest rates in September 2015 and a gradual pace of increases thereafter.
- 5.3 Recent activity in the banking sector has led to regulatory changes on bank resolution regimes, in which shareholders, bond holders and unsecured creditors are "bailed-in" (this is an alternative to bankruptcy). This should allow a fast resolution to failing banks to continue providing current account services with no interruption. Potentially, from July 2015 however, due to legislative changes, public authorities, financial organisations (including pension funds) who are classed as an unsecured creditor would rank below other investors in the list of creditors in the event of a bank "bail in".

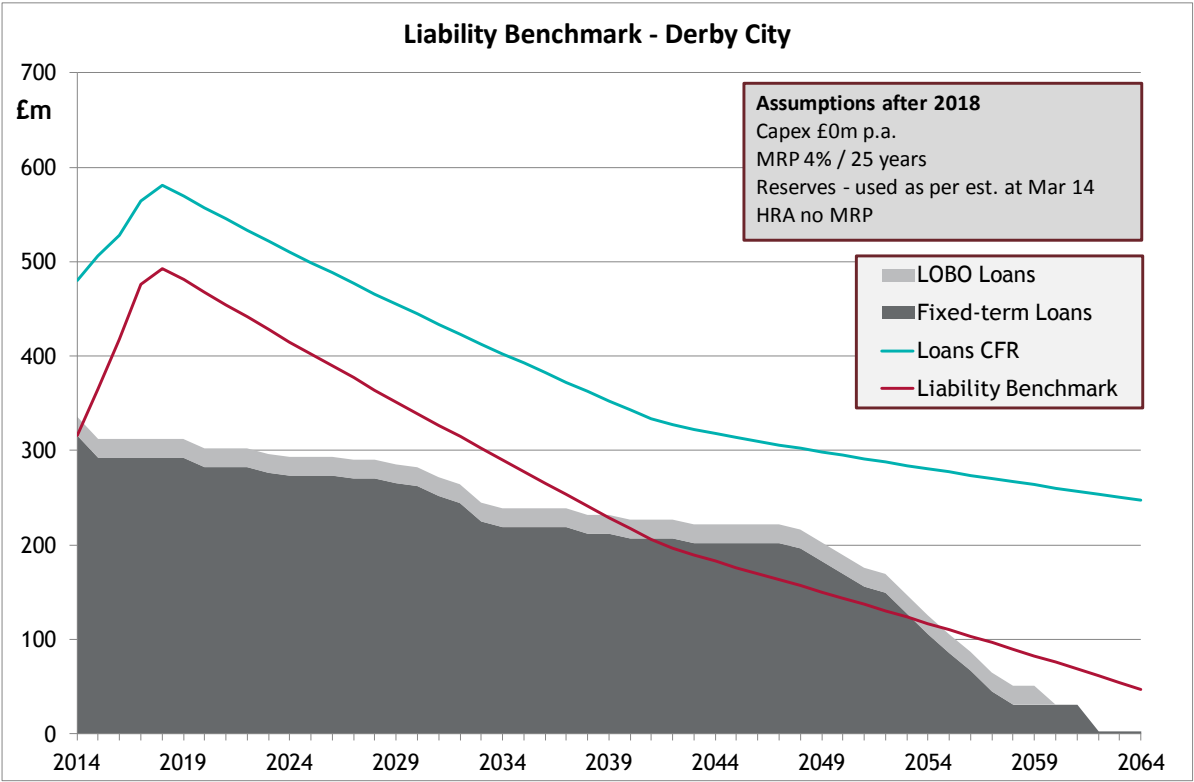
- 5.4 This means that if there was a "bail in" situation, the Council could potentially see their deposits reduce overnight. Arlingclose will continue to keep the Council informed of any emerging position surrounding banks and Treasury management officers are also taking action to ensure diversification of deposits across banks and other organisations to reduce any potential losses.

