EXECUTIVE BOARD - 20 JUNE 2017

Subject:	**TREASURY MANAGEMENT 2016/17 ANNUAL REPORT**
Corporate Director(s)/Director(s):	Geoff Walker, Director of Strategic Finance
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration
Report author and contact details:	Theresa Channell, Head of Strategic Finance and Deputy S151 Officer 0115 8764157 theresa.channell@nottinghamcity.gov.uk

Subject to call-in: ☐ Yes ☒ No

Key Decision: ☐Yes ☒ No

Criteria for Key Decision:

(a) ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City
☐ Yes ☐ No

Type of expenditure: ☐ Revenue ☐ Capital

Total value of the decision: Nil

Wards affected: All

Date of consultation with Portfolio Holder(s): 24 May 2017

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 2016/17 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 3.791% at 31 March 2016 to 3.270% at 31 March 2017 (see section 4.3);
- the average rate of interest earned on short-term investments in 2016/17 was 0.691%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged 0.20% for the same period (see section 4.4);
- the latest estimate for 2016/17 was £71.588 against an actual General Fund Treasury Management expenditure of £71.158m (see section 5.1).

Exempt information: None

Recommendation(s):

1 To note the performance information in relation to Treasury Management for 2016/17.

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 2016/17 was approved by full Council on 7 March 2016.

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 2016/17

4.1 - Growth and Inflation:
The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November.
After a disappointing growth in quarter 1 of +0.2% the economy improved throughout the year despite the referendum shock and finished with quarter 4 figures reported at +0.7% so 1.9% for the year.
Since August inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest Consumer Price Index (CPI) inflation figure had risen to 2.3%, above the Monetary Policy Committee's (MPC) inflation target of 2% with forecasts expecting this to reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend.

- UK Monetary Policy:

At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks all of which suppressed the money market rates throughout 2016/17.

Appendix 3 shows the money market interest rates and the Public Works Loans Board (PWLB) borrowing rates for 2016/17.

4.2 Local Context

At 31/03/2017 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,280.5m.

At 31/03/2017, the Authority had £1,014.9m of borrowing including £226.0m of Private Finance Initiative (PFI) Debt and £27.0m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to maintaining a liquidity investment balance of around £30m.

The Authority has an increasing CFR over the next 3 years due to the capital programme, investments are expected to remain at around £30m and further new long term borrowing is expected to be required.

4.3 Borrowing

Total outstanding debt in 2016/17 increased by £98.5m to £788.9m as at 31 March 2017. The total long term debt increased by £3.7m while temporary borrowing had increased by £94.8m as at 31 March 2017. The average rate of interest on total debt decreased, from 3.791% at 31 March 2016 to 3.270% at 31 March 2017. Table 2 analyses the debt portfolio:

TABLE 2: DEBT PORTFOLIO				
	1 APR 2016		31 MAR 2017	
DEBT	**£m**	**%**	**£m**	**%**
PWLB borrowing	619.9	3.860	623.6	3.729
Market loans	49.0	4.348	49.0	4.348
Local bonds & Stock	0.6	3.001	0.6	3.001
Temporary borrowing	20.9	0.486	115.7	0.338
TOTAL DEBT	**690.4**	**3.791**	**788.9**	**3.270**

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 to fund the majority of its capital expenditure in 2016/17.

The Authority funded £121.8m of its capital expenditure from borrowing. In total £20m of new fixed rate loans with an average rate of 2.25% for a period of 20 years were raised which includes the replacement of maturing loans. The PWLB was the Authority's preferred source of long term borrowing given the transparency and control that its facilities continue to provide.

Temporary loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. £258.8m of such loans were borrowed at an average rate of 0.32% and an average life of 55 days this total includes the replacement of maturing loans. The Authority's balance of Temporary loans has increased by £94.8m in 2016/17 with the debt portfolio showing £115.7m outstanding as at 31 March 2017.

The initial costs of using internal resources and temporary borrowing to fund capital expenditure are around £0.240m lower per £10m borrowed short term at 0.3% vs 25 year PWLB debt at 2.7% (16/17 average); this balanced against the financial impact of for each 0.25% rise there is an extra £0.025m per annum in interest cost. An interest equalisation reserve has been set up to mitigate the risk of unexpected rises in long term interest rates with c.£12.3m ring-fenced to smooth the impact of increasing the proportion of fixed long term loans.

