READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**21 JULY 2016**	**AGENDA ITEM:**	**10**
TITLE:	**TREASURY OUTTURN REPORT FOR 2015/16 & 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 2015/16. 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 2016/17; the establishment of the Municipal Bonds Agency, and the developing treasury position in the context of the Council's finances and Brexit vote.

2. RECOMMENDED ACTION

2.1 That the committee considers the annual Treasury Outturn Report for 2015/16.

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.
Papers received in connection with the establishment of Municipal Bonds Agency, save confidential and legally privileged items.

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 Authority's Treasury Management Strategy for 2015/16 was approved as part of the budget in February 2015 (which can be accessed on http://www.reading.gov.uk/media/3069/7--Appendix6-TreasuryManagementStrategyStatement2015-16/pdf).

The Authority has borrowed and invested substantial sums of money and is 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 2015/16

- 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

Treasury Management is carried out in the context of UK & global economics and markets; Arlingclose's commentary on the market is as follows;

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from $67 a barrel in May 2015 to just under $28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the April 2016 showing the employment rate at 74.2% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.0%. Wage growth has however remained modest at around 2.3% (at the year end) excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of the Brexit referendum. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result. (Immediately after the result was announced the decline was much sharper).

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. (i.e. although base rate was 0.5% throughout the year, longer term rates first rose c.0.6% then fell by slightly more). The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Local Context

At 31/03/2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £466.5, However, this includes £32.8m PFI debt and various adjustments for which borrowing is not normally needed, and the Council's net cash borrowing requirement during the year rose from £253.3m shortly after the start of the year, and was £306.4m at the end of the year, having fluctuated in the £265m-£285m range for most of the year.

At 31/03/2016, the Authority had £318.4m of borrowing and £12m of (longer term) investments. 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.

3. Borrowing Strategy

At 31/03/2016 the Council held £318.4m of loans, (an Increase of £4m on the 31/03/2015 position) as part of its strategy for funding previous years' capital programmes.

The Council's chief objective when borrowing has been 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 Council's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Council'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 forthcoming two years, lower than long-term rates, the Council determined it was more cost effective in the short-term to borrow short-term loans instead.

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with this 'cost of carry' and breakeven analysis.

A summary of 2015/16 activity is:

Borrowing Activity in 2015/16

	Balance on 01/04/2015 £m	Maturing Debt £m	New Borrowing £m	Balance on 31/03/2016 £m	Avg Rate % and Avg Life (yrs)
Short Term Borrowing[1]	0[HS1].5	3	17.5	15.0	<0.5%/<1year
Short Term Borrowing – PWLB Variable	4.8	0	0	4.8	0.77%/6 yrs
Long Term Borrowing - PWLB Fixed	278.4	9.3	0	269.1	3.62%/30.3yrs
Long Term Borrowing – Market	30.0	0	0	30.0	4.18%/54.2yrs
TOTAL BORROWING	313.7	9.5		318.9	3.63%/30.1yrs
Other Long Term Liabilities	33.8	1		32.8	
TOTAL EXTERNAL DEBT	347.5	10.5		351.7	
Increase in Borrowing £m				5.2	

LOBOs: The Council holds £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 Council 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. (Subsequent to the year end, one lender, Barclays, has indicated that it does not intend to exercise any of its future options, so the loan will remain fixed until 2055 at 3.99%).

LGA Bond Agency: The UK Municipal Bonds Agency (MBA) plc was established in 2014 by the Local Government Association (LGA) as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. The Council's Head of Finance worked closely with the LGA and MBA to set up the agency and in March Policy Committee approved the Municipal Bond Agency's framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee. It is now expected that subject to market conditions the first bond w

[1] Loans with maturities less than 1 year.

Debt Rescheduling:

The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained too expensive for debt rescheduling activity to be undertaken that would create a treasury gain, so no rescheduling was done as a consequence.

4. Investment Activity

The Council has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Council's investment balances have ranged between £12m and £66m.

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

Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2016 £m
Short term Investments	15.0	30.0	45	0.0
Call Accounts	3.3	Changes Daily, Sometime Weekly		0.0
Money Market Funds(CNAV)	11.1	Changes Daily, Sometime Weekly		0.0
Money Market Fund (VNAV)	0.0	5.0	5.0	0.0
Long term Investments (Pooled funds) - CCLA Property Fund	5.0	12.0	0.0	12.0
TOTAL INVESTMENTS	34.4			12.0
(Decrease) in Investments £m				(22.4)

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is normally A- across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

The Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2015	4.85	A+	5.32	A+
30/06/2015	5.64	A	5.84	A
30/09/2015	5.27	A+	5.33	A+
31/12/2015	4.94	A+	4.94	A+
31/03/2016	5.67	A	5.67	A

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 transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building

Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result of this the Council made the decision to suspend Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added though the Council has not made such investments. Certain non-rated UK building societies have also had extended durations for possible investment.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks. (Following the Brexit vote there have been further review of UK based banks, with a range of downgrades; we will report on these in full in the mid-year report).

