READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**8 JULY 2015**	**AGENDA ITEM:**	**8**
TITLE:	**TREASURY OUTTURN REPORT FOR 2014/15 & RELATED UPDATE**		
LEAD COUNCILLOR:	**COUNCILLOR LOVELOCK**	**PORTFOLIO:**	**LEADERSHIP/FINANCE**
SERVICE:	**ALL**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**ALAN CROSS**	**TEL:**	**0118 9372058**
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 2014/15. 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 2014/15; the establishment of the Municipal Bonds Agency, and further work currently taking place to review aspects of our treasury approach as part of our developing budget strategy.

2. RECOMMENDED ACTION

2.1 That the committee considers the annual Treasury Outturn Report for 2014/15.

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, particularly the Corporate Strategic Objective of remaining financially sustainable.

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 (& related papers associated with the Municipal Bonds Agency, save confidential and legally privileged items.

Annual Treasury Outturn Report 2014/15

1. Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end). The Council's Treasury Management Strategy for 2014/15 was approved as part of the budget in February 2014.

We have borrowed and invested substantial sums of money and are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

The 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 2014/15

- 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)

Growth and Inflation: The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to $44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

Labour Market: The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

UK Monetary Policy: The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn throughout 2014/15. Over the year, it's members held a wide range of views, notably on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

Political uncertainty, particularly in the run up to the General Election had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets in the first half of the year, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament.

On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20% (i.e. it cost European banks to deposit money with the ECB). The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with ‘tapering’, i.e. a reduction in asset purchases by $10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough the weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word “patient” from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

Market reaction: From July, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission though into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

Local Context

At 31/03/2015 the Authority’s underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £441m. However, this includes £34.25m PFI debt and various adjustments for which borrowing is not normally needed, and the Council’s maximum borrowing requirement during the year was around £282.3m, and was £277.9m at the end of the year.

Our current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to normally holding a minimum investment balance (for cash flow management reasons) of around £10m. We expect to have an increasing CFR over the next 3 years due to the need to fund some of the capital programme from new borrowing. In February our treasury strategy estimated that around £75m new borrowing would be needed over the next three years.

<u>Borrowing Strategy</u>

At 31/03/2015 the Council had £314m of loans, (a reduction of £6m on the 31/03/2014 position) as consequence its historic strategy for funding previous years’ capital programmes.

The chief objective when borrowing 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, with flexibility to renegotiate loans should the Authority’s long-term plans change being a secondary objective.

Affordability and the “cost of carry” remained important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain at least over the next two years, it was more cost effective in the short-term to use internal resources/existing loans. Arlingclose assists us with ‘cost of carry’ and breakeven analysis. A summary of 2014/15 activity is

Borrowing Activity in 2014/15

	Balance on 01/04/2014 £m	Maturing Debt £m	Balance on 31/03/2015 £m	Ave Rate % and Ave Life (yrs)
Short Term Borrowing[1]	0.5	0.0	0.5	<0.5%/<1year
Long Term Borrowing – PWLB	289.9	6.7	283.2	3.56%/30.6yrs
Long Term Borrowing – Market	30.0	0.0	30.0	4.18%/55.2yrs
TOTAL BORROWING	320.4	6.7	313.7	3.61%/32.9yrs
Other Long Term Liabilities	34.0	0.2	33.8	
TOTAL EXTERNAL DEBT	354.4	6.9	347.5	
Increase/ (Decrease) in Borrowing £m			(6.7)	

LOBOs: The Council has £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £25m of these LOBOS had options during the year, none of which were exercised by the lender.

Debt Rescheduling: The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence. There has been no significant change in the debt portfolio over the year; the average maturity period slightly reducing through the passage of time.

Abolition of the PWLB: In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The authority intends to use the PWLB's replacement as a potential source of borrowing if required.

[1] Loans with maturities less than 1 year.

