**EXECUTIVE BOARD - 28 JUNE 2016**

| | |
|---|---|
| **Subject:** | **TREASURY MANAGEMENT 2015/16 ANNUAL REPORT** |
| **Corporate Director(s)/ Director(s):** | Glen O'Connell, Corporate Director for Resources |
| **Portfolio Holder(s):** | Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration |
| **Report author and contact details:** | Glyn Daykin, Finance Analyst, Treasury Management<br>0115 8763724<br>glyn.daykin@nottinghamcity.gov.uk |
| **Key Decision** ☐ Yes ☒ No | **Subject to call-in** ☒ Yes ☐ No |
| **Reasons:** ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision | ☐ Revenue ☐ Capital |
| Significant impact on communities living or working in two or more wards in the City | ☐ Yes ☐ No |
| **Total value of the decision:** Nil | |
| **Wards affected:** All | **Date of consultation with Portfolio Holder(s):** |

| **Relevant Council Plan Key Theme:** | |
|---|---|
| Strategic Regeneration and Development | ☒ |
| Schools | ☒ |
| Planning and Housing | ☒ |
| Community Services | ☒ |
| Energy, Sustainability and Customer | ☒ |
| Jobs, Growth and Transport | ☒ |
| Adults, Health and Community Sector | ☒ |
| Children, Early Intervention and Early Years | ☒ |
| Leisure and Culture | ☒ |
| Resources and Neighbourhood Regeneration | ☒ |


**Summary of issues (including benefits to citizens/service users):**

This report sets out the 2015/16 performance in respect of the management of the Council's external debt and investments (i.e. treasury management). The key issues are:

- the average rate of interest payable on external debt decreased from 3.866% at 31 March 2015 to 3.791% at 31 March 2016 (see section 4.4);
- the average rate of interest earned on short-term investments in 2015/16 was 0.678%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged 0.45% for the same period (see section 4.5);
- the actual General Fund Treasury Management expenditure was £65.537m which gave a favourable variance of £1.0m against the latest budget estimate (see section 5.1).


**Exempt information:**

None

**Recommendation(s):**

**1** To note the performance information in relation to Treasury Management for 2015/16.

## 1 REASONS FOR RECOMMENDATIONS

1.1 The Council adopted the Chartered Institute of Public Finance and Accountancy (CIPFA)'s revised Code of Practice on Treasury Management in Local Authorities (the Code) on 5 March 2012. Part of the Code requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

1.2 The Council's Treasury Management Strategy for 2015/16 was approved by full Council on 9 March 2015.

1.3 The Council 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.

## 2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

2.1 Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks. To assist in this process the Council retains external financial advisors.

## 3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 Options for management of the Council's debt and investment portfolio are continually reviewed. The overall aim is to minimise the net revenue costs of our debt whilst maintaining an even debt profile in future years, and to maximise investment returns within stated security and liquidity guidelines.

## 4 TREASURY MANAGEMENT ACTIVITY IN 2015/16

4.1 Economic background

- Growth and Inflation:

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 and remains well below the Bank of England's 2% inflation target.

- Labour Market:

The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Mar 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 5.1%. Wage growth has however remained modest at around 2.1% excluding bonuses.

- 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. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU.

Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

- UK Monetary Policy:

The Bank of England's Monetary Policy Committee (MPC) maintained interest rates at 0.5% and asset purchases (QE) at £375bn. The MPC Committee's stance is that any future increases in the Bank Rate would be gradual and limited, and below average historical levels.

- Market reaction:

From June 2015 gilt yields were driven lower by the weakening Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and the acceptance of diminishing effectiveness of central bankers' unconventional policy actions.

4.3 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 £1,195.9m.

At 31/03/2016, the Authority had £926.7m of borrowing including £234.1m of Private Finance Initiative (PFI) Debt and £80.4m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of £30m.

The Authority has an increasing CFR over the next 3 years due to the capital programme, investments are forecast to fall and further new long term borrowing is expected to be required.