6. Capital Financing Requirement

- 6.1 The Council's capital budget and programme which is discussed as a separate item, also at this Cabinet, is partly financed through treasury management borrowing. The borrowing raised to finance this capital expenditure, known as Capital Finance Requirement - CFR - is therefore a key element of the Treasury Management Strategy and is the core driver of the Council's treasury management activities. It is governed by the Prudential code for Capital Finance which gives the Council the freedom to borrow whatever it needs to support their capital requirements, so long as the borrowing is prudent, affordable and sustainable.
- 6.2 For 2015/16 the Council's CFR is expected to be £621.1m as set out in Section 5, Appendix 3. Under the Prudential Code, the Council is able to borrow funds in excess of the current level of its CFR up to the projected level in 2017/18. The Council, however is only likely to borrow in advance of need if it feels that the benefits of borrowing at interest rates now, compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing is actually required.
- 6.3 To further assist with long term borrowing to meet the CFR, the Council and Arlingclose have created a liability benchmark, see Table 1, which forecasts the Council's need to borrow initially over the first three years to meet the proposed capital programme and capital financing requirement in 2015/16 to 2017/18. Although no assumptions have been included for the capital programme after the first three years, there will be a need to borrow over a 50 year period as the borrowing in the shaded area reduces and the capital programme evolves.

6.4 The upper line shows the Councils overall capital financing requirement and the difference between this and the lower line is the assumption that the Council will use cash balances and reserves to fund the borrowing if required. The difference between the lower line and the shaded area is the minimum amount of borrowing that is required to meet the capital programme.

6.5 Table 1 – Liability Benchmark



7. Annual Borrowing Strategy

- 7.1 As at 31 December 2014, the Council held £354.0m of loans. This is made up of Public Works Loans Board - PWLB - loans of £273.5m, £20m of loans from Royal Bank of Scotland, £0.5m from Local Enterprise Partnership - LEP - and £60m borrowed from other local authorities. Council forecasts include borrowing of £211m in 2015/16. However, any amounts borrowed will not exceed the limit for authorised borrowing, of £642m in 2015/16, as set out in Appendix 3, paragraph 8.4.
- 7.2 The Council's chief objective when borrowing the money will be to strike an appropriate balance in terms of risk between securing low interest costs and achieving cost certainty over the period which funds are required.
- 7.3 The Council's borrowing strategy is also designed to address the key issue of affordability, especially given current restrictions to local authority funding, without comprising the longer-term stability of the debt portfolio. Borrowing decisions are also influenced not only by the absolute level of borrowing rates but also the relationship between short- and long-term interest rates in order to achieve best value for money for the Council.
- 7.4 Other factors, such as the "cost of carry" are also taken into account when making borrowing decisions. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Council's wider financial position.
- 7.5 Arlingclose forecasts the first rise in official interest rates in Quarter 3 2015. They project a slow rise in the bank rate and that the pace of interest rate rises will be gradual and the extent of rises limited. Arlingclose believe the bank rate will eventually level out at a range between 2.5% and 3.5% in the long term.
- 7.6 The £20m loans from the Royal Bank of Scotland are classed as LOBO loans (Lender's Option Borrower's Option) loans. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Council since the decision to call a LOBO is entirely at the lender's discretion.
- 7.7 Although the first drawdown date for the two LOBO loans is 2015/16, Arlingclose, consider that it is highly unlikely that lenders will exercise their options in the current low interest rate environment. If however, the LOBOs are called, this will be discussed with the treasury advisers prior to acceptance of any revised terms.

- 7.8 Sources of future borrowing in 2015/16, will be in conjunction with advice from our treasury advisor, Arlingclose, and will be from the following borrowing sources:
- Public Works Loans Board – PWLB (or successor, due to PWLB being disbanded. See 7.9)
 - Local authorities and Universities
 - Enterprise Partnerships
 - Commercial banks and building societies (UK and European)
 - Money markets
 - Capital market bond investors (stock issues, commercial paper and bills)
 - Structured finance
 - Leasing
 - Transport for London
 - Local Government Bond Agency - LGA.
- 7.9 The Department of Communities & Local Government - CLG - has now confirmed that HM Treasury - HMT - are taking the necessary legislative steps to abolish the Public Works Loan Board - PWLB - in the coming months. This will have no impact on existing loans held by the Council. Also, despite its abolition, HMT has confirmed that its lending functions will continue unaffected albeit under a different body so the Council will continue to access borrowing at rates which offer good value for money.
- 7.10 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- Operating and finance leases
 - Hire purchase
 - Private Finance Initiative
 - Sale and leaseback.
- 7.11 Any future borrowing undertaken from the above sources will be to adopt a flexible approach and may be short term or long term. The following issues will be considered prior to undertaking any external borrowing:
- affordability
 - maturity profile of existing debt
 - interest rate and refinancing risk
 - borrowing source
 - internal cash balances
 - actual borrowing need.

