

BABERGH DISTRICT COUNCIL AND MID SUFFOLK DISTRICT COUNCIL

From: Head of Corporate Resources	Report Number: P51
To: Babergh Audit Committee Mid Suffolk Audit Committee	Date of meeting: 23 September 2014 25 September 2014

JOINT ANNUAL TREASURY MANAGEMENT REPORT - 2013/14

1. Purpose of Report

- 1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management ("the Code"). It provides Members with a comprehensive assessment of activities for the year.
- 1.2 The report specifically sets out performance of the treasury management function, the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Councils' treasury management policy statement and treasury management practices.
- 1.3 The report also includes performance on Prudential Indicators which were set in the 2013/14 Treasury Management Strategies (revised February 2014).

2. Recommendation to Council

- 2.1 That the Treasury Management activity for the year 2013/14 be noted. Further, that it be noted that performance was in line with the Prudential Indicators set for 2013/14.

The Audit Committees are asked to make a recommendation to the relevant Council.

3. Financial Implications

- 3.1 As detailed in the Report.

4. Risk Management

- 4.1 This report is not linked with any of the Councils' Corporate / Significant Business Risks. Key risks, however, 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 in accordance with the TM Strategy is undertaken throughout the year.

Risk Description	Likelihood	Impact	Mitigation Measures
Liquidity problems	Unlikely	Marginal	As above.
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 and use other sources of funding and internal surplus funds temporarily.

5. Consultations

- 5.1 None, although it should be noted that Babergh and Mid Suffolk have regular joint strategy meetings with the external treasury advisor, Arlingclose who provide updates and advice 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 both Councils was approved in February 2013.
- 8.2 The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk.
- 8.3 The attached appendices summarise the regulatory framework, economic background and information on key activities for the year.
- 8.4 The following key points are highlighted:
- Interest rates continued at very low levels
 - Economic conditions have improved but no real impact on treasury activities with, for example, investment of surplus funds with banks and other financial institutions still operating in a 'tight' market
 - No new external borrowing taken out to finance the 2013/14 capital programmes (see Appendix B, sections 1.6 & 1.7). All of the existing debt relates to the HRA - both Councils
 - Investment activity was undertaken in accordance with the approved counterparty policy (see Appendix B, sections 2.1 to 2.8 for further detailed information on investment activities and returns)

- Opportunity taken for Babergh, subject to cashflow and liquidity, to secure some longer-term investment opportunities – six months/364 days – achieving 0.8%+ interest returns (compared to significantly lower returns on shorter-term investments)
- Lloyds Bank was appointed to operate both Councils' bank accounts from 1 April 2014, with achieved alignment of processes across the Councils and savings in commission charges.

8.5 Some more specific highlights relating to 2013/14 activity are provided below:

Area/Activity	Babergh	Mid Suffolk	Comments
Borrowing – average interest rate	3.26%	3.03%	All HRA and fixed rate
Short Term Investments – average interest rate	0.56%	0.47%	Exceeded 7 day LIBID benchmark
Credit Risk Scores during the year	5.24 - 6.09	1.37 – 2.03	Both within the score for the approved A- credit rating for investment counterparties
Compliance with Prudential Indicators	√	√	See Appendix D

8.6 There were no breaches of the strategy or policy for either Council during the year.

9. Appendices

Title	Location
(a) Regulatory Framework and Economic Background	Attached
(b) Treasury Management Activity Summary	Attached
(c) Borrowing and Lending – Further Details	Attached
(d) Prudential Indicators	Attached
(e) Glossary of Terms	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

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.

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."

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 strategy.

2. Economic Background

At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend. The subsequent recovery in the UK surprised with strong economic activity and growth. Q4 2014 GDP showed year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption buoyed by the pick-up in housing transactions. However, business investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth.