Investment Activity

The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2014/15 the Authority's investment balances have ranged between £32m and £77 million.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2014/15

Investments	Balance on 01/04/2014 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2015 £m	Avg Rate % / Avg Life (yrs)
Short Term Investments	21.0	46.0	52.0	15.0	0.40
Call Accounts	8.0	Changes daily		3.3	0.76
Long Term Investments	0.0	5.0	0.0	5.0	>3.00
Long Term (tradeable) Corporate Bond	4.9	0.0	4.9	0.0	-
Money Market Funds	0.0	Changes weekly, sometimes daily		11.1	0.40
TOTAL INVESTMENTS	33.9			34.4	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in the Treasury Management Strategy Statement for 2014/15, which was developed in the 2015/16 strategy with an initial £5m long term investment in the CCLA Property Fund.

Counterparty credit quality was assessed and monitored with reference to credit ratings. Normally the Council's minimum long-term counterparty rating was A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk
Counterparty credit quality as measured by credit ratings has been summarised by Arlingclose for us as below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2014	31/03/2014	5.36	A+	4.12
30/06/2014	30/06/2014	5.46	A+	5.78
30/09/2014	30/09/2014	5.87	A	6.33
31/12/2014	31/12/2014	5.71	A	6.33
31/03/2015	31/03/2015	4.85	A+	5.32

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Counterparty Update

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish, over 2014-15 Moody's revised the Outlook of several UK and EU banks from Stable to Negative (note, this is not the same as a rating review negative) and S&P placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries' early adoption of the bail-in regime in the BRRD.

S&P also revised the Outlook for major Canadian banks to negative following the government's announcement of a potential bail-in policy framework.

The Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank's liabilities might work in practice. The Bank of England will act if, in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as a bail-in takes place.

The combined effect of the BRRD and the UK's Deposit Guarantee Scheme Directive (DGSD) is to promote deposits of individuals and SMEs above those of public authorities (i.e. including local authorities), large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.

In December the Bank's Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock and to a sharp rise in interest rates and address the risks to the UK's financial stability. Institutions which 'passed' the tests but would be at risk in the event of a 'severe economic downturn' were Lloyds Banking Group and Royal Bank of Scotland. Lloyds Banking Group, [whose constituent banks are on the Authority's lending list], is taking measures to augment capital and the PRA does not require the group to submit a revised capital plan. RBS, which is not on the Authority's lending list for investments, has updated plans to issue additional Tier 1 capital. The Co-operative Bank (formerly the Council's main banker) failed the test.

The European Central Bank also published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by approximately €25bn (£20bn) in total – none of the failed banks featured on the Authority's lending list.

In October following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, Arlingclose advised a reduction in investment duration limits for unsecured bank and building society investments to counter the risk of another full-blown Eurozone crisis. Durations for new unsecured investments with banks and building societies which were previously reduced. Duration for new unsecured investments with some UK institutions was further reduced to 100 days in February 2015.

Effect on the Council of Changing Bank Regulation

The effect of the above is that were there to be a repeat of the events of 2008 in the UK banking market, the Council's deposits would be at significantly greater risk of (at least partial) loss. To mitigate this, as indicated above in the summary investment table, our approach has been to reduce the exposure (i.e. value lent) and duration (i.e. placing shorter term deposits) to individual banks and more of our money has been placed in money market funds, which spreads the risk for an equivalent return. Later in the year, as we developed our 2015/16 treasury strategy we widened the money market funds we used to include a variable net asset value fund with an extra day's notice (but the expectation we'll need to hold our investment for at least 6 months), and at the very year end we invested £5m in the CCLA Property Fund where we expect a 3-5% yield (but expect to hold the investment for at least 5 years).

Budgeted Income and Outturn

The average cash balances invested were £56m during the year. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). New deposits were made at an average rate of 0.71%. Investments in Money Market Funds generated an average rate of 0.42%.

Our investment income for the year was £457k; on average we earned 0.82% (but to some extent this yield was boosted by a legacy guaranteed bank bond investment that matured in year yielding 3.4%.

Compliance with Prudential Indicators

Our Prudential Indicators for 2014/15 were set in as part of the Authority's Treasury Management Strategy Statement in February 2014.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to manage exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures are expressed as the proportion of net principal borrowed. We have been anticipating that the indicator should fall over time as we use up the money we have borrowed historically to fund the capital programme. However, because of the front loaded nature of many of our cash flows we have slightly breached the limit we set of 120%.