7.12 The Council has previously raised the majority of its long term borrowing from the PWLB. It will however continue to investigate other sources of finance mentioned in paragraph 7.8 that may be available at favourable rates. This is likely to include the Local Government Bond Agency - LGA - which was established in 2014 by the Local Government Association as an alternative to the PWLB. This will be a more complicated source of finance than the PWLB for three reasons:

- borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans
- there will be a lead time of several months between committing to borrow
- up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the LGA capital strength instead.

Based on the above, any decision to borrow from the LGA will therefore be the subject of a separate report.

7.13 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

7.14 From the 1 April 2012, the Council split each of its existing long-term loans into General Fund and HRA loans. Interest paid will continue in 2015/16 to be split on a notional basis between the HRA and general fund.

8. Annual Deposit Investment Strategy

8.1 At 31 December 2014, the Council held £58.9m of invested funds in counterparties and institutions, as advised by Arlingclose. Since the 1 April 2014, the average investment balance has been £69.2m generating an average return of 0.46% and this is expected to be a similar position in the next forthcoming year prior to an interest rate rise.

8.2 Both the CIPFA Code and the DCLG Guidance require the Council to seek authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest interest return or yield. The Council's objective when investing money is to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment income.

8.3 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secured and/or higher yielding assets classes in 2015/16. However Members should note that the Council may use the Government backed Debt Management Office which is considered more secure than banks but does offer a lower return on investments.

- 8.4 Arlingclose will continue to provide the Council with a list of suitably secure and suggested list of financial institutions and counterparties for consideration and use of in 2015/16. This list is based on their on-going analysis and monitoring of:
- published credit ratings for financial institutions
 - Credit Default Swaps (where quoted)
 - economic fundamentals (for example Net Debt as a percentage of GDP)
 - sovereign support mechanisms
 - share prices
 - corporate developments, news, articles, markets sentiment and momentum
 - subjective overlay – or, put more simply, common sense.
- Members should be assured that any institution or counterparty can be suspended or removed from the Council's approved lending list should any of the factors identified above give rise to concern.
- 8.5 Investment decisions will be taken in conjunction with advice and information from Arlingclose, who regularly update treasury management staff with a "lending list" of investment financial institutions and counterparties.
- 8.6 Any future investments made will also follow the legislative and regulatory framework for treasury management activities which requires investments to be categorised as "Specified" or "Non-Specified".
- 8.7 Specified investments are sterling denominated investments with a maximum maturity of one year. These can be invested with:
- the UK Government
 - UK local authority, parish council or community council
 - Money markets
 - UK and European Banks and Building societies with a credit rating of BBB+ and above
 - any other body or investment scheme of "high credit quality" organisation with a credit rating of A-.
- 8.8 Any investment not meeting the definition of a specified investment is classed as a non-specified investment. Non-specified investments will be limited to long term investments i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

- 8.9 In order to diversify the investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. A group of banks under the same ownership will be treated as the same organisation for limit purposes Limits are shown in the Table 2:

Table 2 – Investment Deposit Limits

Provider	Cash Limit
Any single organisation, except the UK Central Government (excluding the operational bank)	£12m
UK Central Government – Bonds - Bills	£12m
Any group of organisations under the same ownership	£12m
Any group of pooled funds under the same management	£12m
Negotiable instruments held in a brokers nominee account	£12m
European Banks	£12m
Enterprise Partnerships	£12m
Corporate Loans or Bonds	£12m
Bond, Equity and Property Funds	£12m
Registered Providers	£12m
Unsecured investments with Building societies	£12m
Loans to unrated companies	£12m
Money market funds	£10m