Inflation: - CPI fell from 2.8% in March 2013 to 1.6% in March 2014, the lowest rate since October 2009, helped largely by the easing commodity prices and discounting by retailers, reducing the pressure on the Bank to raise rates. Although the fall in unemployment (down from 7.8% in March 2013 to 7.2% in January 2014) was faster than the Bank of England or indeed many analysts had forecast, it hid a stubbornly high level of underemployment. Importantly, average earnings growth remained muted and real wage growth (i.e. after inflation) was negative.

Monetary Policy: - With new Governor Mark Carney at the helm, the Bank of England unveiled forward guidance in August pledging to not consider raising interest rates until the unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016. In February the Bank stepped back from forward guidance relying on a single indicator – the unemployment rate – to more complex measures which included spare capacity within the economy. The Bank also implied that when official interest rates were raised, the increases would be gradual – this helped underpin the 'low for longer' interest rate outlook despite the momentum in the economy.

The Office of Budget Responsibility's 2.7% forecast for economic growth in 2014 predicted a quicker fall in public borrowing over the next few years. However, the Chancellor resisted the temptation to spend some of the proceeds of higher economic growth. In his 2013 Autumn Statement and the 2014 Budget, apart from the rise in the personal tax allowance and pension changes, there were no significant giveaways and the coalition's austerity measures remained on track.

The Federal Reserve's then Chairman Ben Bernanke's announcement in May that the Fed's quantitative easing (QE) programme may be 'tapered' caught markets by surprise. Investors began to factor in not just an end to QE but also rapid rises in interest rates. 'Tapering' (a slowing in the rate of QE) began in December 2013. By March 2014, asset purchases had been cut from \$75bn to \$55bn per month with expectation that QE would end by October 2014. This had particular implications for global markets which had hitherto benefited from, and got very accustomed to, the high levels of global liquidity afforded by QE. The impact went further than a rise in the dollar and higher US treasury bond yields. Gilt yields also rose as a consequence and emerging markets, which had previously benefited as investors searched for yield through riskier assets, suffered large capital outflows in December and January.

With the Eurozone struggling to show sustainable growth, the European Central Bank (ECB) cut main policy interest rates by 0.25% to 0.25% and the deposit rate to zero. Markets were disappointed by the lack of action by the ECB despite CPI inflation below 1% and a looming threat of deflation. Data pointed to an economic slowdown in China which, alongside a weakening property market and a highly leveraged shadow banking sector, could prove challenging for its authorities.

Treasury Management Activity Summary

The Councils' Treasury Management and Prudential Indicators for 2013/14 were revised when the 2014/15 Treasury Management Strategies were approved in February 2014.

1. Borrowing and Debt Management

1.1 The tables show the borrowing position of each Council as at 31 March 2014.

BABERGH DISTRICT COUNCIL	Balance 31/3/2013 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance 31/3/2014 £m	Avg Rate %
CFR	94.424				94.964	
Short Term Borrowing	0	0	0	0	0	0
Long Term Borrowing	88.797	(0.500)	0	0	88.297	3.26%
TOTAL BORROWING	88.797	(0.500)	0	0	88.297	3.26%
Other Long Term Liabilities -finance leases	0	(0.109)	0	0	0	0
TOTAL EXTERNAL DEBT	88.797	(0.609)	0	0	88.297	3.26%
Increase/ (Decrease) in Borrowing					(0.500)	

MID SUFFOLK DISTRICT COUNCIL	Balance 31/3/2013 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance 31/3/2014 £m	Avg Rate %
CFR	101.800				101.832	
Short Term Borrowing	11.000	(30.000)	0	29.500	10.500	0.37%
Long Term Borrowing	81.219	(0.506)	0	0	80.713	4.00%
TOTAL BORROWING	92.219	(30.506)	0	29.500	91.213	3.03%
Other Long Term Liabilities -finance leases	0.000	0	0	0	0	0
TOTAL EXTERNAL DEBT	92.219	(30.506)	0	29.500	91.213	3.03%
Increase/ (Decrease) in Borrowing					(1.006)	

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 2013/14 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 the continuing very low 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 debt 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 2013/14. 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 (£1.6m for Babergh and nearly £0.3m 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 CIPFA Treasury Management Code 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 only affects Mid Suffolk District Council and the position 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 2013/14 and the position as at 31 March 2014. The increase in investments reflects higher reserves for both Councils mainly due to the New Homes Bonus.