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposure	120%	120%	120%
Actual	113%-132% Ave. 123%		
Upper limit on variable interest rate exposure	50%	50%	50%
Actual	Max. -14%		

In practice it was not reasonable to take action to mitigate this breach, as the options would have been to prematurely repay a fixed rate loan, or make a fixed term deposit longer than our advice permitted.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are normally classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual 31 March
Under 12 months	25%	0%	13%
12 months and within 24 months	25%	0%	2%
24 months and within 5 years	25%	0%	5%
5 years and within 10 years	25%	0%	5%
10 years and within 20 years	100%	40%	12%
20 years and within 30 years	100%		12%
30 years and within 40 years	100%		28%
40 years and within 50 years	100%		23%
50 years and above	100%		0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment, with LOBO option dates treated as potential repayment dates.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£20m	£10m	£10m
Actual	£5m	-	-

Note that the longer term CCLA Property Fund and Variable Asset Money Market Fund investments mentioned above can be sold at short notice (1 month/2 days).

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. (A low score implies lower credit risk, but may not be compatible with a reasonable return for the level of risk implied by our strategy).

	Target	Actual
Portfolio average credit score	6.0	4.85

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 3 months (above estimated cash flow requirements)	£10m	Met throughout the year, except for 1 week when we borrowed £5m short term

Investment & Treasury Training

During the year there was a reorganisation of responsibilities within the Finance Function, and the officer dealing with Treasury issues on a day to day basis changed. The new incumbent received initial training from her predecessor, overseen by senior officers and has attended appropriate training seminars provided by our treasury advisor, Arlingclose to become familiar with the role. Arlingclose seminars on current treasury issues are a regular and important part of our treasury advice service. We also have membership of the CIPFA Treasury Management Network.

Municipal Bond Agency

During the year, along with 35 other authorities and the LGA the Council became a founder shareholder in the Municipal Bond Agency, which will raise money in the financial markets and lend that money to councils at lower rates than the PWLB. We are currently working with several other authorities and the Agency to agree the final form of documentation, and take legal advice on those arrangements (which involve a cross guarantee between borrowers to provide assurance to the market, and secure the best rate). The final details will be reported to Policy Committee in due course

Appendix 1

Prudential Indicators 2014/15

The Local Government Act 2003 requires the Authority to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Authority's original planned capital expenditure, probable (from February's Council Report) and actual may be summarised as follows

Capital Expenditure and Financing	2014/15 Estimate £m	2014/15 Probable £m	2014/15 Actual £m
General Fund	**70.4**	60.0	52.1
HRA	**12.6**	9.5	8.7
Total Expenditure	**83.0**	**69.5**	**60.8**
Capital Receipts & MRA	13.2	16.7	14.8
Government Grants	34.9	32.5	26.6
S106	1.1	1.9	2.2
Revenue (Schools & Other)			1.2
Borrowing	33.8	18.4	16.0
Total Financing	**83.0**	**69.5**	**60.8**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31.03.15 Revised Forecast £m**	**31.03.15 Actual £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**
General Fund	**214.0**	**214.5**	**243.5**	**263.0**
HRA	**194.2**	**192.6**	**196.3**	**200.0**
Total CFR	**408.2**	**407.1**	**439.8**	**463.0**

The CFR is forecast to rise by just over £50m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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	**31.03.15 Revised £m**	**31.03.15 Actual £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**
Borrowing	**316.7**	**313.7**	336.8	363.5
Finance leases	**1.0**	**1.0**	0.9	0.8
PFI liabilities	**33.7**	**33.7**	32.8	31.8
Total Debt	**351.4**	**348.4**	**370.5**	**396.1**

Total debt is expected to remain below the CFR during the forecast period. The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2014/15 £m	2014/15 Maximum £m	2015/16 £m	2016/17 £m
Borrowing	390	322.2	400	400
Other long-term liabilities	40	34.1	40	40
Total Debt	**430**	**356.3**	**440**	**440**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act. 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.

Authorised Limit	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	400	410	410
Other long-term liabilities	40	40	40
Total Debt	**440**	**450**	**450**

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	2014/15 Approved %	2014/15 Revised %	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %
General Fund	9.9	9.3	**9.4**	10.1	12.5
HRA	26.9	26.3	**25.6**	25.9	25.7

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the (notional) impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme delivered (actual) or proposed.

