

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Head of Corporate Resources	Report Number: JAC9
To: Joint Audit and Standards Committee	Date of meeting: 2 September 2013

JOINT ANNUAL TREASURY MANAGEMENT REPORT - 2012/13

1. Purpose of Report

- 1.1 The report is required to comply with the requirements of the CIPFA Code of Practice on Treasury Management (“the Code”) and provides the Committee with a comprehensive assessment of Treasury Management activities for the year.
- 1.2 The report includes performance on Prudential Indicators which were set in the 2012/13 Treasury Management Strategies (revised February 2013).

2. Recommendation to Council

- 2.1 That the Treasury Management activity for the year 2012/13, as detailed in Paper JAC9 be noted. Further, that it be noted that performance was in line with the Prudential Indicators set for 2012/13.

The Committee is asked to make a recommendation to the Full Councils of Babergh and Mid Suffolk on the above matter.

3. Financial Implications

- 3.1 As detailed in the Report.

4. Risk Management

- 4.1 This report is not exactly linked with any of the Councils’ Corporate / Significant Business Risks. Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Loss of investment	Very Low	Critical	Strict lending criteria for high credit rated institutions.
Poor return on investments	High	Marginal	Focus is on security and liquidity, therefore, careful cashflow management and budget monitoring in accordance with the Strategy is required.
Liquidity problems	Unlikely	Marginal	Careful and regular cashflow monitoring to ensure this does not arise.

Higher than expected borrowing costs	Low	Marginal	Benchmark is to borrow from the Public Works Loan Board whose rates are very low and can be on a fixed or variable basis. Research lowest rates available within borrowing boundaries. Alternative of using internal surplus funds temporarily.
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5. Consultations

- 5.1 None, although it should be noted that Babergh & Mid Suffolk have quarterly strategy meetings with the joint external treasury advisor, Arlingclose who provide updates on treasury management issues as they arise.

6. Equality Analysis

- 6.1 None.

7. Shared Service / Partnership Implications

- 7.1 None directly related to this report.

8. Key Information

- 8.1 The 2013/14 Treasury Management Strategy for Babergh District Council was approved by Council on the 23 February 2013 and the 2013/14 Treasury Management Strategy for Mid Suffolk District Council was approved by Council on 21 February 2013.

9. Appendices

Title	Location
(a) Regulatory Framework and Economic Background	Attached
(b) Treasury Management Activity Summary	Attached
(c) Borrowing and Lending	Attached
(d) Prudential Indicators	Attached

10. Background Documents

- 10.1 CIPFA's Code of Practice on Treasury Management ("the Code").

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Regulatory Framework and Economic Background

1. Regulatory Framework

- 1.1 The Councils' treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. Scrutiny of treasury policy, strategy and activity is delegated to the Joint Audit and Standards Committee.
- 1.2 Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.3 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

2. Economic Background

- 2.1 The global outlook stabilised during 2012/13 mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing.
- 2.2 Inflation: - Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before rising to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target.
- 2.3 Growth: - The UK economy shrank in the first, second and fourth quarters of calendar 2012. It was the impressive 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012. The expected boost to net trade from the fall in the value of sterling did not materialise, but raised the price of imports, especially low margin goods such as food and energy. Avoiding a 'triple-dip' recession became contingent on upbeat services sector surveys translating into sufficient economic activity to overhaul contractions in the struggling manufacturing and construction sectors.

- 2.4 Monetary Policy: - The lack of growth and the fall in inflation persuaded the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of Bank's Monetary Policy Committee meetings, but was not implemented as the potential drawbacks outweighed the benefits of a reduction in the Bank Rate. In the March Budget the Bank's policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.
- 2.5 The Chancellor largely stuck to his fiscal plans with the austerity drive extending into 2018. In March the Office for Budgetary Responsibility (OBR) halved its forecast growth in 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146bn and sees gross debt rising above 100% of GDP by 2015-16. The fall in debt as a percentage of GDP, which the coalition had targeted for 2015-16, was pushed two years beyond this horizon. With the national debt metrics out of kilter with a triple-A rating, it was not surprising that the UK's sovereign rating was downgraded by Moody's to Aa1. The AAA status was maintained by Fitch and S&P, albeit with a Rating Watch Negative and with a Negative Outlook respectively.
- 2.6 The government's Funding for Lending (FLS) initiative commenced in August which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but was still below expectation for SMEs.
- 2.7 One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month Libid rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

Treasury Management Activity Summary**1. Borrowing and Debt Management**

1.1 The Councils' Treasury Management and Prudential Indicators for 2012/13 were revised when the 2013/14 Treasury Management Strategies were approved in February 2013.