4.4 Borrowing

Total outstanding debt in 2015/16 increased by £2.4m to £690.4m as at 31 March 2016. The total long term debt decreased by £15.3m while temporary borrowing had increased by £17.7m as at 31 March 2016. The average rate of interest on total debt decreased slightly, from 3.866% at 31 March 2015 to 3.791% at 31 March 2016. The majority of long-term borrowing is raised from the Government's Public Works Loan Board (PWLB). Table 2 analyses the debt portfolio:

**TABLE 2: DEBT PORTFOLIO**

| | 1 APR 2015 | | 31 MAR 2016 | |
|---|---|---|---|---|
| **DEBT** | **£m** | **%** | **£m** | **%** |
| PWLB borrowing | 635.0 | 3.847 | 619.9 | 3.860 |
| Market loans | 49.0 | 4.348 | 49.0 | 4.348 |
| Local bonds & Stock | 0.8 | 2.665 | 0.6 | 3.001 |
| Temporary borrowing | 3.2 | 0.471 | 20.9 | 0.486 |
| **TOTAL DEBT** | **688.0** | **3.866** | **690.4** | **3.791** |

The Authority'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. Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy. 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 Authority determined it was more cost effective in the short-term to use temporary borrowing and internal resources than to take any new long term borrowing in 2015/16.

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 Authority with this 'cost of carry' and breakeven analysis.

- LOBOs

The Authority holds £49m 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. £34m of these LOBOS had options during the year, none of which were exercised by the lender.

- Local Government Association Bond Agency

The UK Municipal Bonds Agency (MBA) plc was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Authority has analysed the potential rewards and risks of borrowing from the MBA although is yet to approve and sign the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee

- 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 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.

- Housing Revenue Account (HRA) Borrowing

From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As a result of existing debt maturing and not being replaced the HRA accumulates a variable rate internal borrowing position. During 2014/15 the HRA fixed £37.161m of internal borrowing on a maturity loan basis for 30 years with reference to the PWLB interest rate quoted on the day. No further HRA borrowing has taken place in 2015/16.

4.5 Investments

The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. 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.

The average sum formally invested during the year was £146.5m, earning total interest of £0.993m at an average rate of 0.678%. The effect of the continued low short-term interest rates (see table 4 in appendix 3), meant that the average return for 2015/16 was slightly below the original budget estimate of 0.680%. The Council benchmarks its average return against the 7-day London Interbank (LIBID) rate provided by the Bank of England. For 2015/16, the average 7-day LIBID rate was 0.45%.

| Table 3 - Movement in Investments | Balance on 01/04/2015 £m | Balance on 31/03/2016 £m |
|---|---|---|
| Short term Investments (call accounts, deposits)<br>- Banks and Building Societies with ratings of A- or higher<br>- Local Authorities | 90.0<br>45.0 | 25.0<br>10.0 |
| Long term Investments<br>- Local Authorities | 10.0 | - |
| Money Market/ Funds | 47.2 | 35.4 |
| Pooled Funds<br>- 'Cash Plus' Funds | - | 10.0 |
| **TOTAL INVESTMENTS *** | 192.2 | 80.4 |
| Increase/ (Decrease) in Investments £m | | (111.8) |

Note: * excludes remaining balance held in Icelandic ISK Escrow account

Table 3 above shows the movement in investments by type during 2015/16. The council reduced its overall exposure to investment credit risk by reducing the balance of investments held. These internal resources were used for the short term financing of capital expenditure. The council has retained its use of instant access money market funds with the dual benefit of increased diversity and a credit rating of AAAm.

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 its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating was BBB+ 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.

The authority has also considered the use of secured investment 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 | 3.95 | AA- | 3.34 | AA |
| 30/06/2015 | 3.91 | AA- | 2.83 | AA |
| 30/09/2015 | 3.34 | AA | 2.87 | AA |
| 31/12/2015 | 3.48 | AA | 3.55 | AA- |
| 31/03/2016 | 4.26 | AA- | 3.48 | AA |

*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*

Appendix 2 provides details of the Council's external investments at 31 March 2016, analysed between investment type and individual counterparties showing the Fitch long-term credit rating.

- Icelandic Krona (ISK) in Escrow

The administrators for the recovery of Glitnir Bank deposits (£11m) have made repayment to all priority creditors, including the City Council, in full settlement of the accepted claims. However, approximately 21% (£2.3m) of this sum has been paid in ISK. Because of ongoing currency restrictions in Iceland, this sum is currently retained in an interest-bearing account with the Central Bank of Iceland, pending resolution of the currency release issues.