The benefits of using temporary borrowing and 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 moderately rise. Our Treasury advisors assists the Authority with this 'cost of carry' and breakeven analysis.

- *Lender Option Borrower Option (*LOBOs)

The Council holds £34.000m of LOBO 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. £14.000m of these LOBO loans have options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

In June Barclays Bank informed the Authority of its decision to cancel all the embedded options within standard LOBO loans. This effectively converts £15m of the Authority's Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date. This waiver has been done by 'deed poll'; it is irreversible and transferable by Barclays to any new 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 2016/17.

4.4 Investments

The Council has held significant investment balances over the last few years, 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.

In the past 12 months, the Council's investment balance has ranged between £25m and £110m, but investment balances are expected to be maintained at a balance of around £30m in the forthcoming year. The strategy of reducing investment balances towards a liquidity management balance of around £30m has continued throughout 2016/17and has seen the dual benefit of reducing the authority's exposure to bank credit risk and has allowed the budget to benefit from the net borrowing exposure to the lower interest rate environment.

The average sum formally invested during the year was £64.6m, earning total interest of £0.447m at an average rate of 0.691%. After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. The low short-term interest rates (see appendix 3), meant that the average return for 2016/17 was below the original budget estimate of 0.800%, however the amount of investment interest was higher than the original budget of £0.350m due to higher than anticipated cash balances at the beginning of the financial year.

The Council benchmarks its average return against the 7-day London Interbank (LIBID) rate provided by the Bank of England. For 2016/17, the average 7-day LIBID rate was 0.20%.

Table 3 - Movement in Investments	Balance on 31/03/2016 £m	Balance on 31/03/2017 £m
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher - Local Authorities	 25.0 10.0	 5.0 10.0
Long term Investments - Local Authorities	-	-
Money Market/ Funds	35.4	12.0
Pooled Funds - 'Cash Plus' Funds	10.0	-

TOTAL INVESTMENTS *	80.4	27.0
Increase/ (Decrease) in Investments £m		(53.4)

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

Table 3 above shows the movement in investments by type during 2016/17. 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 2016/17.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority'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 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
31/03/2016	4.26	AA-	3.48	AA
30/06/2016	3.83	AA-	3.52	AA-
30/09/2016	4.05	AA-	3.90	AA-
31/12/2016	4.38	AA-	3.87	AA-
31/03/2017	N/A	N/A	N/A	N/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
Note:- Scores at 31 March 17 not available due to change of Treasury Advisors

Appendix 2 provides details of the Council's external investments at 31 March 2017, 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 and placed in an Escrow account awaiting final resolution of the currency controls.

The Central Bank of Iceland have recently issued a press release stating the currency restrictions in Iceland are to be removed. The Local Government Authority are currently working with the Central Bank to agree a method of repatriation of these funds plus accumulated interest back to the Local Authorities' UK bank accounts.

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 £0.349m in 2016/17 which was neutralised by a transfer from the Treasury Management Reserve.

4.5 Counterparty update

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

At the end of November, the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies (Barclays, HSBC, Lloyds/Bank of Scotland, Santander UK, HSBC, RBS/Natwest and Nationwide BS). The 2016 stress tests were more challenging and designed under a new Bank of England framework, which tested the resilience of banks to tail risk events. Royal Bank of Scotland, Barclays and Standard Chartered Bank were found to be the weakest performers.

4.6 External advisors

External treasury management advisors 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.

The council has retendered the advisor contract in 2016/17, and has awarded a contract to Capita Asset Services starting from 1st April 2017.

4.7 Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2016/17 set on 7 March 2016 as part of the Council's Treasury Management Strategy Statement.

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 limits on net fixed and variable rate interest rate exposures are:

	2016/17 £m	2017/18 £m	2018/19 £m
Upper limit on fixed interest rate exposure	800	900	900
Actual	588		
Upper limit on variable interest rate exposure	250	300	300
Actual	171		

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:

	Lower	Upper	Actual
Under 12 months	0%	25%	17%
12 months and within 24 months	0%	25%	4%
24 months and within 5 years	0%	25%	12%
5 years and within 10 years	0%	25%	16%
10 years and within 25 years	0%	50%	24%
25 years and within 40 years	0%	50%	21%
40 years and above	0%	25%	6%

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:

	2016/17 £m	2017/18 £m	2018/19 £m
Limit on principal invested beyond year end	50	50	50
Actual	0		

Operational Boundary and Authorised Limit 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. 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.