- 8.10 It should be noted that although Table 2 shows the maximum amount that can be held in any counterparty or group to be agreed as part of the strategy, this will fluctuate throughout the year based on the advice of Arlingclose.
- 8.11 Arlingclose will continue to obtain and notify any changes in ratings as they occur and where an entity, has its credit rating downgraded so that it fails to meet the investment criteria then:
- no new investments will be made
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 8.12 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day, will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 8.13 Money Market Funds - MMF - shown in the table above are pooled investment vehicles which enable the Council to further diversify investment risk. In addition to call accounts with banks, MMF also offer immediate access to funds, thus maintaining a high degree of liquidity. These will continue to be used in 2015/16 and the Council will restrict its exposure to not exceeding 0.5% of the net asset value of the MMF as per the advice of Arlingclose. In accordance with good treasury management practice, the Council will also seek to diversify any exposure by utilising more than one MMF.
- 8.14 Overnight and weekend (short term and liquidity) investments, to a maximum of £15m will continue with the Council's main bank, Lloyds Bank.

9. The Prudential Indicators

- 9.1 Following the Local Government Act 2003, the Prudential Code requires that the Council adopts a set of annual prudential indicators relating to capital expenditure and treasury management. The key objectives of the Prudential Code are to ensure that the capital investment plans are affordable, prudent and sustainable.
- 9.2 The prudential indicators adopted by the Council relate to:
- affordability, specifically with reference to the impact of the capital programme on council tax
 - prudence, comparing actual Council borrowing with its need to borrow
 - capital expenditure, highlighting the planned expenditure of the Council and its impact on the need to borrow
 - external debt, specifying the limit determined by Council above which further borrowing is not permitted
 - Treasury management, outlining the limits relating to interest rate exposure and principal exposure on both investments and borrowing.
- 9.3 The Prudential Indicators 2014/15 to 2016/17 are included at Appendix 3 and demonstrate that the Council has fulfilled the objectives of the code.

10. Financial Derivatives

- 10.1 The Council is also obliged by CIPFA and CLG to include in its Treasury Management Strategy a policy on use of financial derivatives.
- 10.2 A derivative is a financial instrument which is derived from another financial instrument and then traded as a product in its own right. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria and the current value of any counterparty limit.
- 10.3 The Council has previously made use of derivatives (e.g. LOBO's) embedded into loans and investments to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk. The Council will continue to only use standalone financial derivatives where they can clearly demonstrate to reduce the overall level of financial risks that the Council is exposed to.

11. Minimum Revenue Policy

- 11.1 The Council has to set an amount aside in reserves to ensure it can pay back its borrowing. This is called the Minimum Revenue Provision - MRP - and the period over which MRP is charged should be the same over the asset life. At the end of the borrowing period, enough should have been set aside to pay off the liability. The current MRP Policy is as follows:
- For capital expenditure incurred before 1 April 2008 or which in the future is Supported Capital Expenditure, the MRP policy will be to set aside a provision equal to a straight line method over the life of the asset rather than a reducing balance.
 - From 1 April 2008 for all unsupported borrowing, excluding PFI and finance leases, the MRP policy will use the Asset Life Method on an annuity basis; i.e. MRP will be based on the estimated life of the assets, with MRP being equal to the principal element of an annuity calculation. The provision will be set aside in the year following the capital expenditure.
 - For all PFI schemes and finance leases, the MRP will be equal to the element of the actual unitary charge or actual finance lease repayment that reduces the ongoing balance sheet liability, i.e. the principal element of the charge or repayment, in line with CLG guidance.
- 11.2 It is proposed to continue with the above policy as part of the Treasury Management Strategy in 2015/16.

OTHER OPTIONS CONSIDERED

- 12.1 The Council is required by Regulation to have regard to the Prudential Code when carrying out its duties, and so there is no choice in whether to consider the prudential indicators contained in this report.
- 12.2 The Council is free to set its prudential indicators as it likes. However, the indicators in this report have been set in accordance with guidance received from Arlingclose. To stray from this would mean running additional risks.