Accounting regulations require notional accrued interest in respect of the outstanding principal sums to be credited to the revenue account each year, together with any changes in the value due to the ISK exchange rate changes, until the recovery process is complete.

The accrued notional interest and changes in value due to exchange rate movements in respect of the Icelandic recoveries held in ISK escrow account produced a debit to the revenue account of £0.440m in 2015/16 which was neutralised by a transfer from the Treasury Management Reserve.

The administrators of Heritable bank paid a 15th dividend of £0.635m which was in addition to the previously published final expected settlement position.

4.6 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.
With 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 means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The council favoured reducing its exposure by having less cash to investment, but then has looked to secured investment options or diversified alternatives such as non-bank investments and pooled funds to reduce the use of unsecured bank and building society deposits.

4.7 Externally Managed Funds

The Authority also has investments in the Royal London cash plus fund which allow the Authority to diversify into asset classes other than cash without 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.

Although money can be redeemed from the pooled funds at short notice, the council's intention is to hold them for the medium-term. Their performance and suitability in meeting the Authority's investment objectives are monitored regularly and discussed with Arlingclose.

4.8 External advisors

External advisors (Arlingclose) are retained to provide additional input on treasury management matters. The service comprises economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on other matters, as required.

4.9 Prudential Indicators

Following the Local Government Act 2003, the Council is required to approve a series of treasury management prudential indicators. These were approved on 9 March 2015 by Council as part of the 2015/16 Treasury Management Strategy.

In compliance with the requirements of the CIPFA Code of Practice this report provides a summary of the treasury management activity during 2015/16. 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. Appendix 1 shows actual performance against these indicators for 2015/16 together with comparative figures for 2014/15.

The prudence indicators reflect the management of the capital programme and associated debt, within existing resource limitations. The affordability and treasury management indicators, indicate whether the 2015/16 actual figures were within the set limits.

The 'PFI and leasing debt' figures within the indicators reflect the notional debt element of those schemes financed through PFI funding or finance leases.

The Council also confirms that during 2015/16 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

## 5 FINANCE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

5.1 General Fund Revenue Implications

Revenue costs associated with borrowing and lending can be volatile, being affected by a number of factors including movements in interest rates, the timing of capital spending, the extent of reserves held and actual cash flows during the year.

The latest budget estimate in 2015/16 for treasury management costs was £66.537m. The total treasury management-related costs in 2015/16, comprising interest charges less receipts, plus provisions for repayment of debt, were £67.618m. Of this PFI related expenditure accounted for £22.1m mostly due to NET line 2 becoming operational in 2015/16. A proportion of the Council's debt relates to capital expenditure on council housing and £12.326m of these costs was charged to the HRA. The remaining General Fund costs of £65.537m gave a favourable variance of £1.0m which is included within the treasury management section of the General Fund corporate budget outturn report on the 28 June 2016 Executive Board agenda.

The prime reason for the favourable variance is slippage in the capital program which has resulted in a £1m saving across interest payable on new long term debt and a reduction in the repayment of debt referred to as minimum revenue provision (MRP). These savings are one-off in nature as the proposed capital program expenditure materialises in future years.

5.2 Treasury Management Reserve
The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year. The balance on the Reserve at 31 March 2016 is £14.926m.

5.3 Value for Money
Management of borrowing and investments is undertaken in conjunction with our appointed advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

## 6 LEGAL AND PROCUREMENT COMMENTS (INLUDING RISK MANAGEMENT ISSUES, AND INCLUDING LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

6.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

6.2 The key Strategic Risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The rating for this risk at 31 March 2016 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 1 April 2015.

## 7 STRATEGIC ASSETS & PROPERTY COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

7.1 None

## 8 SOCIAL VALUE CONSIDERATIONS

8.1 None

## 9 REGARD TO THE NHS CONSTITUTION

9.1 None

## 10 EQUALITY IMPACT ASSESSMENT (EIA)

10.1 Has the equality impact of the proposals in this report been assessed?

No ☒
An EIA is not required because:
(Please explain why an EIA is not necessary)