	2016/17 (max to date £m)
Total Debt including PFI	1,014.9
Operational Boundary	1,041.2
Authorised Limit	1,081.2

Adoption of the CIPFA Treasury Management Code:
The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012.

In compliance with the requirements of the CIPFA Code of Practice this report provides a summary of the treasury management activity during 2016/17. 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 the complete list of indicators including actual performance against these indicators for 2016/17 together with comparative figures for 2015/16.

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 2016/17 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 2016/17 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

5.0 FINANCE COLLEAGUE 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 2016/17 for treasury management costs was £71.588m. The total treasury management-related costs in 2016/17, comprising interest charges less receipts, plus provisions for repayment of debt, were £83.509m. Of this PFI related expenditure accounted for £31.326m which includes the NET lines 1 & 2. A proportion of the Council's debt relates to capital expenditure on council housing and £12.351m of these costs was charged to the HRA.
The remaining General Fund costs of £71.158m gave a favourable variance of £0.4m which is included within the treasury management section of the

General Fund corporate budget outturn report on the 20 June 2017 Executive Board agenda.

The prime reason for the favourable variance is delaying of taking new long term debt and some slippage in the capital program which has resulted in a £0.4m saving across interest payable 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 and the interest payable increases as new long term financing is secured in the coming year.

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 2017 is £2.955m.

A separate reserve for interest equalisation has been set up with a balance £12.337m specifically to balance the risk of having to secure new long term loans at higher interest rates than anticipated.

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.

5.4 Risk Management

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.

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 2017 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 1 April 2016.anagement 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 COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

6.1 None

7 STRATEGIC ASSETS & PROPERTY COLLEAGUE 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 The report has no proposal to change processes or systems therefore no equality impact assessment has been completed.

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 None

PRUDENTIAL INDICATORS Appendix 1

INDICATORS	2015/16 Actual	2016/17 Estimate	2016/17 Actual	Within Limits?
1) Prudence indicators				
i) Capital Expenditure				
General Fund	£201.2m	£194.7m	£178.2m	YES
HRA	£51.0m	£74.2m	£56.3m	YES
	£252.2m	**£268.9m**	**£234.5m**	
ii) CFR at 31 March				
General Fund	£678.8m	£810.9m	£774.2m	YES
HRA	£280.8m	£284.2m	£280.3m	YES
PFI notional 'debt'	£236.3m	£226.0m	£226.0m	N/A
	£1,195.9m	**£1,321.1m**	**£1,280.5m**	
iii) External Debt at 31 March				
Borrowing	£690.4m	£755.2m	£788.9m	YES
PFI & leasing notional 'debt'	£236.3m	£226.0m	£226.0m	N/A
Gross debt	**£926.7m**	**£981.2m**	**£1,014.9m**	
Less investments	£(82.7)m	£(50.0)m	£(29.3)m	N/A
Net Debt	**£844.0m**	**£931.2m**	**£985.6m**	
2) Affordability indicators				
i) Financing costs ratio				
General Fund	13.44%	14.61%	12.80%	YES
General Fund (Inc PFI costs)	20.28%		20.28%	YES
HRA	11.33%	12.02%	12.00%	YES
	£s	**£s**	**£s**	
Council Tax Band D (per annum)	1.30	16.38	1.33	YES
HRA rent (per week)	-	0.05	-	YES
	Max in year		**Max in year**	
iii) Authorised limit for external debt	£926.7m	£1081.2m	£1,014.9m	YES
iv) Operational limit for ext. debt	£926.7m	£1041.2m	£1,014.9m	YES
3) Treasury Management indicators	**£m**	**£m**	**£m**	
ii) Limit on variable interest rates	22.0	250.0	171.4	YES
iii) Limit on fixed interest rates	586.6	800.0	588.2	YES
iv) Fixed Debt maturity structure				
- Under 12 months	2.68%	0-25%	16.78%	YES
- 12 months to 2 years	2.25%	0-25%	4.47%	YES
- 2 to 5 years	15.01%	0-25%	12.28%	YES
- 5 to 10 years	17.79%	0-25%	16.38%	YES
- 10 to 25 years	31.84%	0-50%	23.56%	YES
- 25 to 40 years	21.16%	0-50%	20.93%	YES
- 40 years and above	9.27%	0-25%	5.60%	YES
	Max in year		**Max in year**	
v) Max sum invested for >364 days	£0m	£50.0m	£0m	YES

NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS

1) **<u>Prudence Indicators</u>**

   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) **<u>Affordability Indicators</u>**

   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) **<u>Treasury Management Indicators</u>**

i) *‘Upper limit on variable interest rate exposure’ - is set to control the Authority’s exposure to interest rate risk. The upper limits on variable rate interest rate exposures, expressed as the amount of net principal borrowed*.