Incremental Impact of Capital Investment Decisions	**2014/15 Budget Estimate £**	**2014/15 Revised Estimate £**	**2015/16 Estimate £**	**2015/16 Estimate £**	**2016/17 Estimate £**
Incremental Impact of Capital Investment Decisions					
Increase in Band D Council Tax (in-year)	11.69	6.81	5.33	15.80	10.30
Increase in Band D Council Tax (on-going)	49.34	28.75	22.50	66.57	43.29
Increase in Average Weekly Housing Rents	**0.63**	0.35	0.17	0.49	0.32

Money Market Data and PWLB Rates

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

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

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
01/04/2014		0.50		0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014		0.50		0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014		0.50		0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014		0.50		0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
31/07/2014		0.50		0.37	0.41	0.43	0.50	0.72	0.97	1.34	1.71	2.17
31/08/2014		0.50		0.36	0.42	0.43	0.50	0.77	0.98	1.22	1.53	1.93
30/09/2014		0.50		0.43	0.45	0.43	0.51	0.66	1.00	1.25	1.57	1.99
31/10/2014		0.50		0.40	0.43	0.43	0.51	0.66	0.98	1.10	1.38	1.78
30/11/2014		0.50		0.35	0.50	0.43	0.51	0.66	0.97	0.93	1.15	1.48
31/12/2014		0.50		0.43	0.48	0.42	0.51	0.66	0.97	0.92	1.12	1.44
31/01/2015		0.50		0.45	0.45	0.43	0.51	0.66	0.95	0.83	0.98	1.18
28/02/2015		0.50		0.43	0.47	0.43	0.51	0.66	0.96	0.99	1.22	1.53
31/03/2015		0.50		0.50	0.62	0.43	0.51	0.74	0.97	0.88	1.06	1.34
Average		**0.50**		**0.39**	**0.44**	**0.43**	**0.50**	**0.67**	**0.95**	**1.09**	**1.38**	**1.79**
Maximum		**0.50**		**0.50**	**0.62**	**0.43**	**0.51**	**0.81**	**1.00**	**1.38**	**1.77**	**2.26**
Minimum		**0.50**		**0.24**	**0.36**	**0.42**	**0.46**	**0.56**	**0.84**	**0.80**	**0.96**	**1.18**
Spread		**--**		**0.26**	**0.26**	**0.01**	**0.05**	**0.25**	**0.16**	**0.58**	**0.81**	**1.08**

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

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.30	4.40	4.36	4.34
31/07/2014	294/14	1.66	2.96	3.70	4.21	4.30	4.27	4.25
31/08/2014	334/14	1.55	2.70	3.38	3.88	3.97	3.94	3.93
30/09/2014	378/14	1.57	2.77	3.46	3.96	4.07	4.05	4.03
31/10/2014	424/14	1.44	2.54	3.27	3.86	3.99	3.97	3.96
30/11/2014	465/14	1.39	2.27	2.94	3.54	3.68	3.66	3.65
31/12/2014	508/14	1.32	2.19	2.80	3.39	3.53	3.50	3.49
31/01/2015	042/15	1.30	1.94	2.44	2.98	3.12	3.08	3.06
28/02/2015	082/15	1.37	2.24	2.83	3.37	3.50	3.46	3.45
31/03/2015	126/15	1.31	2.06	2.65	3.20	3.33	3.29	3.28
	Low	1.28	1.91	2.38	2.94	3.08	3.03	3.02
	Average	1.47	2.56	3.28	3.85	3.96	3.93	3.92
	High	1.69	3.07	3.86	4.42	4.52	4.49	4.48