Babergh District Council				31/3/2014		
Investments	Balance 31/3/2013 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance £m	Avg Rate %	Avg Life (days)
Short Term Investments	3.500	30.800	(26.900)	7.400	0.56%	77
Instant Access Call Accounts (net movement)	1.411	0.500	(1.411)	0.500	0.20%	1
TOTAL INVESTMENTS	4.911	31.300	(28.311)	7.900		
Inc/(Dec) in Investments				2.989		

Mid Suffolk District Council				31/3/2014		
Investments	Balance 31/3/2013 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance £m	Avg Rate %	Avg Life (days)
Short Term Investments	0.470	71.923	(72.254)	0.139	0.47%	1
Instant Access Call Accounts (net movement)	0	12.417	(10.530)	1.888	0.20%	1
TOTAL INVESTMENTS	0.470	60.558	(82.784)	2.027		
Inc/(Dec) in Investments				1.557		

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 2013/14. 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).

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 2013/14 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 investment activity in 2013/14:

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
30/06/2013	<i>Not Available</i>	<i>Not Available</i>	<i>Not Available</i>	<i>Not Available</i>	<i>Not Available</i>
30/09/2013	5.24	A+	5.97	A	49
31/12/2013	5.31	A+	6.31	A	22
31/03/2014	5.85	A	6.09	A	188

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
30/06/2013	1.37	AAA	1.37	AAA	1
30/09/2013	1.74	AAA	2.21	AA+	1
31/12/2013	1.65	AAA	2.61	AA+	1
31/03/2014	1.64	AAA	2.03	AA	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 2014 Babergh's investments included a deposit of £1.5m with Barclays Bank which has a repayment date of 10 March 2015 and a deposit of £2m with Nationwide Building Society which has a repayment date of 31st January 2015. This has impacted on the average number of days to maturity.
 3. At 31 March 2014 the short term investments held by Mid Suffolk were solely in Money Market Funds and a Barclays Deposit Account to which there is instant access.
- 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 UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained very low. The low rates of return on the Councils' investments reflect prevailing market conditions and the Councils' objective of optimising returns commensurate with the principles of security and liquidity.
- **Babergh District Council** achieved investment income of £62k against a budget of £55k. The average rate of return achieved on investments during the year was 0.56% compared with the average 7 day LIBID rate for the year of 0.45%. Average cash balances throughout the year (calculated on a daily basis) representing the Council's reserves and working balances were £12,931k.
 - **Mid Suffolk District Council** achieved investment income of £11k against a budget of £3k. The average rate of return achieved on investments during the year was 0.47% compared with the average 7 day LIBID rate for the year of 0.45%. The average cash balances throughout the year (calculated on a weekly basis) representing the Council's reserves and working balances were £3,204k.
- 2.9 **Prudential Indicators –** Babergh and Mid Suffolk District Councils can confirm that they have complied with the revised Prudential Indicators for 2013/14, set in February 2013 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 2013/14. 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 Councils' Bankers

During 2013/14 Babergh's bankers were the Co-operative Bank and Mid Suffolk's bankers were Barclays Bank. Following a procurement exercise in conjunction with three other Suffolk councils, Lloyds Bank has been appointed as bankers for both councils with effect from 1 April 2014.