1.2 The tables show the borrowing position of each Council as at 31 March 2013.

BABERGH DISTRICT COUNCIL	Balance 31/3/2012 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance 31/3/2013 £m	Avg Rate %
CFR	92.846				94.424	
Short Term Borrowing	0	0	0	0	0	0
Long Term Borrowing	89.297	(0.500)	0	0	88.797	3.26%
TOTAL BORROWING	89.297	(0.500)	0	0	88.797	3.26%
Other Long Term Liabilities -finance leases	0.109	(0.109)	0	0	0	0
TOTAL EXTERNAL DEBT	89.406	(0.609)	0	0	88.797	3.26%
Increase/ (Decrease) in Borrowing					(0.609)	

MID SUFFOLK DISTRICT COUNCIL	Balance 31/3/2012 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance 31/3/2013 £m	Avg Rate %
CFR	102.289				101.800	
Short Term Borrowing	13.000	21.500	0	19.500	11.000	0.40%
Long Term Borrowing	81.732	0.513	0	0	81.219	4.01%
TOTAL BORROWING	94.732	22.013	0	19.500	92.219	3.58%
Other Long Term Liabilities -finance leases	0.000	0	0	0	0	0
TOTAL EXTERNAL DEBT	94.732	22.013	0	19.500	92.219	3.58%
Increase/ (Decrease) in Borrowing					(2.513)	

1.3 The Certainty Rate was introduced by the PWLB in November 2012, allowing the councils to borrow at a reduction of 20bps on the Standard Rate. Neither Council took out any long term borrowing in 2012/13 so they were not able to utilise this discounted rate.

1.4 In addition, given the large differential between short and longer term interest rates (which is likely to remain a feature for some time in the future) the debt management strategy adopted by Mid Suffolk was to continue to take advantage of temporary borrowing rates from the market.

1.5 For both Babergh and Mid Suffolk the significant cuts to local government funding have been putting pressure on Council finances. The strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio.

- 1.6 The differential between the cost of new longer-term debt and the return generated on the Councils' temporary investment returns remained significant in 2012/13. For both Babergh and Mid Suffolk, the use of internal resources in lieu of borrowing was therefore the most cost effective means of funding capital expenditure (£2.4m for Babergh and £0.293 for Mid Suffolk).
- 1.7 This has, for the time being, lowered overall treasury risk by reducing both external debt and temporary investments. Whilst this position is expected to continue in 2013/14, it will not be sustainable over the medium term i.e. the use of internal resources will have to be replaced by external borrowing at some point in the future.
- 1.8 The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of Lender's Option Borrower's Option (LOBO) Loans to the earliest date on which the lender can require payment, i.e. the next call date. This change, for Mid Suffolk District Council is reflected in Appendix D, paragraph 2(c).

2. Investment Activity

- 2.1 The CLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield. The table below shows the investments made during 2012/13 and the position as at 31 March 2013.

Babergh District Council				31/3/2013		
Investments	Balance 31/3/2012 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance £m	Avg Rate %	Avg Life (days)
Short Term Investments	3.750	68.150	(68.400)	3.500	0.84%	322
Instant Access Call Accounts (net movement)	1.175	33.577	(33.341)	1.411		1
TOTAL INVESTMENTS	4.925	101.727	(101.741)	4.911		
Inc/(Dec) in Investments				(0.014)		

Mid Suffolk District Council				31/3/2013		
Investments	Balance 31/3/2012 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance £m	Avg Rate %	Avg Life (days)
Short Term Investments	2.500	60.558	(62.588)	0.470	0.44%	1
Instant Access Call Accounts (net movement)	0	0	0	0		
TOTAL INVESTMENTS	2.500	60.558	(62.588)	0.470		
Inc/(Dec) in Investments				(2.030)		

- 2.2 **Security:** Security of capital was maintained by following each Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13. Investments made by the Councils during the year included:

- Deposits with the Debt Management Office
- Deposits with other Local Authorities
- Investments in AAA-rated Constant Net Asset Value Money Market Funds
- Call accounts and deposits with UK Banks and Building Societies which are systemically important to the country's banking system.
- Certificates of deposit (Babergh only).
- T Bills (Mid Suffolk only).