**11 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)**

11.1 None

**12 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT**

12.1 CIPFA statistics, Bloomberg sourced Money Market rates and PWLB loan rates 2015/16.

**12 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT**

12.1 Treasury Management Panel colleagues.

## PRUDENTIAL INDICATORS

Appendix 1

| INDICATORS | 2014/15 Actual | 2015/16 Estimate | 2015/16 Actual | Within Limits? |
|---|---|---|---|---|
| **1) Prudence indicators** | | | | |
| **i) Capital Expenditure** | | | | |
| General Fund | £123.5m | £207.3m | £201.2m | YES |
| HRA | £60.0m | £67.0m | £51.0m | YES |
| | **£183.5m** | **£274.3m** | **£252.2m** | |
| **ii) CFR at 31 March** | | | | |
| General Fund | £576.2m | £664.3m | £679.0m | YES |
| HRA | £281.3m | £289.3m | £280.8m | YES |
| PFI notional 'debt' | £103.2m | £239.5m | £236.2m | N/A |
| | **£960.7m** | **£1,193.1m** | **£1,195.9m** | |
| **iii) External Debt at 31 March** | | | | |
| Borrowing | £688.0m | £671.0m | £690.4m | YES |
| PFI & leasing notional 'debt' | £103.2m | £239.5m | £236.3m | N/A |
| **Gross debt** | **£791.2m** | **£910.5m** | **£926.7m** | |
| Less investments | £(213.8)m | £(50.0)m | £(82.7)m | N/A |
| **Net Debt** | **£576.8m** | **£860.5m** | **£844.0m** | |
| | | | | |
| **2) Affordability indicators** | | | | |
| **i) Financing costs ratio** | | | | |
| General Fund | 13.32% | 13.92% | 13.44% | YES |
| General Fund (Inc PFI costs) | 17.01% | | 20.28% | YES |
| HRA | 11.14% | 12.31% | 11.33% | YES |
| | | **£s** | **£s** | |
| Council Tax Band D (per annum) | - | 1.38 | 1.30 | YES |
| HRA rent (per week) | - | - | - | YES |
| | **Max in year** | | **Max in year** | |
| **iii) Authorised limit for external debt** | £803.9m | £1091.6m | £926.7m | YES |
| | | | | |
| **iv) Operational limit for ext. debt** | £803.9m | £1041.6m | £926.7m | YES |
| | | | | |
| **3) Treasury Management indicators** | **@ 31/3/15** | % | **@ 31/3/16** | |
| **ii) Limit on variable interest rates** | 7.89% | 0-50% | 7.86% | YES |
| | | | | |
| **iii) Limit on fixed interest rates** | 92.11% | 50-100% | 92.14% | YES |
| **iv) Fixed Debt maturity structure** | | | | |
| - Under 12 months | 2.68% | 0-25% | 5.27% | YES |
| - 12 months to 2 years | 2.25% | 0-25% | 2.30% | YES |
| - 2 to 5 years | 15.01% | 0-25% | 16.33% | YES |
| - 5 to 10 years | 17.79% | 0-25% | 16.65% | YES |
| - 10 to 25 years | 31.84% | 0-50% | 29.13% | YES |
| - 25 to 40 years | 21.16% | 0-25% | 22.61% | YES |
| - 40 years and above | 9.27% | 0-75% | 7.71% | YES |
| | **Max in year** | | **Max in year** | |
| **v) Max sum invested for >364 days** | £15.0m | £50.0m | £10.0m | YES |

***NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS***

1) **Prudence Indicators**

   i) *'Estimate of total capital expenditure'* – a "reasonable" estimate of total capital expenditure to be incurred, split between the General Fund and the HRA.

      - This estimate takes into account the current approved asset management and capital investment strategies.

   ii) *'Capital financing requirement' (CFR)* – this figure constitutes the aggregate amount of capital spending which has not yet been financed by capital receipts, capital grants or contributions from revenue, and represents the underlying need to borrow money long-term. An actual figure at 31 March each year is required.

      - This approximates to the previous Credit Ceiling calculation and provides an indication of the total long-term debt requirement.
      - The figure includes an estimation of the total debt brought 'on-balance sheet' in respect of PFI schemes and finance leases.

   iii) *'External debt'* - the actual level of gross borrowing (plus other long-term liabilities, including the notional debt relating to on-balance sheet PFI schemes and leases) calculated from the balance sheet.

2) **Affordability Indicators**

   i) '*Ratio of financing costs to net revenue stream'* – expresses the revenue costs of the Council's borrowing (interest payments and provision for repayment) as a percentage of the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes revenue raised from the Workplace Parking Levy.