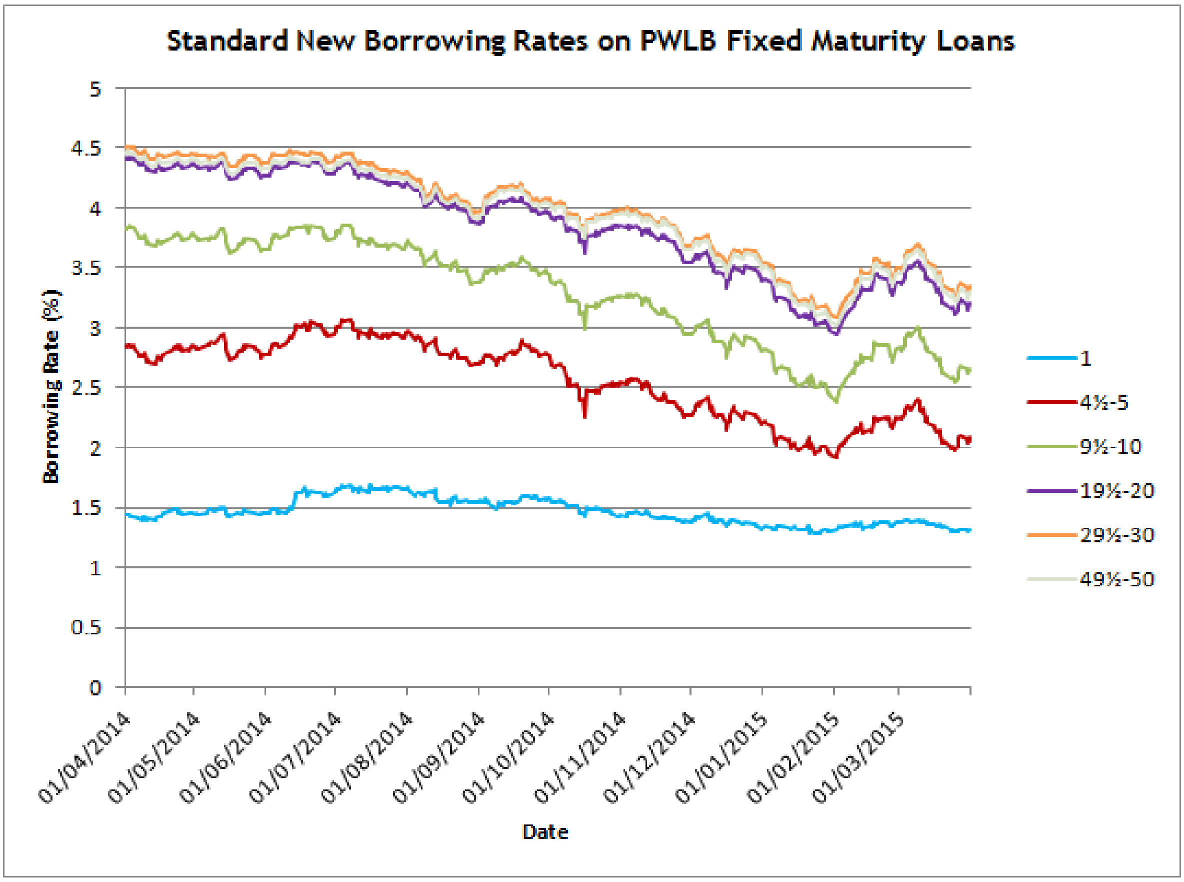

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.20	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.30	4.38
31/07/2014	294/14	2.32	3.02	3.73	4.05	4.21	4.28
31/08/2014	334/14	2.13	2.75	3.40	3.72	3.89	3.95
30/09/2014	378/14	2.18	2.82	3.48	3.79	3.97	4.05
31/10/2014	424/14	1.97	2.59	3.29	3.66	3.86	3.96
30/11/2014	465/14	1.79	2.31	2.96	3.32	3.54	3.65
31/12/2014	508/14	1.72	2.23	2.82	3.17	3.39	3.50
31/01/2015	042/15	1.59	1.98	2.45	2.77	2.99	3.10
28/02/2015	082/15	1.78	2.29	2.84	3.16	3.38	3.48
31/03/2015	126/15	1.62	2.10	2.67	2.99	3.21	3.31
	Low	1.58	1.94	2.40	2.72	2.95	3.06
	Average	1.99	2.61	3.31	3.66	3.85	3.94
	High	2.39	3.13	3.89	4.26	4.43	4.50