2.3 Credit Risk: Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2012/13 treasury strategy was:

- Babergh District Council - The minimum criterion for UK investments was A- or equivalent (AA- for foreign banks with a sovereign rating of AAA) across all assigned credit rating agencies Fitch, Standard and Poors and Moody's.
- Mid Suffolk District Council – The minimum criterion for UK investments was A- or equivalent across all assigned credit rating agencies. Foreign banks were not included as approved counterparties.

2.4 An assessment is made in quarterly and annual reports of the Council's 'credit score' based on the table below:

Long-Term Credit Rating	Score	Long-Term Credit Rating	Score
AAA	1	BBB+	8
AA+	2	BBB	9
AA	3	BBB-	10
AA-	4	Not rated	11
A+	5	BB	12
A	6	CCC	13
A-	7	C	14
		D	15

2.5 Applying this to the actual investments made produces the following overall credit score for Babergh's investment activity:

Babergh District Council					
Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Number of Days to Maturity
30/06/2012	5.4	A+	5.5	A+	23
30/09/2012	3.7	AA-	5.5	A	24
31/12/2012	5.3	A+	5.2	A+	34
31/03/2013	6.3	A	5.5	A	243

Mid Suffolk District Council					
Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Number of Days to Maturity
30/06/2012	<i>Not Available</i>	<i>Not Available</i>	<i>Not Available</i>	<i>Not Available</i>	<i>Not Available</i>
30/09/2012	1.00	AAA	1.00	AAA	1
31/12/2012	4.81	A+	4.74	A+	1
31/03/2013	5.68	A	5.68	A	1

Notes

1. The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit.
 2. At 31 March 2013 Babergh's investments included a deposit of £1.5m with Barclays Bank which has a repayment date of 10 March 2014. This has impacted on the average number of days to maturity.
 3. At 31 March 2013 the short term investments held by Mid Suffolk were held in Money Market Funds to which there is instant access.
- 2.6 The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit.
- 2.7 **Liquidity:** In keeping with the CLG's Guidance on Investments, both Councils maintained a sufficient level of liquidity through the use of overnight deposits, money market funds and call accounts.
- 2.8 **Yield:** The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates remained at very low levels which had a significant impact on investment income.
- **Babergh District Council** achieved investment income of £78k against a budget of £61k. The average rate of return achieved on investments during the year was 0.68% compared with the average 7 day LIBID rate for the year of 0.49%. The average cash balances throughout the year representing the Council's reserves and working balances were £11,796k.
- Mid Suffolk District Council** achieved investment income £19k against a budget of £10k. Rates of return, etc were not collected by Mid Suffolk in 2012/13 but will be collected in 2013/14.
- 2.9 **Prudential Indicators** – Babergh and Mid Suffolk District Councils can confirm that they have complied with the revised Prudential Indicators for 2012/13, set in February 2012 as part of the Councils' Treasury Management Strategy Statements. Details of the revised Prudential Indicators can be found in Appendix D.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2012/13. None of the revised Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

3. Other Items

3.1 PWLB Project Rate

The 2012 Autumn Statement announced that the Government would make available a new concessionary public works loan rate to an infrastructure project nominated by each LEP (excluding London) in England, with total borrowing capped at £1.5 billion. The Government will provide a UK guarantee to allow the Mayor of London to borrow £1 billion at a new preferential rate to support the Northern Line Extension to Battersea.

The March 2013 Budget announced details of the “project rate” which will enable English local authorities (LAs) working with their Local Enterprise Partnership (LEP) to access cheaper borrowing on up to £1.5 billion of investment.

The Public Works Loan Board (PWLB) project rate has been set at 40 basis points below the standard rate across all loan types and maturities. It will be available to local authorities in England from 1 November 2013. This discounted borrowing is being made available to support strategic local capital investment projects. The Government is asking each LEP to work with LAs in their area to agree which project should benefit from the cheaper borrowing support. This will give LEPs, in consultation with LAs, the power to prioritise the projects that best support shared local goals. The Government is now seeking business cases from LEPs, agreed with LAs, setting out borrowing requirements for their chosen local project.