- 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) *‘Upper limit on fixed interest rate exposure’ - is set to control the Authority’s exposure to interest rate risk. The upper limits on fixed interest rate exposures, expressed as the amount of net principal borrowed*.

- Fixed rate borrowing provides certainty for future interest costs, regardless of movements in interest rates.

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.

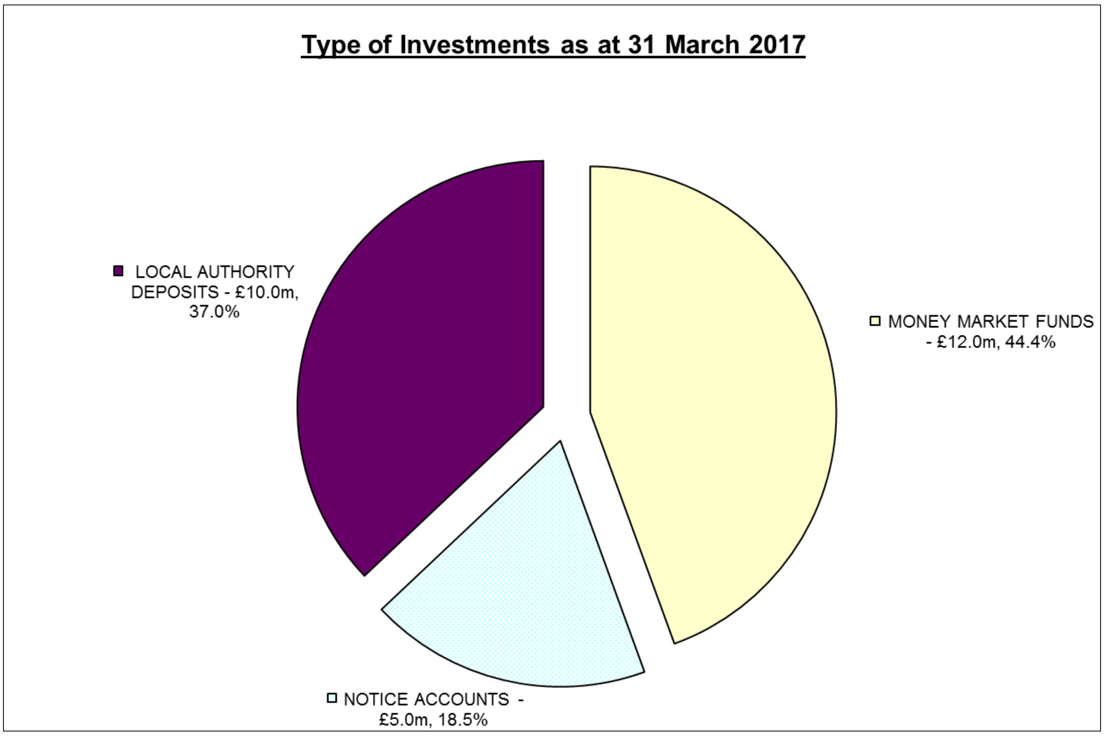
iv) *‘Total sums invested for periods of greater than 364 days* – a limit on investments for periods longer than 1 year.
- This indicator is designed to protect the liquidity of investments, ensuring that large proportions of the cash reserves are not invested for long periods.

