READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**2 JULY 2014**	**AGENDA ITEM:**	**8**
TITLE:	**TREASURY OUTTURN REPORT FOR 2013/14 & RELATED UPDATE**		
LEAD COUNCILLOR:	**COUNCILLOR LOVELOCK**	**PORTFOLIO:**	**LEADERSHIP/Finance**
SERVICE:	**ALL**	**WARDS:**	**BOROUGHWIDE**
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JOB TITLE:	**HEAD OF FINANCE**	**E-MAIL:**	**Alan.Cross@reading.gov.uk**

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 CIPFA recommends that after the financial year end councils produce an annual report of their treasury activities. This report presents the outturn report for 2013/14. A short presentation will be made at the Committee to highlight key treasury management issues.

1.2 The opportunity is also taken in this cover report to outline some current treasury and related issues likely to impact the Council during 2013/14; the Council's change of bank and the prospective formation of the Local Government Association led Municipal Bonds Agency.

2. RECOMMENDED ACTION

2.1 That the committee considers the annual Treasury Outturn Report for 2013/13.

2.2 That the committee notes that Lloyds Bank has been selected as replacement banker following the Co-Operative Bank's withdrawal from the local authority market.

2.3 That the committee notes that it is intended to publish a Decision Book report shortly confirming the Council's intended initial investment in the Municipal Bonds Agency

3. POLICY CONTEXT

3.1 The Council is required to have a Treasury Strategy & Investment Statement in place in order to comply with legislative requirements and recommended professional practice. We are also required at least twice annually to report on the activity (which we normally achieve through this annual report and a mid year report in September).

4. THE PROPOSAL

The Treasury Outturn Report is attached in the Appendix.

5. CONTRIBUTION TO STRATEGIC AIMS

Proper management of the Council's Treasury position helps support the overall achievement of the Council's financial and service objectives.

6. COMMUNITY ENGAGEMENT AND INFORMATION

The Council does not directly consult with the community on this particular issue, though occasionally receives queries about its treasury activity to which an appropriate response is made.

7. EQUALITY IMPACT ASSESSMENT

An EIA is not relevant at this time.

8. LEGAL IMPLICATIONS

None, at this stage.

9. FINANCIAL IMPLICATIONS

As set out in the draft statement

10. BACKGROUND PAPERS

The statement has been prepared using a template provided by Arlingclose, adapted for Reading's needs.
CIPFA Treasury Management & Prudential Codes and guidance notes.
Investment Memorandum for Local Capital Finance Company Ltd

Annual Treasury Outturn Report 2013/14

1. Background

The Authority's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires 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. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance.

Council approves the treasury strategy and it receives a strategy report at the beginning of each financial year (as part of the budget report) identifying how it is proposed to finance capital expenditure, borrow and invest in the light of capital spending requirements, interest rate forecasts and economic conditions. Monitoring of the implementation of the treasury strategy is carried out and reported alongside budget monitoring with the final year end activity report being this annual treasury outturn report. At least one more in depth review report is presented to Audit & Governance Committee during the year (in 2013/14 in September). Overall responsibility for treasury management remains with the Council.

These reporting arrangements enable those officers tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those Councillors with ultimate responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives. Given the technical nature of the subject, by way of introduction the annual report is intended to explain how, during 2013/14

- the Council tried to minimise net borrowing costs over the medium term
- we ensured we had enough money available to meet our commitments
- we ensured reasonable security of money we have lent and invested
- we maintained an element of flexibility to respond to changes in interest rates
- we managed treasury risk overall

It must be recognised that no treasury management activity is without risk, and the successful identification, monitoring and control of risk is an important and integral element of all treasury management activities. The main risks to the Council's treasury activities are:

- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Liquidity Risk (Inadequate cash resources to meet commitments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk

2. External Context

Economic background: At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Lack of growth in the UK economy, the threat of a 'triple-dip' alongside falling real wages (i.e. after inflation) and the paucity of business investment were a concern for the Bank of England's Monetary Policy Committee. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend. The Eurozone had navigated through a turbulent period for its disparate sovereigns and the likelihood of a near-term disorderly collapse had significantly diminished. The US government had just managed to avoid the fiscal cliff and a technical default in early 2013, only for the problem to re-emerge later in the year.