Members will be advised in future Treasury Management reports of any projects that arise in the Babergh / Mid Suffolk areas.

Borrowing and Lending – Further Details Babergh District Council

Long term borrowing:

Start Date	Interest rate%	Value of loan	Borrowed from	Repayment date	Fixed or variable	Type
26/01/2006	3.70%	1,100,000	PWLB	26/01/2056	Fixed	Maturity
24/08/2010	2.01%	1,500,000	PWLB	25/08/2020	Fixed	EIP
14/07/2011	2.88%	2,550,000	PWLB	14/07/2021	Fixed	EIP
28/03/2012	2.92%	6,000,000	PWLB	28/03/2026	Fixed	Maturity
28/03/2012	3.42%	46,647,000	PWLB	28/03/2036	Fixed	Maturity
28/03/2012	2.82%	6,000,000	PWLB	28/03/2025	Fixed	Maturity
28/03/2012	3.26%	25,000,000	PWLB	28/03/2031	Fixed	Maturity
	Total	88,797,000				

Short term lending:

Start date	Interest rate	Value of loan	Lent to	Repayment date
02/04/2012	1.40%	1,300,000	Lloyds TSB	02/07/2012
02/04/2012	0.42%	1,000,000	Nationwide	16/04/2012
24/04/2012	1.40%	700,000	Lloyds TSB	24/07/2012
01/05/2012	0.95%	2,000,000	Nationwide	01/08/2012
15/05/2012	0.25%	1,450,000	DMADF	16/05/2012
01/06/2012	0.93%	2,000,000	Barclays	03/09/2012
02/07/2012	0.25%	1,400,000	DMADF	03/07/2012
03/07/2012	0.25%	1,500,000	DMADF	11/07/2012
01/08/2012	0.58%	2,000,000	Nationwide	31/10/2012
01/08/2012	1.35%	2,000,000	Lloyds TSB	31/10/2012
03/09/2012	0.63%	2,000,000	Barclays	11/12/2012
01/10/2012	0.25%	1,500,000	DMADF	02/10/2012
02/10/2012	0.25%	1,000,000	DMADF	03/10/2012
01/11/2012	1.30%	2,000,000	Lloyds TSB	11/02/2013
01/11/2012	0.45%	2,000,000	Nationwide	01/02/2013
04/12/2012	0.47%	2,000,000	Nordea Bank CD*	04/03/2013
12/12/2012	0.46%	2,000,000	Barclays	12/03/2013
01/02/2013	0.80%	2,000,000	Nationwide	10/03/2014
12/03/2013	0.89%	1,500,000	Barclays	10/03/2014
14/03/2013	0.25%	1,300,000	DMADF	15/03/2013

*A certificate of deposit with Nordea Bank (registered in Finland)

Money market fund balances:

Deposited with	31/03/2012	30/06/2012	30/09/2012	31/12/2012	31/03/2013
Ignis	-	150,000	1,000,000	900,000	-
Prime Rate	500,000	250,000	1,000,000	900,000	-
BlackRock	250,000	250,000	1,000,000	-	-
Insight	500,000	150,000	1,000,000	600,000	-
Goldman Sachs	500,000	250,000	1,000,000	700,000	-
Total	1,750,000	1,050,000	5,000,000	3,100,000	-

Mid Suffolk District Council

Long term borrowing

Start date	Interest rate %	Value of loan £	Borrowed from	Repayment date	Fixed or variable	Type
12-Apr-01	9.1250	0.00	PWLB	27-Jan-13	Fixed	Maturity
26-May-87	9.1250	500,000.00	PWLB	27-Jan-17	Fixed	Maturity
11-Jan-90	9.8750	4,000,000.00	PWLB	27-Jan-15	Fixed	Maturity
30-May-90	11.5000	258,818.90	PWLB	27-Jul-15	Fixed	Annuity
18-Jan-91	11.2500	372,731.93	PWLB	27-Jan-16	Fixed	Annuity
09-May-92	10.2500	500,000.00	PWLB	27-Jul-17	Fixed	Maturity
21-Sep-93	7.8750	1,000,000.00	PWLB	27-Jul-53	Fixed	Maturity
26-Apr-07	4.6000	3,500,000.00	PWLB	27-Jul-47	Fixed	Maturity
26-Apr-07	4.5500	3,500,000.00	PWLB	27-Jul-52	Fixed	Maturity
01-May-07	4.6000	3,831,140.00	PWLB	27-Jul-53	Fixed	Maturity
09-Sep-11	2.4300	2,550,000.00	PWLB	09-Sep-21	Fixed	EIP
28-Mar-12	3.010%	15,000,000.00	PWLB	28-Mar-27	Fixed	Maturity
28-Mar-12	3.300%	15,000,000.00	PWLB	28-Mar-32	Fixed	Maturity
28-Mar-12	3.440%	15,000,000.00	PWLB	28-Mar-37	Fixed	Maturity
28-Mar-12	3.500%	12,206,000.00	PWLB	28-Mar-42	Fixed	Maturity
22-Aug-08	4.2000	2,000,000.00	LOBO	22-Aug-78	Fixed	Maturity
22-Aug-08	4.2200	2,000,000.00	LOBO	22-Aug-78	Fixed	Maturity
	Total	81,218,690.83				