Borrowing and Lending – Further Details**Babergh District Council**

Long term borrowing (all HRA):

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%	1,300,000	PWLB	25/08/2020	Fixed	EIP
14/07/2011	2.88%	2,250,000	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	88,297,000				

Short term lending:

Start date	Interest rate	Value of loan	Lent to	Repayment date	Length of investment (days)
31/01/2014	0.80%	2,000,000	Nationwide Building Society	30/01/2015	364
11/03/2014	0.84%	1,500,000	Barclays	10/03/2015	364
16/04/2013	0.80%	1,500,000	Lloyds	16/10/2013	183
10/06/2013	0.49%	1,000,000	Nordea*	10/09/2013	92
16/10/2013	0.70%	2,000,000	Lloyds	16/01/2014	92
10/03/2014	0.40%	1,000,000	Leeds Building Society	10/06/2014	92
10/12/2013	0.41%	1,000,000	Leeds Building Society	10/03/2013	90
12/08/2013	0.41%	500,000	Lloyds	13/10/2013	62
16/01/2014	0.50%	2,000,000	Lloyds	17/03/2014	60
23/01/2014	0.25%	1,000,000	Debt Management Office	26/02/2014	34
01/10/2013	0.25%	2,000,000	Debt Management Office	21/10/2013	20
02/01/2014	0.25%	2,300,000	Debt Management Office	22/01/2014	20
01/11/2013	0.25%	2,500,000	Debt Management Office	19/11/2013	18
02/12/2013	0.25%	2,500,000	Debt Management Office	19/12/2013	17
02/09/2013	0.25%	2,000,000	Debt Management Office	16/09/2013	14
10/09/2013	0.25%	1,000,000	Debt Management Office	19/09/2013	9
08/10/2013	0.25%	2,000,000	Debt Management Office	16/10/2013	8
19/11/2013	0.25%	1,000,000	Debt Management Office	27/11/2013	8
19/12/2013	0.25%	1,000,000	Debt Management Office	24/12/2013	5
16/09/2013	0.25%	1,000,000	Debt Management Office	18/09/2013	2

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

Money market fund balances:

Deposited with	31/03/2013	30/06/2013	30/09/2013	31/12/2013	31/03/2014
Ignis	-	880,000	1,000,000	1,000,000	1,000,000
Federated	-	950,000	1,000,000	1,000,000	400,000
BlackRock	-	1,000,000	1,000,000	1,325,000	-
Insight	-	-	625,000	980,000	-
Goldman Sachs	-	-	1,000,000	1,000,000	-
Total	-	2,830,000	4,625,000	5,305,000	1,400,000

Mid Suffolk District Council

Long term borrowing as at 31st March 2014

Start date	Interest rate %	Value of loan £	Borrowed from	Repayment date	Fixed or variable	Type
26-May-87	9.125%	500,000.00	PWLB	27-Jan-17	Fixed	Maturity
11-Jan-90	9.875%	4,000,000.00	PWLB	27-Jan-15	Fixed	Maturity
30-May-90	11.500%	163,879.08	PWLB	27-Jul-15	Fixed	Annuity
18-Jan-91	11.250%	262,812.05	PWLB	27-Jan-16	Fixed	Annuity
09-May-92	10.250%	500,000.00	PWLB	27-Jul-17	Fixed	Maturity
21-Sep-93	7.875%	1,000,000.00	PWLB	27-Jul-53	Fixed	Maturity
26-Apr-07	4.600%	3,500,000.00	PWLB	27-Jul-47	Fixed	Maturity
26-Apr-07	4.550%	3,500,000.00	PWLB	27-Jul-52	Fixed	Maturity
01-May-07	4.600%	3,831,140.00	PWLB	27-Jul-53	Fixed	Maturity
09-Sep-11	2.430%	2,250,000.00	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	4.200%	2,000,000.00	LOBO	22-Aug-78	Fixed	Maturity
22-Aug-08	4.220%	2,000,000.00	LOBO	22-Aug-78	Fixed	Maturity
	Total	80,713,831.13				