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 ILO unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016. Although the Bank stressed that this level was a ***threshold*** for consideration of rate increase rather an automatic trigger, markets began pricing in a much earlier rise than was warranted and, as a result, gilt yields rose aggressively.

The 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 which were driven by higher consumer confidence, greater availability of credit and strengthening house prices which were partly boosted by government initiatives such as Help-to-Buy. However, business investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth. Worries of a housing bubble were tempered by evidence that net mortgage lending was up by only around 1% annually.

CPI fell from 2.8% in March 2013 to 1.7% in February 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. 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 forecast 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 asset, suffered large capital outflows in December and January.

With the Eurozone struggling to show sustainable growth, the European Central Bank 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.

Russia's annexation of the Ukraine in March heightened geopolitical tensions and risk. The response from the West which began with sanctions against Russia which is the second largest gas producer in the world and which supplies nearly 30% of European natural gas needs and is also a significant supplier of crude oil – any major disruption to their supply would have serious ramifications for energy prices.

Gilt Yields and Money Market Rates: Gilt yields ended the year higher than the start in April. The peak in yields was during autumn 2013. The biggest increase was in 5-year gilt yields which increased by nearly 1.3% from 0.70% to 1.97%. 10-year gilt yields rose by nearly 1% ending the year at 2.73%. The increase was less pronounced for longer dated gilts; 20-year yields rose from 2.74% to 3.37% and 50-year yields rose from 3.23% to 3.44%.

3-month, 6-month and 12-month Libid rates remained at levels below 1% through the year.

Borrowing Activity in 2013/14

	Balance on 01/04/2013 £m	Maturing Debt £m	Balance on 31/03/2014 £m	Avg Rate % and Avg Life (yrs)
Short Term Borrowing[1]	0.5	0.0	0.5	<0.5%/<1year
Long Term Borrowing – PWLB	301.4	11.5	289.9	3.55%/30.1yrs
Long Term Borrowing – Market	30.0	0.0	30.0	4.18%/19.0yrs
TOTAL BORROWING	331.9	11.5	320.4	3.60%/27.3yrs
Other Long Term Liabilities	34.5	0.5	34.0	
TOTAL EXTERNAL DEBT	366.4	12.0	354.4	
Increase/ (Decrease) in Borrowing £m			(12.0)	

The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/2014 was estimated at £437.3m. However, this includes £34m PFI debt and various adjustments for which borrowing is not normally needed, and the Council's maximum borrowing requirement during the year was £299.9m, and was £291.4m at the end of the year.

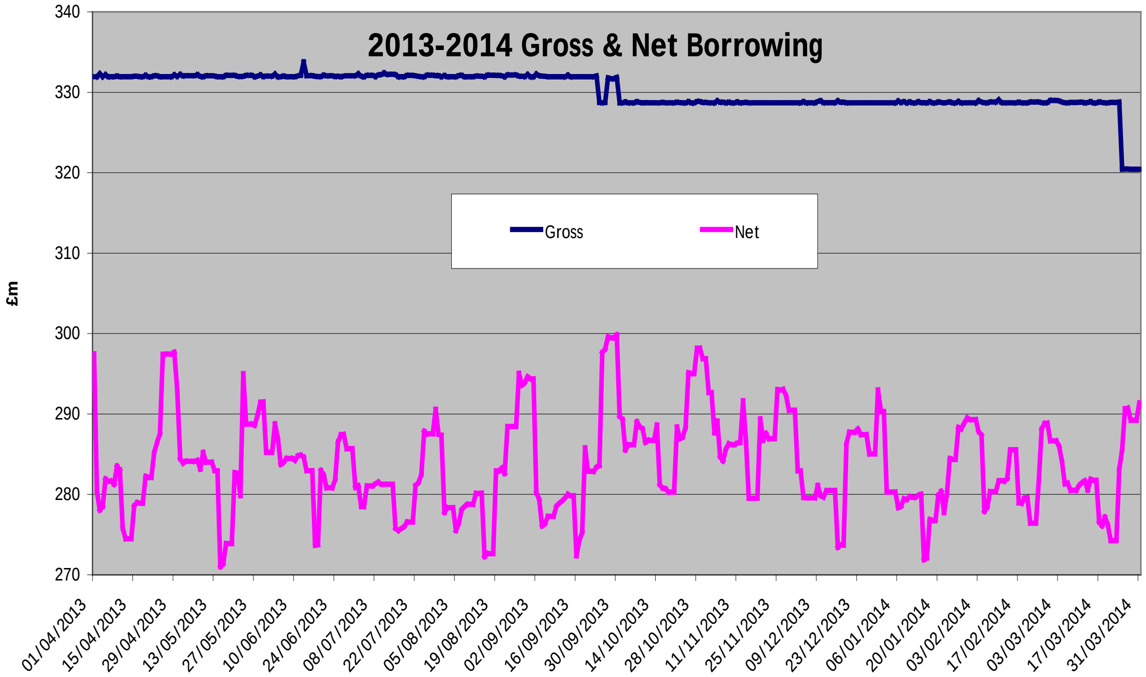
When considering borrowing money, the Council's main objective is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective. No new loans were arranged during 2013/14 as the Council already had in place sufficient long term borrowing to meet its needs. The PWLB remains the Council's preferred source of borrowing given the transparency and control that its facilities continue to provide.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