Short term borrowing

Start date	Interest rate	Value of loan £	Borrowed from	Repayment date
24/10/2011	0.65%	5,000,000.00	Greater Manchester Pension Fund	24/04/2012
15/02/2012	0.37%	2,000,000.00	South Somerset District Council	15/05/2012
15/02/2012	0.37%	1,000,000.00	Chichester District Council	15/05/2012
06/03/2012	0.85%	5,000,000.00	Oxfordshire County Council	05/03/2013
01/05/2012	0.45%	1,000,000.00	London Borough of Ealing	01/08/2012
01/05/2012	0.37%	1,000,000.00	Ceredigion County Council	02/07/2012
25/05/2012	0.30%	1,500,000.00	Leicester City Council	28/06/2012
28/06/2012	0.27%	2,000,000.00	London Borough of Ealing	30/07/2012
30/07/2012	0.29%	3,000,000.00	Derbyshire County Council	30/10/2012
25/02/2013	0.35%	2,000,000.00	Derbyshire CC Superannuation Fund	31/05/2013
05/03/2013	0.40%	5,000,000.00	Greater Manchester Pension Fund	05/06/2013
15/03/2013	0.39%	1,000,000.00	Surrey County Council	17/06/2013
19/03/2013	0.38%	1,000,000.00	Worcestershire County Council	19/06/2013
25/03/2013	0.43%	1,000,000.00	Surrey County Council	15/04/2013
27/03/2013	0.50%	1,000,000.00	Thurrock Borough Council	29/04/2013
	Total	32,500,000.00		

Short term lending

Start date	Interest rate	Value of loan £	Borrowed from	Repayment date
29/03/2012	0.25%	500,000.00	Debt Management Office	02/04/2012
14/09/2012	0.25%	2,284,200.00	Debt Management Office	17/09/2012
14/12/2012	0.25%	726,920.00	Debt Management Office	17/12/2012
14/01/2013	0.25%	2,130,966.00	Debt Management Office	15/01/2013
	Total	5,642,086.00		

In addition Mid Suffolk invested £500,000 in a T-Bill from 26/11/12 to 24/12/12 at a rate of 0.18%.

Money market fund balances at month end

Month end	Interest rate	Value of investment £	Deposited with
Apr-12	0.81%	327,778.00	Prime Rate money market fund
May-12	0.76%	1,218,013.00	Prime Rate money market fund
Jun-12	0.62%	564,874.00	BlackRock money market fund
Jun-12	0.71%	2,000,000.00	Prime Rate money market fund
Jul-12	0.57%	831,798.00	BlackRock money market fund
Jul-12	0.69%	2,000,000.00	Prime Rate money market fund
Aug-12	0.52%	2,000,000.00	BlackRock money market fund
Aug-12	0.66%	2,000,000.00	Prime Rate money market fund
Aug-12	0.42%	15,127.00	Royal Bank of Scotland money market fund
Sep-12	0.47%	122,746.00	BlackRock money market fund
Sep-12	0.61%	2,000,000.00	Prime Rate money market fund
Oct-12	0.55%	881,396.00	Prime Rate money market fund
Nov-12	0.52%	1,978,818.00	Prime Rate money market fund
Dec-12	0.37%	1,074,648.00	BlackRock money market fund
Dec-12	0.46%	1,978,818.00	Prime Rate money market fund
Jan-13	0.39%	1,356,399.00	BlackRock money market fund
Jan-13	0.47%	2,000,000.00	Prime Rate money market fund
Feb-13	0.45%	1,584,775.00	Prime Rate money market fund
Mar-13	0.45%	470,239.00	Prime Rate money market fund
	Total	24,405,429.00	