      - These indicators show the impact of borrowing on the revenue accounts and enable a comparison between years to be made. The increase in the General Fund ratio reflects the falling grant from government and the impact of the extension of the NET capital scheme, funded from specific Government grant and the Workplace Parking Levy income streams.

   ii) *'Incremental impact of capital investment decisions'* – expresses the revenue consequences of future capital spending plans to be met from unsupported borrowing and not financed from existing budget provision, on both the level of council tax and weekly housing rents.

      - This is a key indicator, which provides a direct link between the capital programme and revenue budget and enables the revenue impact of additional unsupported capital investment to be understood.

   iii) *'Authorised limit for external debt'* – this represents the maximum amount that may be borrowed at any point during the year.

- This figure allows for the possibility that borrowing for capital purposes may be undertaken early in the year, with a further sum to reflect any temporary borrowing as a result of adverse cash flow. This represents a ‘worst case’ scenario.

iv) *‘Operating boundary for external debt’* – this indicator is a working limit and represents the highest level of borrowing is expected to be reached at any time during the year - It is recognised that this operational boundary may be breached in exceptional circumstances.

v) *‘HRA limit on indebtedness’* – from 1 April 2012, a separate debt portfolio has been established for the HRA. The CLG have imposed a ‘cap’ on the maximum level of debt for individual authorities and the difference between this limit and the actual HRA CFR represents the headroom available for future new borrowing.

3) **Treasury Management Indicators**

i) *‘The amount of net borrowing which is at a variable rate of interest’* - expressed as a percentage. Upper and lower limits for the financial year are required.

- A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.

ii) *‘The amount of net borrowing which is at fixed rate of interest’* - expressed either as an absolute amount or a percentage. Upper and lower limits are required.

- Fixed rate borrowing provides certainty for future interest costs, regardless of movements in interest rates. The lower limit is effectively the counterpart to the upper limit for variable rate borrowing.

iii) *‘Upper and lower limits with respect to the maturity structure of the authority’s borrowing’* – this shows the amount of fixed rate borrowing maturing in each period, expressed as a percentage of total fixed rate borrowing.

- This indicator is designed to be a control over having large amounts of fixed rate debt falling to be replaced at the same time.

iv) *‘Total sums invested for periods of greater than 364 days* – a limit on investments for periods longer than 1 year.

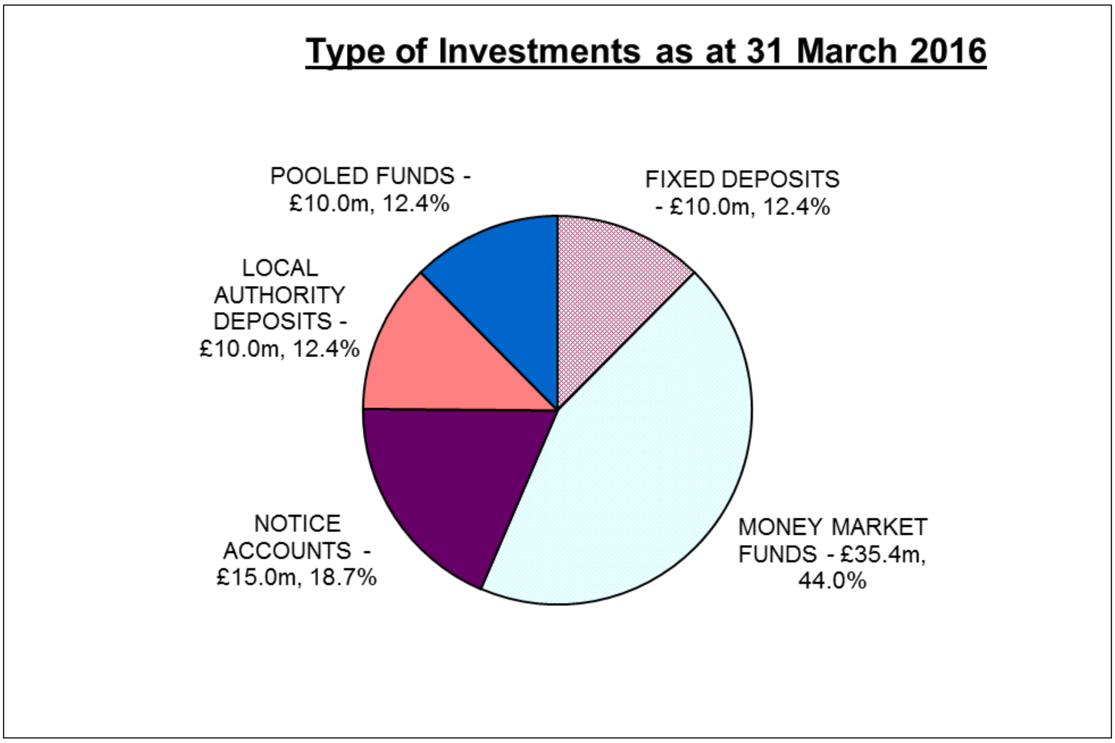
- This indicator is designed to protect the liquidity of investments, ensuring that large proportions of the cash reserves are not invested for long periods.