In practice, the Council's need to borrow during the year varies; the graph shows gross and net (after investments) borrowing throughout the year. Whilst the gross borrowing fell steadily from over £334m to £320m during the year, the position net of investments fluctuated more significantly each month, as illustrated in the first graph.

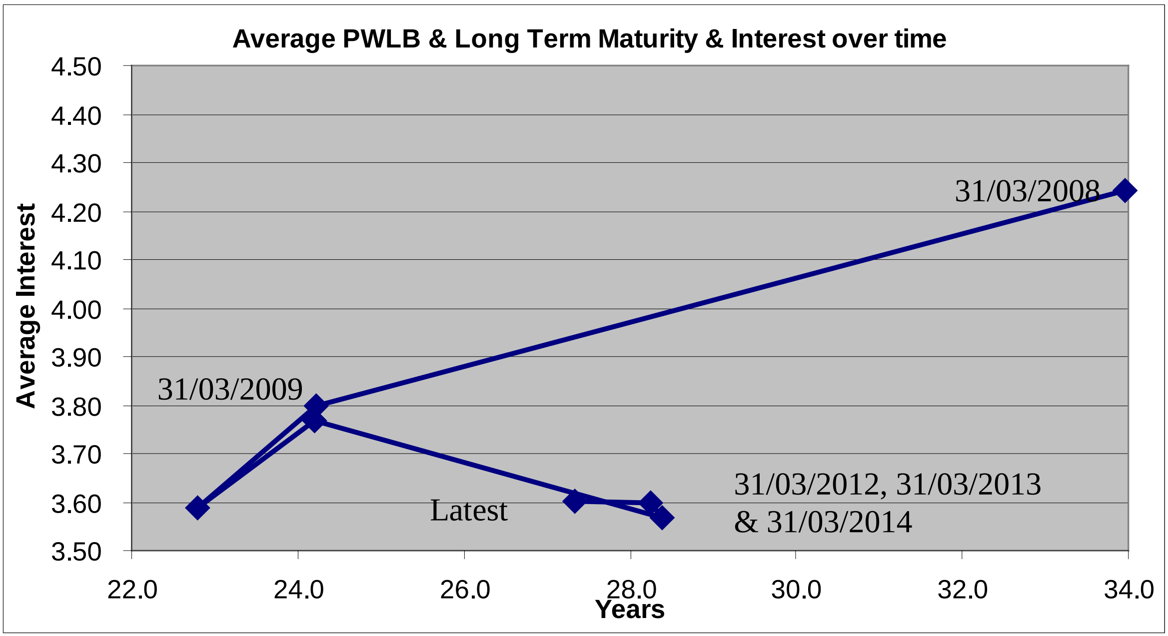
The average interest rate paid has been stable at around 3.6% for about 4 years. Prior to that time it was possible to cost effectively restructure debt, illustrated by the second graph that shows how the average rate paid fell from over 4.2% back in 2008 to around 3.6% today.