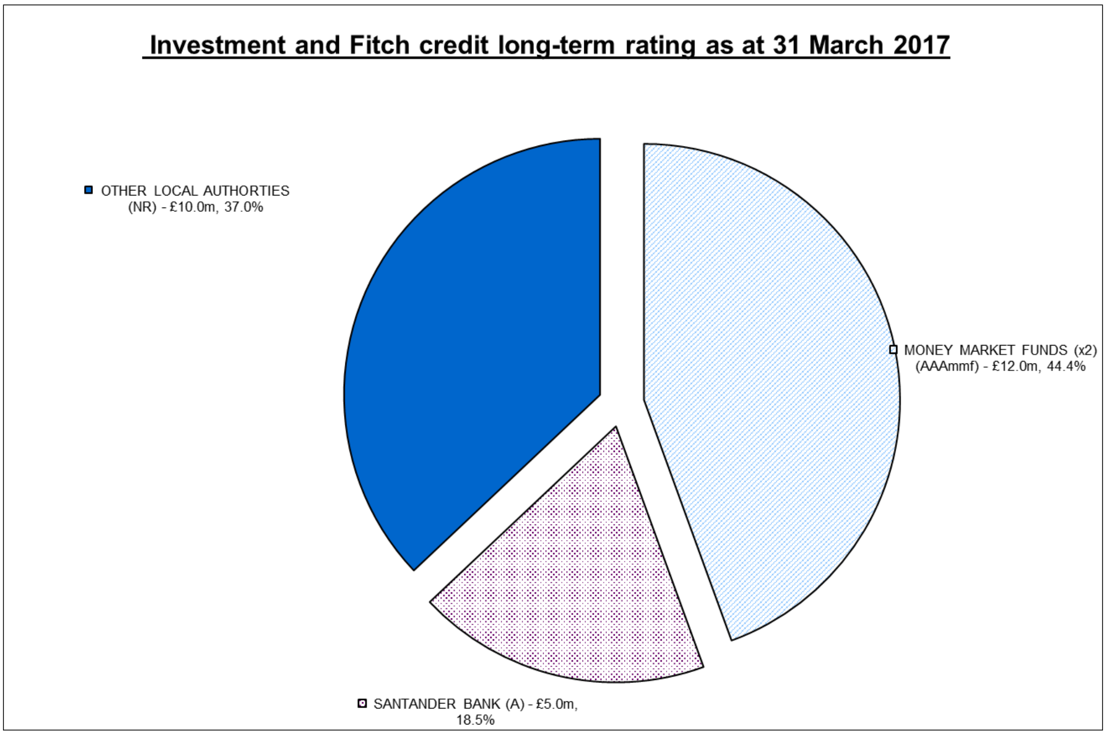
v) *The adoption of the CIPFA Code of Practice for Treasury Management in the Public Services’.* This is not a numerical indicator, but a statement of good practice.