v) *The adoption of the CIPFA Code of Practice for Treasury Management in the Public Services’.* This is not a numerical indicator, but a statement of good practice.

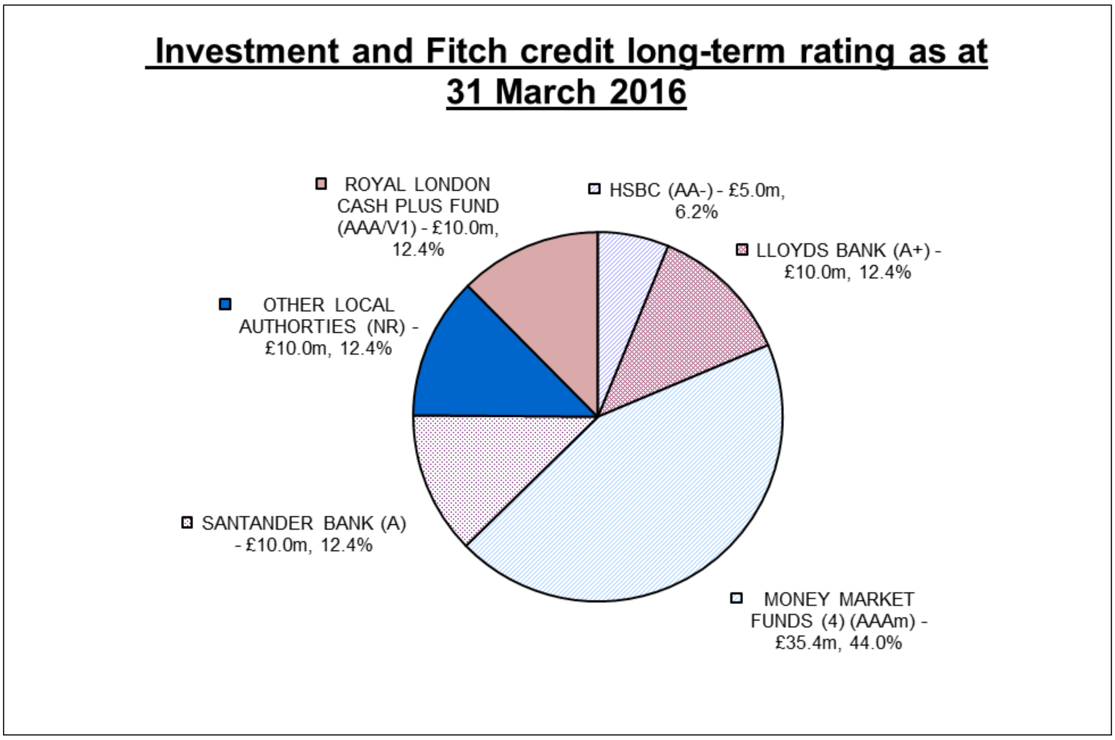
- The Council adopted the Code on 18 February 2002. Revised Codes, issued in 2009 and 2011, have subsequently been incorporated within the Council's strategy and procedures.

vi) *Credit risk* – The Council monitors a range of factors to manage credit risk, detailed in its annual Treasury Management Strategy (section 7).