[1] Loans with maturities less than 1 year.



Loans at Variable Rates

The extent of variable rate borrowing the Council can potentially undertake is influenced by the level of reserves and balances, as well as interest rates. The uncertain interest rate outlook further supported the case for maintaining some variable rate debt, though this is limited to the short term borrowing and £4.8m PWLB borrowing. At present any upward move in interest rates and interest paid on variable rate debt is effectively ‘hedged’ by a corresponding increase in interest earned on the Council’s variable rate investments. The interest rate risk associated with the Council’s variable rate exposure is periodically reviewed with our treasury advisor. When appropriate this exposure will be reduced by replacing the variable rate loans with fixed rate loans.



Internal Borrowing

Given the significant funding pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio. The differential between the cost of new longer-term debt and the return generated on the Council's temporary investment returns, dependent upon the borrowing duration was at least 1%, (rising to over 3% for a 50 year term). Therefore, the use of internal resources in lieu of borrowing up to the CFR was more cost effective means of managing the treasury position. For the time being, this has lowered overall treasury risk by reducing both external debt and temporary investments. Whilst this position is expected to continue in 2014/15, it will not be sustainable over the medium term. The Council expects it will need to borrow over £90m for capital purposes by 2016/17 (as was set out in the Treasury Strategy Statement).

Lender's Option Borrower's Option Loans (LOBOs)

No option to change the terms on the £30m of the Council's LOBOs was exercised by the lender(s). LOBO loans are shown (in the maturity structure in Annex 2 as (possibly) maturing on the earliest date on which the lender can require payment, i.e. the next call date, although in the current interest rate environment this seems unlikely.

3. Investment Activity

Both the CIPFA and the CLG's Investment Guidance require the Authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.

Investments	Balance on 01/04/2013 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2014 £m	Avg Rate % / Avg Life (yrs)
Short Term Investments	5.0	61.0	45.0	21.0	0.8
Call Accounts	11.5	Changes daily		8.0	0.7
Long Term Investments	0.0	0.0	0.0	0.0	0.0
Long Term (tradeable) Corporate Bond	4.9	0.0	0.0	4.9	3.4
Money Market Funds	13.0	10.7	23.7	0.0	0.4
TOTAL INVESTMENTS	34.4			33.9	

Security of capital remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK.

Investments with banks were primarily call accounts or fixed-rate term deposits. The maximum duration of these investments was 363 days in line with the prevailing credit outlook during the year as well as market conditions.

Credit developments and credit risk management

The Authority assessed and monitored counterparty credit quality 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 and share price. The minimum long-term counterparty credit rating determined by the Authority for the 2013/14 treasury strategy was [A-] across rating agencies Fitch, S&P and Moody's.

The debt crisis in Cyprus was resolved by its government enforcing a 'haircut' on unsecured investments and bank deposits over €100,000. This resolution mechanism, in stark contrast to the bail-outs during the 2008/2009 financial crisis, sent shockwaves through Europe but allowed banking regulators to progress reform which would in future force losses on investors through a 'bail-in' before taxpayers were asked to support failing banks.

The Financial Services (Banking Reform) Act 2013 gained Royal Assent in December, legislating for the separation of retail and investment banks and for the introduction of mandatory bail-in in the UK to wind up or restructure failing financial institutions. EU finance ministers agreed further steps towards banking union, and the Single Resolution Mechanism (SRM) for resolving problems with troubled large banks which will shift the burden of future restructurings/rescues to the institution's shareholders, bondholders and unsecured investors.

Proposals were also announced for EU regulatory reforms to Money Market Funds which may result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper in the future.

