

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Overview & Scrutiny Committee **DATE:** 11<sup>th</sup> November 2014

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**WARD(S):** All

### **PART I** **FOR INFORMATION**

#### **TREASURY MANAGEMENT ANNUAL REPORT**

##### **1 Purpose of Report**

This report fulfils the Authority's legal obligation under the [Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance. Members are requested to note the report which summarises treasury activity in 2013-14 and the first part of 2014-15.

##### **2 Recommendation(s)/Proposed Action**

The Committee is requested to resolve that the Treasury Management activities for 2013/14 and the beginning of 2014/15, as set out in the body of this report, be noted.

##### **3. The Slough Joint Wellbeing Strategy, the JSNA and the Corporate Plan**

The report indirectly supports all of the Joint Wellbeing Strategy priorities and cross cutting themes. The maintenance of good governance within the Council to ensure that it is efficient, effective and economic in everything it does is achieved through the improvement of corporate governance and democracy by ensuring effective management practice is in place.

##### **4 Other Implications**

Financial . The Financial Implications are contained within this report.

##### Risk Management

<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities</b>
Legal	None	None
Property	None	None
Human Rights	None	None
Health and Safety	None	None
Employment Issues	None	None
Equalities Issues	None	None
Community Support	None	None
Communications	None	None
Community Safety	None	None
Financial :Detailed in	As identified	None

the Report and Above		
Timetable for delivery	None	None
Project Capacity	None	None
Other	None	None

### Human Rights Act and Other Legal Implications

None identified

### Equalities Impact Assessment

No identified need for the completion of an EIA.

## 5 **Supporting Information**

### 1. **Background**

The Treasury Management Strategy for 2013/14 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Authority to report on any financial instruments entered into to manage treasury risks. This report summarises treasury activity in 2013-14 and the first part of 2014-15.

### 2. **External Context**

**Growth:** The recent strong performance of the UK economy continued with output growing at 0.8% in Q1 2014. Although confirming that the UK has one of the fastest rates of economic growth in the western world, the breakdown did not provide any support towards the rebalancing of the economy, which remains a key plank of the Government's economic strategy. House prices continued on their upward trend but there were some signs of cooling in the housing market evident from the fall in the number of housing transactions and new mortgage lending due to tighter lending standards following the introduction of the Mortgage Market Review in March.

**Unemployment:** The labour market continued to improve, with job growth strong and the headline unemployment rate falling to 6.6%. However, earnings growth weakened with total pay slowing to just 0.7% yearly growth in the three months to April and employment growth was masked by a large number on zero-hour contracts and working part-time involuntarily.

**Inflation:** CPI inflation for May fell to 1.5% year-on-year from 1.8% which was lower than market expectations. Even though inflation was expected to tick marginally higher in coming months, it was still expected to remain just below the Bank's 2% target.

**UK Monetary Policy:** The MPC made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion House speech in June Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. The minutes of the MPC's June meeting outlined the Bank's central view that whilst wage growth and inflation had been weak, economic activity had been stronger than expected and the policy decision had therefore become more 'balanced' for some members on the Committee than earlier in the year.

The Bank's Financial Policy Committee also announced a range of measures to cool the UK's housing market to avert the potential of spiralling house prices derailing a sustainable economic recovery. Key recommendations included lenders stress-testing mortgage applicants can cope with a 3% rise in interest rates; putting a 15% cap on the number of mortgages at more than 4.5 times the borrower's income; and a separate Treasury pledge banning anyone applying for a loan through the Help to Buy scheme borrowing more than 4.5 times their income. The Prudential Regulation Authority also announced that it intends to consult on capital requirements for mortgages.

In June the European Central Bank announced interest rate cuts along with a raft of non-conventional measures to head off the growing threat of deflation in the Euro zone. The ECB cut main policy rates (refinancing rate) from 0.25% to 0.15% and, to encourage banks to lend to businesses and generate economic growth, it also cut the deposit rate to -0.10% which in effect means that commercial banks must pay for the privilege of depositing their funds at the central bank.

There was no change from the US Federal Reserve as the central bank kept policy on its current track with a reduction in asset purchases by \$10 billion to \$35 billion per month. The sharp downward revision to US GDP in Q1 to -2.9% annualised was strongly influenced by severe weather deterring consumers from going out and spending. GDP in Q2 of 2014 is expected to rebound, taking the annual average rate of growth over the last four quarters ending in Q2 to a more sustainable level of 2%.

**Market reaction:** 2- and 3-year gilt yields rose by 0.15% over the quarter to 0.86% and 1.25% respectively, 5-year yields rose by a more muted 0.06% to 2.03%, 10-year and 20-year yields fell by 0.06% to 2.67% and 2.28% respectively whilst the 20-year gilt yield was down 0.1% to 3.35%.