Prudential Indicators

1. Capital Financing Requirement

Estimates of the Councils' revised cumulative maximum external borrowing requirement for 2012/13 to 2014/15 are shown in the table below:

Babergh District Council	31/3/2013 Estimate £000s	31/3/2013 Actual £000s	31/3/2014 Estimate £000s	31/3/2015 Estimate £000s
Capital Financing Requirement	95.055	94.424	94.732	95.711
Less: Existing Profile of Borrowing	(88.797)	(88.797)	(88.297)	(87.797)
Cumulative Maximum External Borrowing Requirement	6.258	5.627	6.435	7.914

Mid Suffolk District Council	31/3/2013 Estimate £000s	31/3/2013 Actual £000s	31/3/2014 Estimate £000s	31/3/2015 Estimate £000s
Capital Financing Requirement	103.486	101.799	106.236	108.268
Less: Existing Profile of Borrowing	(96.711)	(92.219)	(97.439)	(100.421)
Cumulative Maximum External Borrowing Requirement	6.775	9.580	8.797	7.847

In the Prudential Code Amendment (November 2012), it states that the chief finance officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him/her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

2. Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit (Authorised Limit), irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Section 151 Officers for Babergh and Mid Suffolk District Councils confirm that there were no breaches to the Authorised Limit and the Operational Boundary during the year by either council. Borrowing at its peak was £89.297m Babergh District Council, £94.732m for Mid Suffolk District Council.

Babergh District Council	Operational Boundary (Approved) as at 31/03/2013 £m	Authorised Limit (Approved) as at 31/03/2013 £m	Actual External Debt as at 31/03/2013 £m
Borrowing	104	106	88.797
Total	106	106	88.797

Mid Suffolk District Council	Operational Boundary (Approved) as at 31/03/2013 £m	Authorised Limit (Approved) as at 31/03/2013 £m	Actual External Debt as at 31/03/2013 £m
Borrowing	106	108	92.219
Total	106	108	92.219

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

Babergh District Council	Limits for 2012/13 %	Maximum during 2012/13 %
Upper Limit for Fixed Rate Exposure	100%	100%
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	30%	0%
Compliance with Limits:	Yes	Yes

Mid Suffolk District Council	Limits for 2012/13 %	Maximum during 2012/13 %
Upper Limit for Fixed Rate Exposure	100%	100%
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	30%	0%
Compliance with Limits:	Yes	Yes

(c) Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Babergh District Council Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/03/2013	% Fixed Rate Borrowing as at 31/03/2013	Compliance with Set Limits?
under 12 months	50%	0%	£0.5m	0.56%	Yes
12 months and within 24 months	50%	0%	£0.5m	0.56%	Yes
24 months and within 5 years	50%	0%	£1.5m	1.69%	Yes
5 years and within 10 years	100%	0%	£1.55m	1.75%	Yes
10 years and within 20 years	100%	0%	£37m	41.67%	Yes
20 years and within 30 years	100%	0%	£46.647m	52.53%	Yes
30 years and above	100%	0%	£1.1m	1.24%	Yes

Mid Suffolk District Council Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/03/2013	% Fixed Rate Borrowing as at 31/03/2013	Compliance with Set Limits?
under 12 months	30%	0%	£11m	11.9%	Yes
12 months and within 24 months	40%	0%	£0m	0.0%	Yes
24 months and within 5 years	60%	0%	£5.632m	6.1%	Yes
5 years and within 10 years	60%	0%	£2.55m	2.8%	Yes
10 years and above	100%	0%	£73.037m	79.2%	Yes

(d) Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

Babergh District Council Capital Expenditure	2012/13 Approved £m	2012/13 Actual £m	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
Non-HRA	3.836	3.268	2.726	2.153
HRA	5.117	4.437	6.565	5.419
Total	8.953	7.705	9.291	7.572

Capital expenditure has been and will be financed or funded as follows:

Babergh District Council Capital Financing	2012/13 Approved £m	2012/13 Actual £m	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
Capital receipts	0.573	0.322	2.086	0.288
Government Grants	0.477	0.655	0.346	0.222
Major Repairs Allowance	2.468	2.445	3.444	3.433
Revenue contributions	2.438	1.843	2.791	1.761
Total Financing	5.956	5.265	8.667	5.704
Unsupported borrowing	2.997	2.440	0.624	1.868
Total Funding	2.997	2.440	0.624	1.868
Total Financing and Funding	8.953	7.705	9.291	7.572

The table shows that the capital expenditure plans of Babergh District Council could not be funded entirely from sources other than external borrowing.