The material changes to UK banks' creditworthiness were (a) the strong progress made by the Lloyds Banking Group in strengthening its balance sheet, profitability and funding positions and the government reducing its shareholding in the Group to under 25%, (b) the announcement by Royal Bank of Scotland of the creation of an internal bad bank to house its riskiest assets (this amounted to a material extension of RBS' long-running restructuring, further delaying the bank's return to profitability) and (c) substantial losses at Co-op Bank which forced the bank to undertake a liability management exercise to raise further capital and a debt restructure which entailed junior bondholders being bailed-in as part of the restructuring.

In July Moody's placed the A3 long-term ratings of Royal Bank of Scotland and NatWest Bank and the D+ standalone financial strength rating of RBS on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Authority reduced its duration to overnight for new investments with the bank(s). In March Moody's downgraded the long-term ratings of both banks to Baa1. As this rating is below the Authority's minimum credit criterion of A-, the banks were withdrawn from the counterparty list for further investment.

The Co-op's long-term ratings were downgraded by Moody's and Fitch to Caa1 and B respectively, both sub-investment grade ratings. The Co-op Bank's capital raising plans to plug a capital shortfall include a contribution from the Co-op Group which is committed to injecting £313m in 2014 of which £50m has been paid so far (as at 16 April 2014). However, in order to cover future expected losses and to meet the Prudential Regulation Authority's capital targets, a further £400m is being sought from shareholders, of which Co-operative Group's share is approximately £120m. Given the Co-op Group's own financial position, payment of these sums is by no means certain, leaving the bank with a precarious capital position.

The Authority's counterparty credit quality has weakened slightly as demonstrated by the Credit Score Analysis summarised below[2]. This weakening was due to counterparties being downgraded during the year including the removal of Royal Bank of Scotland from the Council's Lending List as it fell below the minimum A- credit rating. This meant that although the Value Weighted Average Credit Rating was maintained at A+ over the year, the Time Weighted Average Credit rating fell from AA+ to AA-.

The table 4 in Annex 3 explains the credit score.

Credit Score Analysis 2013/14

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/2013	4.90	A+	2.48	AA+	111
30/06/2013	6.04	A	5.70	A	97
30/09/2013	5.34	A+	4.08	AA-	153
31/12/2013	5.53	A	3.89	AA-	92
31/03/2014	5.36	A+	4.12	AA-	85

Liquidity Management

In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds/overnight deposits/call accounts. The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed.

Yield

The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels (as shown in Annex 3) which continued to have a significant impact on investment income. The average 3-month LIBID rate during 2013/14 was 0.45%, the 6-month LIBID rate averaged 0.53% and the 1-year LIBID rate averaged 0.78%. The low rates of return on the Authority's short-dated money market investments reflect prevailing market conditions and the Authority's objective of optimising returns commensurate with the principles of security and liquidity.

Income earned on one c£5m longer-dated investments made in 2009/10 at an average rate of 3.4% provided some cushion against the low interest rate environment. This investment is due to run to December 2014.

The average cash balances representing a mix of reserves, working balances was £45.6m (varying between £29m and over £60m and during the year interest earned was £472k.

4. Compliance

The Council complied with its Prudential Indicators for 2013/14, which were approved on 26/02/2013 as part of the Authority's Treasury Management Strategy Statement.

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 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.

The Authority also confirms that during 2013/14 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

5. Other Items

Authority's Banker: The Co-operative Bank is currently the Authority's banker, but during the year announced that it was leaving the local authority market. Following a tendering exercise with 5 other authorities led by Southampton City Council, Lloyds Bank has been selected to replace the Co-Op. It is expected that most banking arrangements will be changed over to Lloyds during the second half of 2014/15.

Because of some residual concerns about the Co-Op's stability, on advice of the treasury advisor, in order to mitigate risk of losses due to weekend regulatory action by the Bank of England, the Authority makes every effort to keep the ledger balance in each Co-op current account (including school accounts) at close to zero at close of business each Friday.

Municipal Bonds Agency: The LGA announced their intention to establish a collective bond agency during 2013/14. As explained in the 2014/15 Treasury Strategy Statement the agency aspires to be able to arrange local authority borrowing at market rates slightly below present PWLB rates. It was also explained that the agency would establish a clear market rate for (collective) local authority long term borrowing, which would prevent PWLB rates being increased unfairly. In the statement we identified that it would be reasonable to invest 0.1% of our expected longer term borrowing costs in such an agency which would incur a maximum initial cost of £40k. Through its Project Group for the prospective agency, the company the LGA has set up is now seeking investment commitments, and a parallel Decision Book Report being published confirms our £40k investment. The Head of Finance sits on the Project Group as a representative Unitary Treasurer.