Short term borrowing

Start date	Interest rate	Value of loan £	Borrowed from	Repayment date
03/06/2013	0.29%	3,000,000.00	Worcestershire County Council	03/09/2013
19/06/2013	0.28%	2,000,000.00	Hartlepool Borough Council	19/09/2013
24/06/2013	0.29%	1,000,000.00	Surrey County Council	24/09/2013
03/09/2013	0.35%	3,000,000.00	Cambridge City Council	03/12/2013
19/09/2013	0.31%	2,000,000.00	Vale of Glamorgan Council	19/12/2013
19/09/2013	0.31%	1,000,000.00	Chichester District Council	19/12/2013
23/09/2013	0.35%	2,000,000.00	Derbyshire County Council	25/11/2013
03/12/2013	0.50%	3,000,000.00	Derbyshire County Council	03/03/2014
19/12/2013	0.50%	2,000,000.00	East Renfshire	19/03/2014
04/02/2013	0.45%	3,000,000.00	London Borough of Hillingdon	02/05/2014
17/02/2014	0.38%	3,000,000.00	Leicester City Council	17/04/2014
19/03/2014	0.32%	2,000,000.00	South Lanarkshire	22/04/2014
25/03/2014	0.35%	2,500,000.00	Leicester City Council	29/04/2014
	Total	29,500,000.00		

Short term lending

Start date	Interest rate	Value of loan £	Borrowed from	Repayment date	Length of Investment (days)
17/02/2014	0.25%	1,000,000.00	Debt Management Office	24/02/2014	7
14/05/2013	0.25%	1,000,000.00	Debt Management Office	15/05/2013	1
14/10/2013	0.25%	1,200,000.00	Debt Management Office	15/10/2013	1
14/11/2013	0.25%	1,925,331.00	Debt Management Office	15/11/2013	1
14/01/2014	0.25%	1,369,000.00	Debt Management Office	15/01/2014	1

Money market fund balances:

Deposited with	31/03/2013	30/06/2013	30/09/2013	31/12/2013	31/03/2014
Federated	470,239	-	2,000,000	816,149	139,000
BlackRock	-	-	209,713	-	-
Total	470,239	-	2,209,713	816,149	139,000

Prudential Indicators

1. Capital Financing Requirement

Estimates of the Councils' revised cumulative maximum external borrowing requirement for 2013/14 is shown in the table below:

Babergh District Council	31/3/2014 Estimate £m	31/3/2014 Actual £m
Capital Financing Requirement	95.426	94.964
Less: Existing Profile of Borrowing	(88.297)	(88.297)
Cumulative Maximum External Borrowing Requirement	7.129	6.667

Mid Suffolk District Council	31/3/2014 Estimate £m	31/3/2014 Actual £m
Capital Financing Requirement	106.236	101.799
Less: Existing Profile of Borrowing	(97.439)	(91.213)
Cumulative Maximum External Borrowing Requirement	8.797	10.586

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. It is based on the estimated borrowing to finance the capital programme plus an allowance to cover any cash flow shortfalls that might arise during the year.
- 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 £88.797m Babergh District Council, £92.219m for Mid Suffolk District Council.

Babergh District Council	Operational Boundary (Approved) as at 31/03/2014 £m	Authorised Limit (Approved) as at 31/03/2014 £m	Actual External Debt as at 31/03/2014 £m
Borrowing	96	98	88.297
Total	96	98	88.297

Mid Suffolk District Council	Operational Boundary (Approved) as at 31/03/2014 £m	Authorised Limit (Approved) as at 31/03/2014 £m	Actual External Debt as at 31/03/2014 £m
Borrowing	105	107	91.213
Total	105	107	91.213

(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 2013/14 %	Maximum during 2013/14 %
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 2013/14 %	Maximum during 2013/14 %
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 31/03/2014	% Fixed Rate Borrowing as at 31/03/2014	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	1.70%	Yes
5 years and within 10 years	100%	0%	£1.05m	1.19%	Yes
10 years and within 20 years	100%	0%	£37m	41.91%	Yes
20 years and within 30 years	100%	0%	£46.647m	52.83%	Yes
30 years and above	100%	0%	£1.1m	1.25%	Yes