- 12.3 Other overall options that members need to be aware that will affect the deposits/investments and borrowing decisions, discussed in this report are shown in the Table 3:

Table 3 - Other Treasury Management Options considered

Alternative	Impact on Income and Expenditure	Impact on Risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults, but any such will be larger
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise, this is unlikely to be off set by higher investment income.	Higher investment balance leading to a higher impact in the event of default: however long-term interest costs will be more certain
Borrow short term using variable rates loans instead of long term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of default, however long term interest costs will be less certain

This report has been approved by the following officers:

Legal officer Financial officer (s) Human Resources officer Estates/Property officer Service Director(s) Other(s)	Amanda Fletcher, Head of Finance & Nicola Goodacre, Group Accountant Martyn Marples, Director of Finance and Procurement
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For more information contact: Background papers: List of appendices:	Andrea Croud, Principal Accountant - 01332 643361 andrea.croud@derby.gov.uk None Appendix 1 – Implications Appendix 2 - Projected Investment and Debt Portfolio Appendix 3 – Prudential Indicators 2015/16 to 2017/18
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IMPLICATIONS

Financial and Value for Money

- 1.1 As described in the report.

Legal

- 2.1 The legal implications are as stated within the detail of this report.

Personnel

- 3.1 None directly arising.

IT

- 4.1 None directly arising.

Equalities Impact

- 5.1 None directly arising.

Health and Safety

- 6.1 None directly arising.

Environmental Sustainability

- 7.1 None directly arising.

Property and Asset Management

- 8.1 None directly arising.

Risk Management

- 9.1 The Council has adopted the CIPFA Prudential Code for Capital Finance which is designed to balance the financial risks of investment and borrowing activities with value for money as paragraph 4.1 and 4.2 in this report.

Corporate objectives and priorities for change

- 10.1 None directly arising.

Appendix 2

Projected Investment and Debt Portfolio Position 1 April 2015

	£000
External Borrowing:	
- Fixed Rate PWLB	245,295
- Fixed Rate PWLB (HRA self-financing loan)	28,164
- Fixed Rate Market (LOBO's)	20,000
- Other Local Authorities	40,000
- Local Enterprise Partnership (LEP)	520
Other Long-term Liabilities:	
- Transferred Debt from other Local Authorities	32,287
- PFI Financing	98,658
Total Gross External Debt	464,924
Deposits / Investments:	
- Short-term	(30,000)
- Long-term	0
Total Investments	(30,000)
Total Net External Debt	434,924

Prudential Indicators 2015/16 to 2017/18

Appendix 3

1 Introduction

- 1.1 In line with the requirements of the CIPFA Prudential Code for Capital Finance in local authorities, the various indicators that inform authorities whether their capital investment plans are affordable, prudent and sustainable, are set out below.

2 Gross Debt and the capital financing requirement

- 2.1 In order to ensure that over the medium-term net borrowing will only be for a capital purpose, the local authority should ensure that its gross external debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.
- 2.2 The table below shows that the Council during the current financial year 2014/15 has had no difficulty meeting this requirement, and that external debt and other long term liabilities, (less investments) has not exceeded the total of the capital financing requirement, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget:

	2014/15 Estimate at 31/3/15 £000
Borrowing 2014/15	333,979
Long term Liabilities	98,658
Transferred Debt	32,287
Less Investments	(30,000)
GROSS DEBT	434,924
Maximum CFR	604,000
Headroom	169,076

3 Estimates of capital expenditure

- 3.1 The estimates of capital expenditure are taken directly from the capital programme summary, and are split into both for the General Fund - GF - and the Housing Revenue Account (HRA) underpin the calculation of the other prudential indicators. These estimates are based on future levels of capital expenditure. It is important that the level of proposed capital expenditure remains within the Council's long term affordability.

Capital Expenditure	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
General Fund	83.9	78.0	51.2
HRA	19.3	19.3	11.3
Total	103.2	97.3	62.5

- 3.2 The Capital expenditure in the table above will be financed through borrowing or funded as follows:

Capital Financing	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Government Grants	46.5	31.7	23.4
Major Repairs Allowance	19.3	19.3	11.3
External Contributions	3.8	0.4	0.6
Revenue contributions	0.7	0.0	0.0
Reserves	0.2	0.2	0.0
Total Funded	70.5	51.6	35.3
Supported borrowing	0.1	0.0	0.0
Unsupported borrowing	32.6	45.7	27.2
Total To Be Financed	32.7	45.7	27.2
Total Funded and To Be Financed	103.2	97.3	62.5

"Supported borrowing" is where grant was specifically received to support the finance costs of borrowing rather than being met generally from within the Councils overall resources and "Unsupported borrowing" is borrowing that is self financed by the Council.