Training: The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

Annex 1: Debt and Investment Portfolio Position 31/3/2014

	31/3/2014 Actual Portfolio £m	31/3/2014 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	**285.1**	**3.54**
PWLB – Variable Rate	**4.8**	**0.57**
LOBO Loans	**30.0**	**4.18**
Total External Borrowing	**319.9**	
Other Long Term Liabilities:		
PFI & Finance Leases	**34.0**	
Total Gross External Debt	**353.9**	
Investments:		
Short-term investments	**29.0**	**0.7**
Long-term investments	**4.9**	**3.4**
Total Investments	**33.9**	
Net Debt	**320.0**	

Annex 2

(a) Capital Financing Requirement (CFR)

Estimates of the Authority's cumulative maximum external borrowing requirement for 2013/14 to 2015/16 are shown in the table below:

Capital Financing Requirement	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
General Fund	210.4	212.7	**207.6**	233.7	267.3
HRA	232.7	230.2	**230.7**	231.6	229.8
Total CFR	**443.1**	**442.9**	**438.3**	**465.3**	**497.1**

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Borrowing	409.1	320.5	**320.4**	345.9	378.5
Finance leases	0.0	1.0	**0.0**	1.0	1.0
PFI liabilities	34.0	34.1	**34.0**	33.4	32.6
Total Debt	**443.1**	**355.6**	**354.4**	**380.3**	**412.1**

(b) Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. There were no breaches to the Authorised Limit or Operational Boundary during 2013/14; borrowing at its peak was £334m (with £34m PFI liability).

	Operational Boundary (Approved) 31/03/2014	Authorised Limit (Approved) 31/03/2014	**Actual External Debt 31/03/2014**
Borrowing	390	400	320.4
Other Long-term Liabilities	40	40	34
Total	**430**	**440**	**354.4**

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

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed.

	Approved Limits for 2013/14 (%)	Maximum during 2013/14 (%)
Upper Limit for Fixed Rate Exposure	125	122.5
Upper Limit for Variable Rate Exposure	50	-7

(d) 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.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	**Actual Fixed Rate Borrowing at 31/03/2014 £m**	% Fixed Rate Borrowing at 31/03/2014
under 12 months	25	0	**31.5**	9.9
12 months and within 24 months	25	0	**14.5**	4.5
24 months and within 5 years	25	0	**17.5**	5.5
5 years and within 10 years	25	0	**18.9**	5.9
10 years and within 20 years	100	40	**38.5**	12.0
20 years and within 30 years	100		**37.0**	11.6
30 years and within 40 years	100		**89.0**	27.8
40 years and within 50 years	100		**73.0**	22.8

(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 LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date[3], so £25m of the under 12 month maturity is unlikely to actually be repaid within that period).

(e) 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 Authority tax and in the case of the HRA, housing rent levels.

Capital Expenditure	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Non-HRA	69.2	67.0	54.3	58.8	16.9
HRA	9.0	7.4	5.7	7.7	6.9
Total	**78.2**	**74.4**	**59.0**	**66.5**	**23.8**

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

Capital Financing	31/03/2014 Approved £m	31/03/2014 Revised £m	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Capital Receipts/Other	11.1	10.4	10.0	11.6	6.9

[3] Page 15 of the Guidance Notes to the 2011 CIPFA Treasury Management Code

Government Grants	21.7	23.6	18.4	8.5	4.2
S106 contributions	2.0	3.0	3.5	4.5	1.3
Total Financing	34.8	37.0	31.9	**24.6**	**12.4**
Borrowing	43.4	37.4	27.1	41.9	11.4
Total Financing and Funding	**78,2**	**74.4**	**59.0**	**66.5**	**23.8**

(f) 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, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/2014 Approved %	**31/03/2014 Revised %**	**31/03/2014 Actual %**	31/03/2015 Estimate %	31/03/16 Estimate %
Non-HRA	8.9	8.8	8.7	9.9	12.3
HRA	28.1	26.9	27.2	26.9	27.0

(g) Upper Limit for Total Principal Sums Invested Over 364 Days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	**2013/14 Approved £m**	**2013/14 Actual £m**
	30	**5**

(h) HRA Limit on Indebtedness (England Only)

The Council's limit is £208.5m, and at the start of the year the debt was £199m falling to just under £195m at the end of the year.