**Appendix 2**



Type of Investments as at 31 March 2016
POOLED FUNDS - £10.0m, 12.4%
FIXED DEPOSITS - £10.0m, 12.4%
LOCAL AUTHORITY DEPOSITS - £10.0m, 12.4%
NOTICE ACCOUNTS - £15.0m, 18.7%
MONEY MARKET FUNDS - £35.4m, 44.0%

Investment and Fitch credit long-term rating as at 31 March 2016
ROYAL LONDON CASH PLUS FUND (AAA/V1) - £10.0m, 12.4%
HSBC (AA-) - £5.0m, 6.2%
LLOYDS BANK (A+) - £10.0m, 12.4%
OTHER LOCAL AUTHORTIES (NR) - £10.0m, 12.4%
SANTANDER BANK (A) - £10.0m, 12.4%
MONEY MARKET FUNDS (4) (AAAm) - £35.4m, 44.0%

## Appendix 3

**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.*

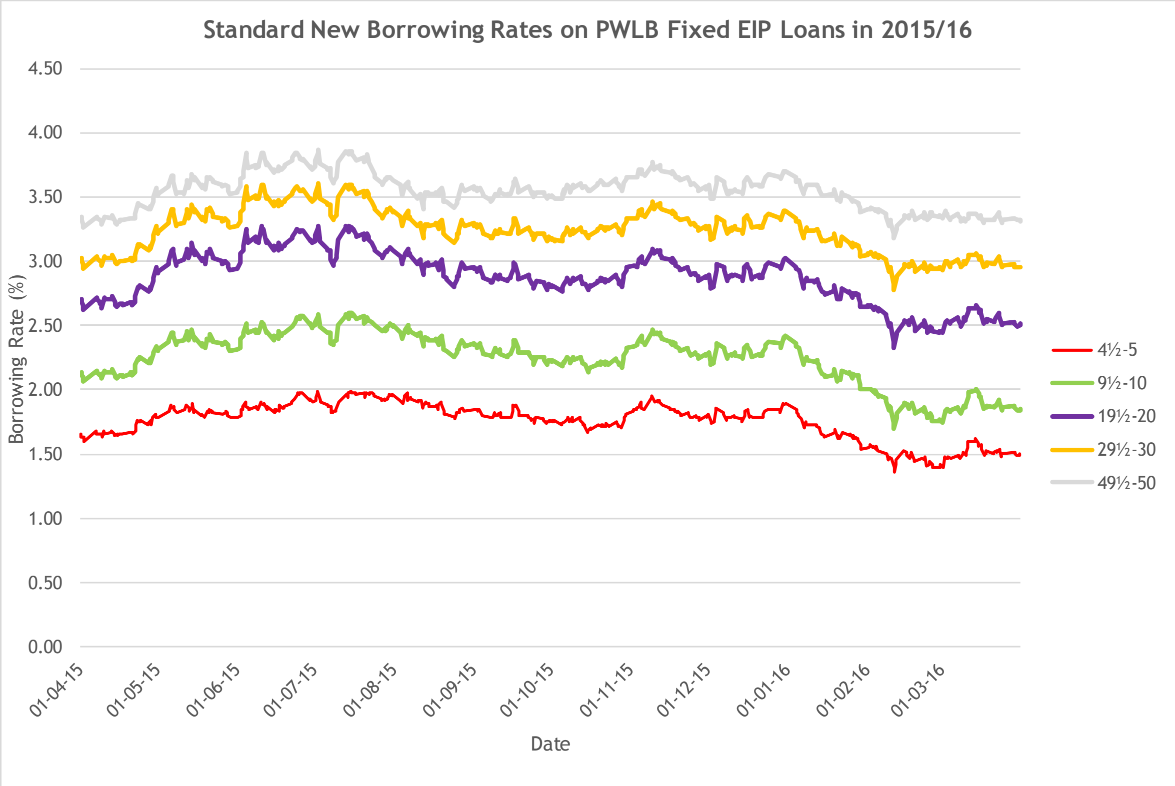
*Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.*

**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** |

**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 |
| | | | | | | | |
| | Average | 1.76 | 2.25 | 2.88 | 3.24 | 3.47 | 3.55 |



Standard New Borrowing Rates on PWLB Fixed EIP Loans in 2015/16
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Borrowing Rate (%)
01-04-15
01-05-15
01-06-15
01-07-15
01-08-15
01-09-15
01-10-15
01-11-15
01-12-15
01-01-16
01-02-16
01-03-16
Date
4½-5
9½-10
19½-20
29½-30
49½-50