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities resulted in the Council increasingly favouring secured investment options or diversified alternatives, notably the CCLA Property Fund over unsecured bank and building society deposits.

As indicated above the Council has had reducing cash available for lending; although in the treasury strategy we took a strategic decision to invest in the CCLA Property Fund, increasing our investment from the initial £5m just before 31/3/15 to £10m in April and £12m in the autumn (and to £15m in early 2016/17). Cash has been held in either money market funds (MMF) or bank deposits, mainly with Santander UK. We also had £5m in a variable net asset value MMF for several months (after taking advice, as the yield was better).

Budgeted Income and Outturn

The average cash balances were £37.7m 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). Overall the yield was just below an average rate of 1.7%, but this masked an imbalance between cash and money market funds generating an average rate of about 0.5%, and the CCLA Property Fund around 4.7%. (The latter's yield is now expected to be lower in 2016/17 and the immediate future because of the uncertainty following he Brexit vote). Overall, our investment Income for the year was £640k.

Externally Managed Funds:

As indicated above, the Council has had investments in cash plus and property funds which allow the Council to diversify into asset classes other than cash with the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated (though at the year end, had the Council ended its property fund investment here would have been a capital loss of £114k, but this is expected to be recovered in the future).

Although money can be redeemed from the property fund at each month end, the Council's intention is to hold its investent for the medium-term (possibly taking the value invested towards £20m, subject to growth of the fund overall). Their performance and suitability in meeting the Council's investment objectives are monitored regularly and discussed with Arlingclose. [HS2]

5. Compliance with Prudential Indicators

Our Prudential Indicators for 2015/16, which were set in as part of the Council's Treasury Management Strategy Statement in February 2015

Treasury Management Indicators

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

Interest Rate Exposures: This indicator is set to control the Council'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 will be:

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	120%	120%	120%
Actual Maximum	124%		
Upper limit on variable interest rate exposure	50%	50%	50%
Actual	24%		

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 classed as variable rate.

As has happened in the last couple of years the indicator maximum was briefly exceed in early April, and just before Christmas, though for most of the year was below the target limit.

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

	Upper	Lower	Actual
Under 12 months	25%	0%	14.6%
12 months and within 24 months	25%	0%	1.9%
24 months and within 5 years	25%	0%	3.7%
5 years and within 10 years	25%	0%	5.0%
10 years and above	100%	40%	74.8%

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 Council'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:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£20m	£20m	£15m
Actual	£15m		

Security: The Council 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.

	Target	**Actual**
Portfolio average credit score	*6.0*	*5.67*

Liquidity: The Council 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. We normally hold £10m for this purpose, but at times allow liquidity to fall below this level, provided market conditions are such that temporary borrowing can be undertaken at short notice. Those conditions prevailed during 2015/16, and as indicated above at the year end we had no cash and £14.5m of temporary market borrowing.

<u>Investment Training</u>

Officers involved in treasury activity periodically attend training and other events organised by Arlingclose or CIPFA.

Prudential Indicators 2015/16

The Local Government Act 2003 requires the Council 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 Council 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 Council's original planned capital expenditure, probable (from February's Council report) and actual may be summarised as follows

Capital Expenditure and Financing	2015/16 Estimate £m	2015/16 Probable £m	2015/16 Actual £m
General Fund	65.5	71.3	65.0
HRA	13.9	12.4	10.4
Total Expenditure	**79.4**	**83.7**	**75.4**
Capital & Other Receipts	13.9	13.6	8.6
Government Grants	18.1	27.8	25.4
S106	3.5	7.3	6.3
Borrowing	43.9	35.0	35.1
Total Financing	**79.4**	**83.7**	**75.4**

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

Capital Financing Requirement	31.03.16 Estimate £m	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	278.6	273.2	309.2	307.6
HRA	195.1	193.3	195.0	193.5
Total CFR	473.7	466.5	504.2	501.1

The CFR is forecast to rise by around £35m over the next couple of 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 Council 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	**31.03.16 Actual £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
Borrowing	**318.4**	347.0	354.8
Finance Leases	**0.9**	0.8	0.7
PFI liabilities	**32.8**	32.2	31.3
Total Debt	**352.1**	**380.0**	**386.8**

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 Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	**400**	400	400
Other long-term liabilities	**40**	40	40
Total Debt	**440**	**440**	**440**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003 it is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 £m	2016/17 £m	2017/18 £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	2015/16 Revised %	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
General Fund	**7.1**	**6.5**	8.8	11.4
HRA	**24.6**	**26.7**	25.8	26.2

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the 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 proposed earlier in this report.