Annex 3

The average, low and high rates correspond to the rates during the financial year rather than only those in the tables below

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2013		0.50		0.40	0.50	0.40	0.44	0.51	0.75	0.59	0.68	0.97
30/04/2013		0.50		0.50	0.47	0.40	0.44	0.51	0.75	0.57	0.64	0.91
31/05/2013		0.50		0.38	0.42	0.40	0.44	0.51	0.75	0.68	0.82	1.15
30/06/2013		0.50		0.43	0.38	0.40	0.44	0.51	0.75	0.78	0.99	1.52
31/07/2013		0.50		0.42	0.50	0.40	0.44	0.51	0.75	0.68	0.86	1.39
31/08/2013		0.50		0.43	0.41	0.41	0.44	0.51	0.76	0.81	1.10	1.71
30/09/2013		0.50		0.38	0.38	0.41	0.44	0.51	0.76	0.83	1.12	1.73
31/10/2013		0.50		0.38	0.38	0.42	0.45	0.53	0.80	0.79	1.07	1.66
30/11/2013		0.50		0.38	0.36	0.42	0.45	0.54	0.81	0.80	1.11	1.76
31/12/2013		0.50		0.35	0.35	0.42	0.45	0.54	0.81	1.00	1.43	2.13
31/01/2014		0.50		0.36	0.41	0.42	0.45	0.55	0.82	0.94	1.34	1.95
28/02/2014		0.50		0.36	0.40	0.42	0.45	0.60	0.83	0.98	1.34	1.95
31/03/2014		0.50		0.35	0.39	0.42	0.46	0.56	0.84	1.05	1.45	2.03
Minimum		0.50		0.30	0.35	0.40	0.44	0.51	0.75	0.55	0.62	0.87
Average		**0.50**		0.40	0.41	0.41	0.45	0.53	0.78	0.81	1.08	1.63
Maximum		0.50		0.50	0.50	0.45	0.53	0.65	0.84	1.05	1.47	2.17
Spread		--		0.20	0.15	0.05	0.09	0.14	0.09	0.5	0.85	1.29

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans (Standard Rate)

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2013	125/13	1.11	1.74	2.83	3.87	4.18	4.25	4.22
30/04/2013	166/13	1.16	1.72	2.72	3.74	4.06	4.13	4.08
31/05/2013	208/13	1.26	1.97	3.03	3.99	4.29	4.36	4.33
30/06/2013	248/13	1.22	2.34	3.49	4.30	4.52	4.56	4.54
31/07/2013	293/13	1.21	2.22	3.43	4.29	4.50	4.52	4.50
31/08/2013	335/13	1.28	2.53	3.74	4.43	4.54	4.54	4.53
30/09/2013	377/13	1.30	2.50	3.66	4.36	4.49	4.50	4.48
31/10/2013	423/13	1.29	2.43	3.55	4.27	4.42	4.42	4.40
30/11/2013	465/13	1.34	2.60	3.78	4.47	4.57	4.55	4.53
31/12/2013	503/13	1.38	2.96	4.08	4.60	4.64	4.61	4.59
31/01/2014	044/14	1.36	2.75	3.77	4.39	4.49	4.45	4.43
28/02/2014	084/14	1.37	2.76	3.78	4.39	4.49	4.47	4.45
31/03/2014	126/14	1.46	2.87	3.84	4.43	4.53	4.51	4.49
	Low	1.11	1.70	2.71	3.71	4.02	4.08	4.04
	Average	1.30	2.46	3.58	4.32	4.48	4.49	4.46
	High	1.46	3.00	4.11	4.63	4.71	4.72	4.71