Mid Suffolk District Council Capital Expenditure	2012/13 Approved £m	2012/13 Actual £m	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
Non-HRA	1.403	1.171	4.093	2.345
HRA	5.884	5.517	7.403	6.277
Total	7.287	6.688	11.496	8.622

Capital expenditure has been and will be financed or funded as follows:

Mid Suffolk District Council Capital Financing	2012/13 Approved £m	2012/13 Actual £m	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
Capital receipts	0.140	0.172	0.485	0.433
Government Grants	0.554	0.812	0.216	0.203
Major Repairs Allowance	3.346	2.438	3.346	3.325
Revenue contributions	1.268	2.974	2.229	1.679
Total Financing	5.308	6.396	6.276	5.640
Unsupported borrowing	1.979	0.292	5.220	2.982
Total Funding	1.979	0.292	5.220	2.982
Total Financing and Funding	7.287	6.688	11.496	8.622

The table shows that the capital expenditure plans of the Mid Suffolk District Council could not be funded entirely from sources other than external borrowing.

(e) Ratio of Financing Costs to Net Revenue Stream

- 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 ratio is based on costs net of investment income

Babergh District Council

Ratio of Financing Costs to Net Revenue Stream	2012/13 Approved %	2012/13 Actual %	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
Non-HRA	2.93%	1.94%	4.46%	4.52%
HRA*	21.55%	21.48%	19.26%	18.31%

Mid Suffolk District Council

Ratio of Financing Costs to Net Revenue Stream	2012/13 Approved %	2012/13 Actual %	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
Non-HRA	10.0%	8.2%	9.0%	12.6%
HRA*	8.4%	24.7%	24.4%	24.3%

(f) Total principal sums invested for periods longer than 364 days

- This indicator allows Councils to manage the risk inherent in investments longer than 364 days.
- The policy response of both Babergh and Mid Suffolk District Councils since the onset of the credit crunch in 2007 has been to keep investment maturities to a maximum of 12 months. No investments were made for a period greater than 364 days during the year to 31 March 2013.

(g) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management

The Councils approved the adoption of the CIPFA Treasury Management Code at their meetings on 9th February 2012 (Babergh District Council) and on 23rd February 2012 (Mid Suffolk District Council).

(h) HRA Limit on Indebtedness

Babergh District Council	2012/13 Approved £m	2012/13 Actual £m	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
HRA Debt Cap (as prescribed by CLG)	97.849	97.849	97.849	97.849
HRA CFR	89.348	88.848	88.348	87.848
Difference	8.501	9.001	9.501	10.001

Mid Suffolk District Council	2012/13 Approved £m	2012/13 Actual £m	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
HRA Debt Cap (as prescribed by CLG)	90.851	90.851	90.851	90.851
HRA CFR	87.970	86.759	88.269	89.268
Difference	2.881	4.092	2.582	1.583

(i) Incremental impact of capital investment decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and on average rent levels.

Babergh District Council	2012/13 Estimate £	2012/13 Actual £	31/03/2014 Estimate £	31/03/15 Estimate £
Incremental impact of capital investment decisions on the Band D council tax	£5.26	£5.22	£5.21	£1.00
Incremental impact of capital investment decisions on housing rent levels (per week)	£0.08	£16.08	£(0.07)	£(0.07)

Mid Suffolk District Council	2012/13 Estimate £	2012/13 Actual £	31/03/2014 Estimate £	31/03/15 Estimate £
Incremental impact of capital investment decisions on the Band D council tax	£4.91	£0.50	£3.25	£9.55
Incremental impact of capital investment decisions on housing rent levels (per week)	£0.75	£12.88	£1.27	£0.11

The increase in the incremental impact of capital expenditure on housing rents in 2012/13 is due to the interest payable on the PWLB borrowing taken out at the end of 2011/12 to finance Housing Reform.