Incremental Impact of Capital Investment Decisions	2015/16 Budget £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Increase in Band D Council Tax (in-year)	**12.58**	**12.62**	14.56	5.98
Increase in Band D Council Tax (On-Going)	**53.07**	**53.24**	61.17	25.09
Increase in Average Weekly Housing Rents	**0.10**	**0.10**	0.22	0.26

HRA Limit on Indebtedness: The Council's HRA CFR should not exceed the limit imposed by the Department for Communities and Local Government at the time of implementation of self-financing. The Council complied with this requirement.

HRA CFR Limit:	£208.5m		
	2015/16 Actual £m	**2016/17 Estimate £m**	**2017/18 Estimate £m**
HRA CFR	**193.4**	193.3	191.9

Appendix 2

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
01/04/2015		0.50		0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015		0.50		0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015		0.50		0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015		0.50		0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015		0.50		0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015		0.50		0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015		0.50		0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015		0.50		0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015		0.50		0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015		0.50		0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016		0.50		0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016		0.50		0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016		0.50		0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
Average		**0.50**		**0.38**	**0.45**	**0.43**	**0.54**	**0.76**	**0.99**	**0.96**	**1.14**	**1.43**
Maximum		**0.50**		**0.48**	**0.58**	**0.57**	**0.66**	**0.92**	**1.02**	**1.17**	**1.44**	**1.81**
Minimum		**0.50**		**0.17**	**0.35**	**0.43**	**0.51**	**0.55**	**0.84**	**0.68**	**0.73**	**0.85**
Spread		**--**		**0.31**	**0.23**	**0.14**	**0.15**	**0.37**	**0.18**	**0.49**	**0.71**	**0.96**

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
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12

	Low	1.21	1.67	2.30	3.06	3.17	3.05	3.01
	Average	1.41	2.20	2.85	3.46	3.54	3.45	3.42
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