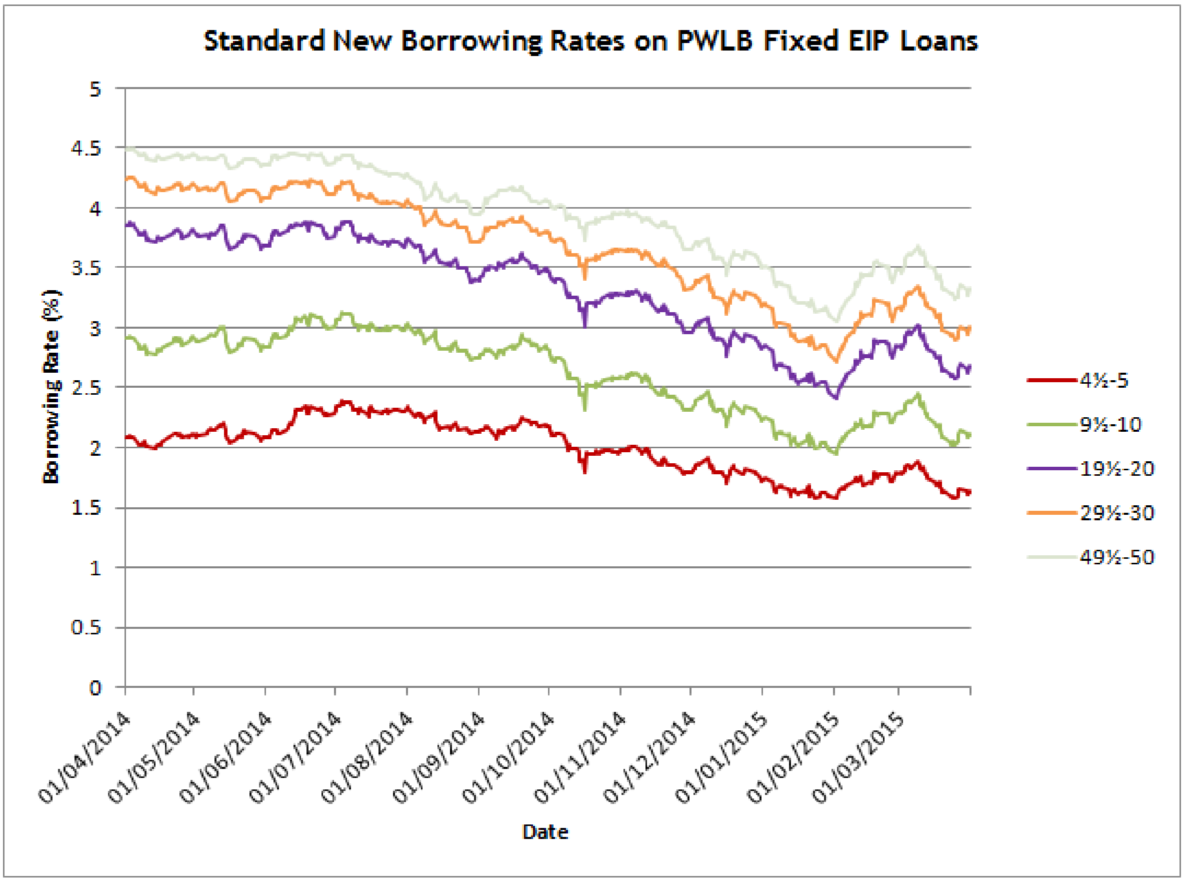

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57
31/07/2014	0.58	0.61	0.69	1.48	1.51	1.59
31/08/2014	0.58	0.62	0.72	1.48	1.52	1.62
30/09/2014	0.64	0.68	0.75	1.54	1.58	1.65
31/10/2014	0.61	0.63	0.68	1.51	1.53	1.58
30/11/2014	0.58	0.64	0.69	1.48	1.54	1.59
31/12/2014	0.60	0.62	0.66	1.50	1.52	1.56
31/01/2015	0.59	0.60	0.65	1.49	1.50	1.55
28/02/2015	0.61	0.61	0.66	1.51	1.51	1.56
31/03/2015	0.62	0.62	0.66	1.52	1.52	1.56
Low	0.55	0.56	0.57	1.45	1.46	1.47
Average	0.59	0.61	0.66	1.49	1.51	1.56
High	0.64	0.68	0.76	1.54	1.58	1.66