- 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

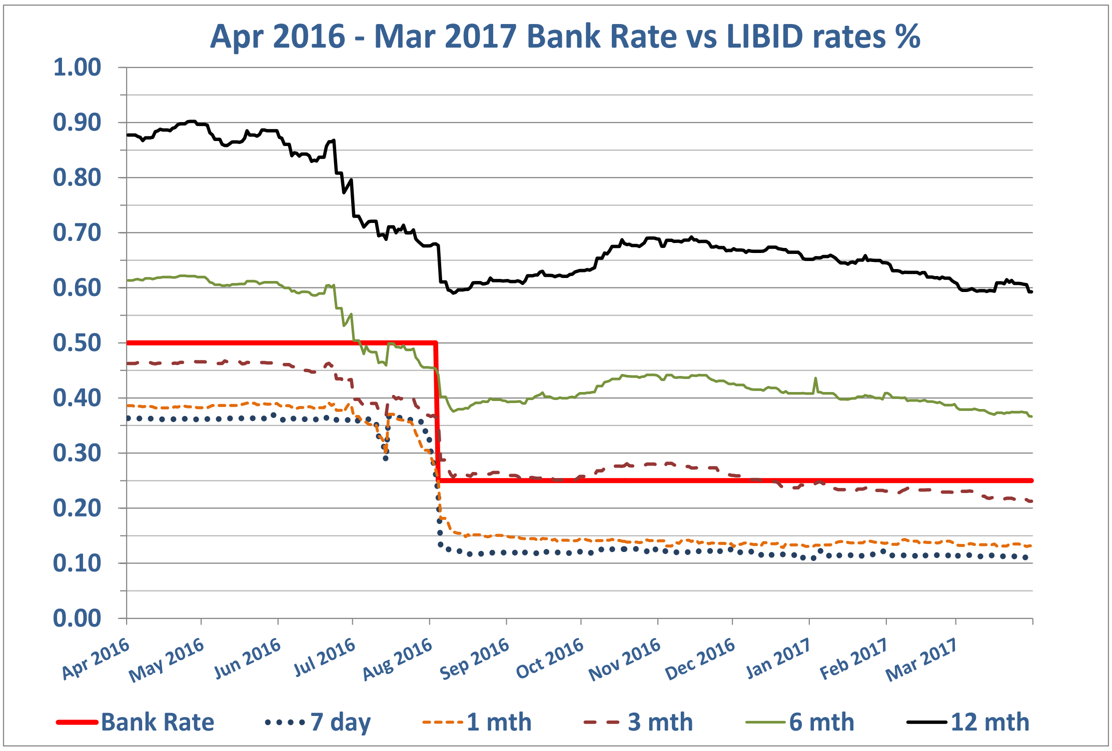

Type of Investments as at 31 March 2017
LOCAL AUTHORITY DEPOSITS - £10.0m, 37.0%
MONEY MARKET FUNDS - £12.0m, 44.4%
NOTICE ACCOUNTS - £5.0m, 18.5%


Investment and Fitch credit long-term rating as at 31 March 2017
OTHER LOCAL AUTHORTIES (NR) - £10.0m, 37.0%
MONEY MARKET FUNDS (x2) (AAAmmf) - £12.0m, 44.4%
SANTANDER BANK (A) - £5.0m, 18.5%

Appendix 3

Investment Rates in 2016/17

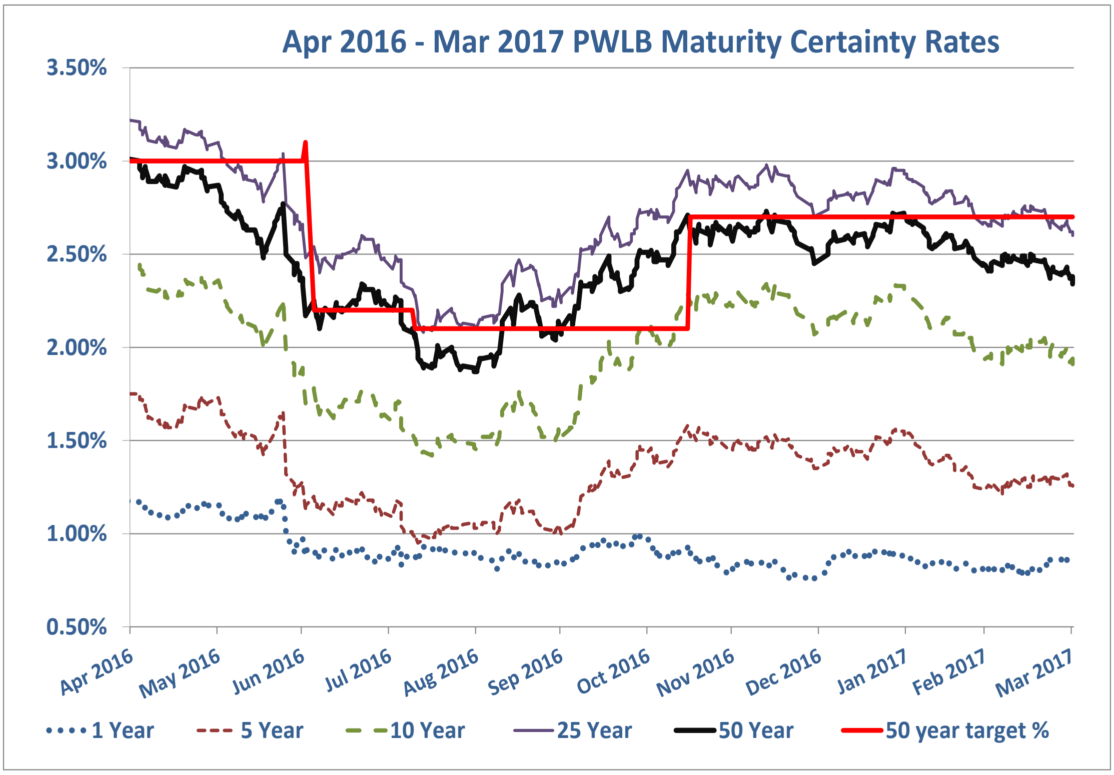
After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



Borrowing Rates in 2016/17

PWLB certainty maturity borrowing rates

During 2016-17, PWLB rates fell from April to June and then gaining fresh downward impetus after the referendum and Bank Rate cut, before staging a partial recovery through to December and then falling slightly through to the end of March. The graphs and table for PWLB rates below show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.60%	1.80%	2.07%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.93%	1.36%	2.01%	2.72%	2.49%