Mid Suffolk District Council Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/03/2014	% Fixed Rate Borrowing as at 31/03/2014	Compliance with Set Limits?
under 12 months	30%	0%	£6.8m	8.17%	Yes
12 months and within 24 months	40%	0%	£0.742m	0.89%	Yes
24 months and within 5 years	60%	0%	£1.9m	2.28%	Yes
5 years and within 10 years	60%	0%	£0.75m	0.9%	Yes
10 years and above	100%	0%	£73.037m	87.76%	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	2013/14 Approved £m	2013/14 Actual £m
Non-HRA	2.722	2.158
HRA	7.196	4.794
Total	9.918	6.952

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

Babergh District Council Capital Financing	2013/14 Approved £m	2013/14 Actual £m
Capital receipts	0.685	0.415
Government Grants	0.465	0.379
Major Repairs Allowance	3.444	2.571
Revenue contributions	3.422	1.996
Total Funding	7.196	5.361
Borrowing	1.902	1.591
Total Financing and Funding	9.918	6.952

Mid Suffolk District Council Capital Expenditure	2013/14 Approved £m	2013/14 Actual £m
Non-HRA	4.093	2.316
HRA	7.403	6.654
Total	11.496	8.970

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

Mid Suffolk District Council Capital Financing	2013/14 Approved £m	2013/14 Actual £m
Capital receipts	0.485	0.172
Government Grants	0.216	0.812
External Contributions	0.000	0.717
Major Repairs Allowance	3.346	2.493
Revenue contributions	2.229	4.297
Total Funding	6.276	8.188
Borrowing	5.220	0.782
Total Financing and Funding	11.496	8.970

These tables show that the capital expenditure plans for both Councils 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	2013/14 Approved %	2013/14 Actual %
Non-HRA	3.53%	2.97%
HRA	19.26%	18.80%

Mid Suffolk District Council

Ratio of Financing Costs to Net Revenue Stream	2013/14 Approved %	2013/14 Actual %
Non-HRA	9.0%	8.4%
HRA	24.4%	23.5%

(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 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 2014.

(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 9 th February 2012 (Babergh District Council) and on 23 rd February 2012 (Mid Suffolk District Council).

(h) HRA Limit on Indebtedness

Babergh District Council	2013/14 Approved £m	2013/14 Actual £m
HRA Debt Cap (as prescribed by CLG)	97.849	97.849
HRA CFR	88.848	88.848
Difference	9.001	9.001

Mid Suffolk District Council	2013/14 Approved £m	2013/14 Actual £m
HRA Debt Cap (as prescribed by CLG)	90.851	90.851
HRA CFR	88.269	86.759
Difference	2.582	4.092

(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	2013/14 Estimate £	2013/14 Actual £
Incremental impact of capital investment decisions on the Band D council tax	£5.21	£4.60
Incremental impact of capital investment decisions on housing rent levels (per week)	£5.96	£1.56

Mid Suffolk District Council	2013/14 Estimate £	2013/14 Actual £
Incremental impact of capital investment decisions on the Band D council tax	£2.20	£0.29
Incremental impact of capital investment decisions on housing rent levels (per week)	£1.27	£(0.06)

The lower impact on council tax and rents is accounted for by slippage on the capital programmes.

Glossary of Terms

CFR	Capital Financing Requirement. The underlying need to borrow to finance capital expenditure.
CIPFA	The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services.
CLG	Department for Communities and Local Government. This is a ministerial department.
CPI	Consumer Price Index. This measures changes in the price level of consumer goods and services purchased by households.
DMADF	Debt Management Account Deposit Facility.
FTSE	The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation.
GDP	Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time.
HRA	Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
LEP	Local Enterprise Partnership. A voluntary partnership between local authorities and businesses to help determine local economic priorities and lead economic growth and job creation within its local area.
LOBO	Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan.
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
QE	Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply.
T Bills	Treasury Bill. A short term Government Bond.