4 Ratio of financing costs to net revenue stream

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Non-HRA	8.47	10.52	13.09
HRA	18.39	18.23	17.67

5 Capital Financing Requirement

5.1 The Capital Financing Requirement - CFR - measures the Council's underlying need to borrow for capital purposes. The Council has an increasing CFR due to the capital programme and may be required to borrow over the period. Currently, however, the Council Strategy is to maintain investments and borrowing below their underlying levels by the use of cash balances and working capital.

Capital Financing Requirement	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Non-HRA	391.4	445.5	482.3
HRA	229.7	229.7	229.7
Total CFR	621.1	675.2	712.0

6 Actual external debt

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (see section 8 below).

Forecast External Debt as at 31/03/2015	£m
Borrowing	
Transferred Debt (managed by Derbyshire County Council)	32.287
Other Long-term Liabilities (PFI)	98.658
Total	130.945

7 Incremental impact of capital investment decisions

- 7.1 This is a prudential indicator of affordability that shows the notional impact of capital investment decisions on Council Tax Band D and Housing Rent levels. This is not the actual increase in Council Tax Band D which is reported to Full Council in a separate report in March and is only the notional incremental impact from the capital programme. This figure in the table below, is derived by adding together the costs of the proposed level of borrowing shown in 3.2 and the proposed use of revenue resources. The costs are then divided by the council tax base set. HRA costs are divided by the number of housing stock rent-weeks.
- 7.2 The full revenue impact of the capital programme is not felt until the year following capital expenditure, because the Council's Minimum Revenue Policy - MRP - stipulates that the provision for debt repayment need not be made until the year following actual expenditure. Therefore the effect of the 2014/15 capital programme will not impact on the Council's revenue position until 2015/16 and so on.

Notional Increase Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Notional Impact on Band D Council Tax	12.55	45.17	62.96
Increase in Average Weekly Housing Rents	0.62	0.78	0.97

- 7.3 The small rise between 2016/17 and 2017/18 in the notional impact in the above table is due to a reduction in the capital financing costs as shown in 3.2. As stated above, the actual council tax rate band D amount will be determined as a separate exercise. The indicator above is mentioned for reporting purposes to members as part of the Prudential Code.

8 Authorised limit and operational boundary for external debt

- 8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.
- 8.2 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). It sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

- 8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 8.4 The Council's authorised limits for the next three years are:

Authorised Limit for External Debt @ 18/02/15	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	642	696	733
Other long-term liabilities	96	92	89
Total	738	788	822

- 8.5 The Operational Boundary links directly to the Council's estimate of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario, but without the additional headroom included within the Authorised Limit.
- 8.6 Decisions for any movement between borrowing and liabilities will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to Cabinet.

Operational Boundary for External Debt @ 18/02/15	2015/16 £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	572	626	663
Other long-term liabilities	96	92	89
Total	668	718	752

9 Adoption of the CIPFA Treasury Management Code

- 9.1 This indicator acknowledges that the Council has adopted the principles of best practice. The CIPFA Code of Practice outlines a number of principles which cover treasury management, the most important being "in balancing risk against return, local authorities should be more concerned to avoid risks than to maximise returns".

10 Maturity structure of fixed rate borrowing

- 10.1 This indicator is set to control the Council's exposure to refinancing risk, and to limit large concentrations of fixed rate debt being replaced at times of uncertainty over interest rates. It is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

- 10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level at 31/03/14 %	Upper Limit for 2015/16 %
under 12 month	7.07%	15
under 2 years	7.07%	20
Under 3 years	7.07%	25
under 10 years	18.11%	50
under 20 years	33.18%	70
under 30 years	37.99%	80
under 40 years	75.34%	90
under 50 years	100.0	100
50 years and above	0	0

- 11.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.