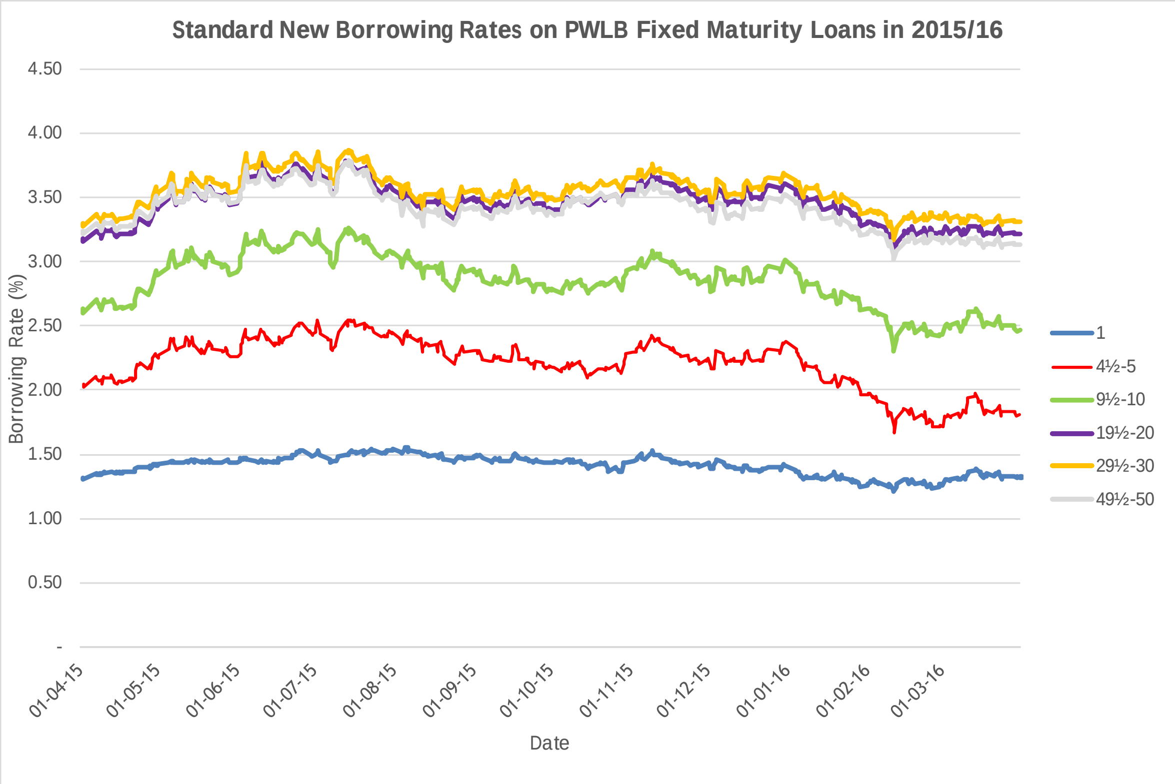

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	Low	1.36	1.70	2.33	2.78	3.07	3.18
	Average	1.76	2.25	2.88	3.24	3.47	3.55
	High	1.99	2.60	3.28	3.61	3.79	3.87

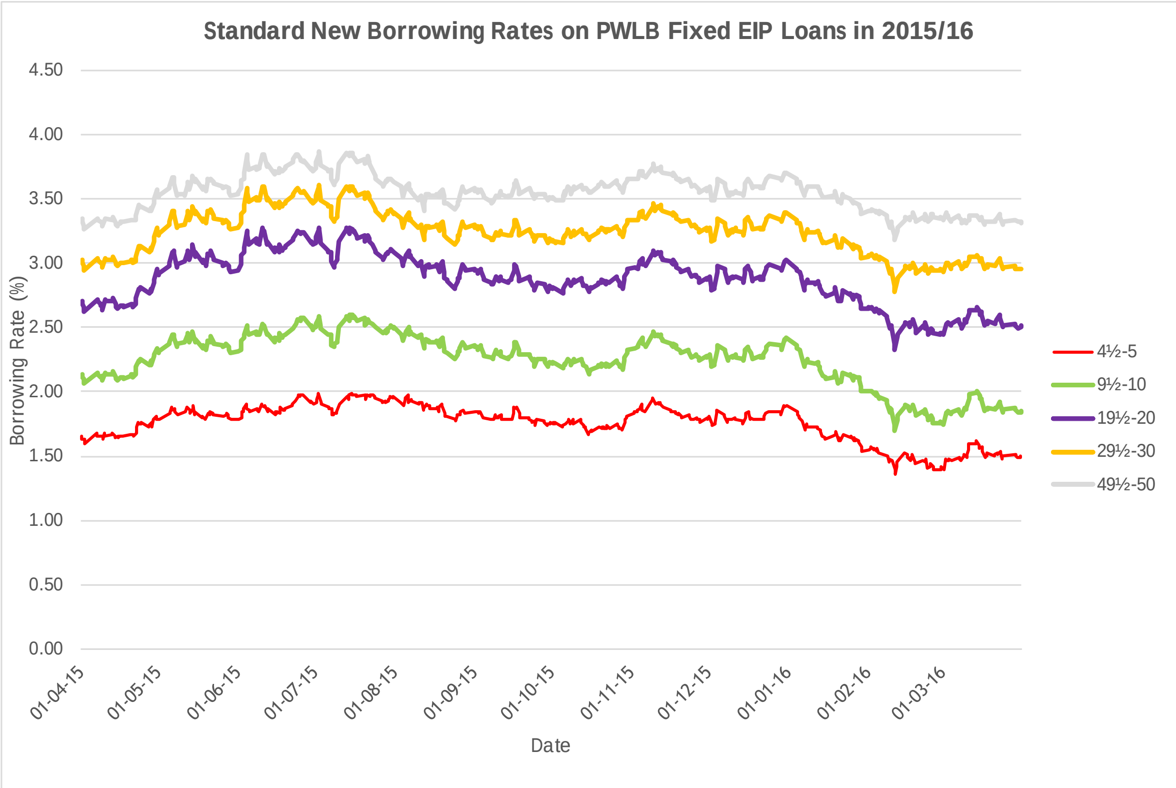

Table 4: PWLB Variable Rates

	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**
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015	0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015	0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015	0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016	0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016	0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016	0.61	0.65	0.67	1.51	1.55	1.57
Low	0.61	0.61	0.66	1.51	1.51	1.56
Average	0.63	0.66	0.71	1.53	1.56	1.61
High	0.67	0.69	0.78	1.57	1.59	1.68