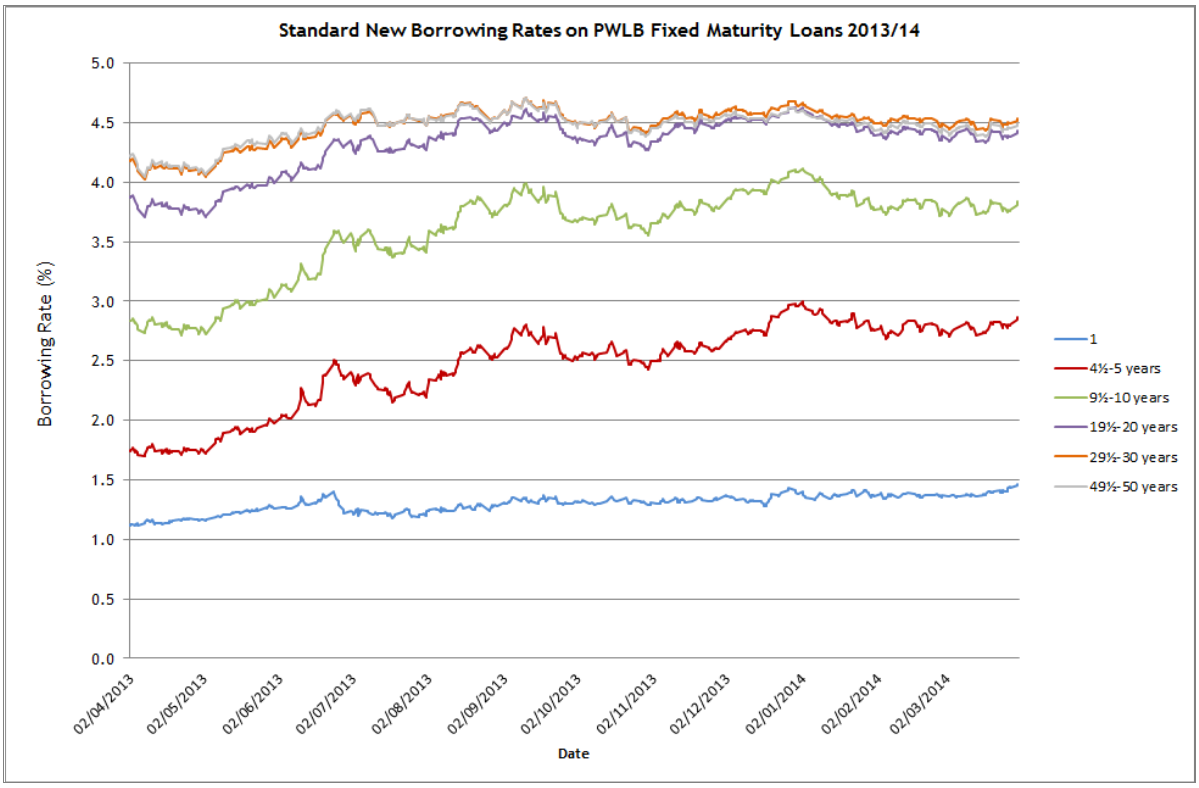


Table 3: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR			Post-CSR (Standard Rate)		
02/04/2013	0.5700	0.5600	0.5500	1.4700	1.4600	1.4500
28/06/2013	0.5600	0.5600	0.5600	1.4600	1.4600	1.4600
30/09/2013	0.5700	0.5700	0.5700	1.4700	1.4700	1.4700
31/12/2013	0.5700	0.5700	0.5700	1.4700	1.4700	1.4700
31/03/2014	0.5500	0.5600	0.5700	1.4500	1.4600	1.4700
Low	0.5500	0.5500	0.5400	1.4500	1.4500	1.4400
Average	0.5653	0.5641	0.5630	1.4653	1.4641	1.4630
High	0.5800	0.5700	0.5800	1.4700	1.4700	1.4800

Table 4: Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

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

The Authority aimed to achieve a score of 7 or lower, to reflect the Authority's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.