### 3. Debt Management

	Balance on 01/04/2013 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2014 £m	Increase/ Decrease in Borrowing
CFR	282.465				287.312	
Short Term Borrowing <sup>1</sup>	10.004	10,004		0.001	1	-10.003
Long Term Borrowing	182.373	0.001			182.372	-0.001
<b>TOTAL BORROWING</b>	192.377				182.373	10.004
Other Long Term Liabilities	51.386				48.349	3.037
<b>TOTAL EXTERNAL DEBT</b>	243.763				230.722	13.041
Average Rate % / Life (yrs)	3.53% / 19.90yrs				3.53% / 18.90yrs	

The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/2014 was £287.312 million.

The Authority's chief objective when borrowing money 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. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

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

At 1<sup>st</sup> April 2013 the Authority held £192.377 million of loans, as part of its strategy for funding previous years' capital programmes.

In April 2013, the Council repaid a market Loan with Depfa ACS Bank for £10m. This loan was not replaced and the revenue saving from reduced interest costs is £607,000 per annum. The remaining reduction in external debt shown in the above table is a reduction in the liability of PFI and other Finance Leases.

With short-term interest rates having remained much lower than long-term rates, it was more cost effective in the short-term to use internal resources to fund capital expenditure. For the Council the use of internal resources in lieu of borrowing has, therefore, continued to be the most cost effective means of funding £8.7m of capital expenditure. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, the Council acknowledges that this position will not be sustainable over the medium term and the Authority expects it will need to borrow in the medium to long term to finance and/or re-finance capital debt. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Authority's treasury advisor.

<sup>1</sup> Loans with maturities less than 1 year.

The PWLB remains an attractive source of borrowing for the Authority as it offers flexibility and control. Affordability and the “cost of carry” remained important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

There has been no new borrowing activity thus far in 2014-15.

### **PWLB Certainty Rate and Project Rate Update**

The Authority qualifies for borrowing at the ‘Certainty Rate’ (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2013. In April the Authority submitted its application to the CLG along with the 2014-15 Capital Estimates Return to access this reduced rate for a further 12month period from 1<sup>st</sup> November 2014.

### **PWLB Borrowing**

#### **,Debt Rescheduling:**

The increase in PWLB repayment rates during the quarter lowered the premium that would apply on premature redemption of loans, but the premia was still 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.

A year after their commencement, the £125.8m of loans borrowed on 28<sup>th</sup> March 2012 for the HRA self-financing settlement became eligible for rescheduling. These loans were borrowed at one-off preferential rates made available specifically for the settlement. If the increases in gilt yields and PWLB redemption rates seen at the end of this quarter prevail in subsequent months, they may present early loan repayment opportunities at close to par. Early repayment or rescheduling will first be assessed against the requirements of the HRA business plan and any future borrowing requirements. Where rescheduling is appropriate, the Authority will consider alternative refinancing to achieve cost savings and a reduction in risk. (Conventional PWLB to PWLB debt restructuring is limited by the new borrowing and repayment spread.) The Authority is currently considering options for debt rescheduling in conjunction with its Treasury Management advisors.

#### 4. Investment Activity

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.

<b>Investments</b>	Balance on 01/04/2013 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2014 £m	Avg Rate % and Avg Life (yrs)
Short Term Investments	81.655	323.400	-316.230	88.735	
Long Term Investments	0.507		-0.431	0.075	
Investments in Pooled Funds					
Bonds issued by Multilateral Development Banks					
Corporate Bonds					
Funds Managed Externally					
<b>TOTAL INVESTMENTS</b>	82.162	168.686	-159.32	88.810	0.59%/0.22 yrs

The £88.810m is broken down further below:

<b>Type of Investments</b>	<b>£000s</b>
Money Market Funds	20,035
Instant Access Call Accounts-Overseas Banks	10,000
Instant Access Call Accounts-UK Banks	1,600
Fixed Term Deposits Local Authorities	15,000
Fixed Term Deposits Building Societies	11,000
Fixed Term Deposits UK Banks	26,100
Fixed Term Deposits Overseas Banks	5,000
Heritable Bank Outstanding Balance	75
	88,810

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

Investments with banks and building societies were primarily instant access accounts and fixed-rate term deposits. The maximum duration of these investments was 12 months in line with the prevailing credit outlook during the year as well as market conditions.

The Council's budgeted investment income for the year was estimated at £0.550m and £0.542m was achieved. The average cash balances were £93.3m during the 2013-14. In

addition income of £0.332m was realised by making an upfront payment to the pension scheme for employers pension contributions.

### **Investment Activity in 2014/15**

<b>Investments</b>	Balance on 01/04/2014 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 22/08/2014 £m	Avg Rate % and Avg Life (yrs)
Short Term Investments	88.810	157.395	-173.630	72.575	
Long Term Investments		12.00		12.00	
Investments in Pooled Funds					
Bonds issued by Multilateral Development Banks					
Corporate Bonds					
Funds Managed Externally		12.0		12.0	
<b>TOTAL INVESTMENTS</b>	88.810	181.395	-173.630	96.575	0.79%/0.64 yrs
Increase/ (Decrease) in Investments £m				7.765	

The £96.575m is broken down further below:

<b>Type of Investments</b>	<b>Short Term £000s</b>	<b>Long Term £000s</b>	<b>Total 000s</b>
Money Market Funds	2,950		2,950
Instant Access Call Accounts-Overseas Banks	3,100		3,100
Instant Access Call Accounts-UK Banks	1,100		1,100
Fixed Term Deposits Local Authorities	6,250	10,000	16,250
Fixed Term Deposits Building Societies	15,000		15,000
Fixed Term Deposits Unrated Building Societies	3,000		3,000
Fixed Term Deposits UK Banks	21,100		21,100
Certificates of Deposits UK Banks	5,000		5,000
Certificates of Deposits Overseas Banks	10,000		10,000
Fixed Term Deposits Overseas Banks	5,000		5,000
Pooled Funds Property		7,000	7,000
Pooled Funds Cash Plus	2,500		2,500
Pooled Fund Short Bond	2,500		2,500
Covered Floating Rate Note Bond		2,000	2,000
Heritable Bank Outstanding Balance	75		75
<b>Total</b>	<b>77,575</b>	<b>19,000</b>	<b>96,575</b>

**Specified Investments:** The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - A body or investment scheme of “high credit quality”.

For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

**Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below.

#### Non-Specified Investment Limits

	<b>Cash limit</b>
Total long-term investments	£30m
Total investments without credit ratings	£20m
Total investments in foreign countries rated below AA+	£10m
<b>Total non-specified investments</b>	<b>£60m</b>

The Council currently has £19m in long term investments and £3m in investments without credit ratings per the below

	£000s
CCLA Property Fund	7,000
Newcastle City Council	5,000
Northumberland County Council	5,000
Yorkshire Building Society Floating Rate Note	2,000
National Counties Building Society	3,000
<b>Total</b>	<b>22,000</b>

#### Budgeted Income and Outturn

The Authority’s budgeted investment income for the year has been estimated at £1.8m. The average cash balances were £108m during the first quarter of 2014-15.

The UK Bank Rate has been maintained at 0.5% since March 2009 and not expected to rise until 2016/2017. Short-term money market rates have remained at very low levels (see Table 1 in Appendix 2). New deposits were made at an average rate of 0.81%.



Investments in CNAV Money Market Funds were at an average rate of 0.43%. The Authority anticipates an investment outturn of £1.85m / 0.85% for the whole year.

The 2014-15 Treasury Management Strategy was approved in February 2014. The council has invested in a number of different treasury instruments during 2014-15 with the purpose of increasing returns whilst still adhering to the important principles of security and liquidity. The following gives detail of some of the changes made in treasury investment strategy in 2014-15.

### **Safe Custody Arrangements**

The Council set up a custody account with King & Shaxson in February 2012. By opening a custody account with King & Shaxson, the Council now has the ability to use a number of approved investment instruments as outlined in the 2014/15 Treasury Strategy and diversify the investment portfolio. Investment instruments requiring a custodian facility include Treasury Bills, Certificates of Deposit, Gilts, Corporate Bonds and Supranational Bonds.

By establishing custody arrangements, the Council is better-placed to consider the use of alternative investment instruments in response to evolving credit conditions. During 2014-15 the council has been able to take advantage of these custody arrangements by placing Certificate of Deposits with Deutsche Bank and Standard Chartered Banks respectively. Both banks have strong credit rating but do not issue time deposits. The custody arrangements therefore give the council access to a larger range of suitable counterparties. Using the custody arrangement the council has also placed £2m in a Floating Rate Note Covered Bond with the Yorkshire Building Society. The bond is secured against mortgages and is exempt from bail-in risk. The current rating for YBS covered bonds is AA+, so there is little credit risk, and the rate the council receives is linked to the 3 month LIBOR rate that re-fixes every three months so there is very little interest rate risk also.

### **Externally Managed Funds:**

At the end of April 2014 the Council entered into a Property Fund. The Local Authorities' Property Fund is administered by CCLA Investment Management limited who are a company specialising in fund management on behalf of Churches, Charities and Local Authorities (CCLA). The Fund was launched in 1972, is currently valued at £142 million and has a track record of income distribution yield of over five per cent per annum paid quarterly. The distribution yield is after property management costs and CCLA's fund management fee of 0.65 per cent. The fund has outperformed the Investment Property Databank (IPD) Balanced Property Unit Trusts index which is their benchmark over the past 10 years. Due to high entry fees this is seen as a long term investment with at least a 5 years time horizon. Early indications are favourable as the Council received its first income distribution at the end of July of approximately £54,000 in respect of the months of April and May.

The council has also invested £2.5m each in the following funds:

- The Insight – ILF Liquidity Plus Fund which is a Cash Plus Fund. The Fund invests in a diverse range of securities, instruments and obligations that carry a minimum credit rating of A1 for short-term investments, to ensure a return in excess of the money markets with minimal risk.
- Payden & Rygel Sterling Reserve Fund. It is a Short Bond Fund, longer in duration than cash plus funds investing in sterling-denominated investments, including gilts,

supranationals, agencies, bank and corporate bonds and other money market securities.

Both funds are supported by our Treasury Advisors, are secure and offer reasonable liquidity. The values of the funds vary (Variable Net Asset Value) but are an excellent way of diversifying the council's investment portfolio.

### **Long Term Local Authority Investments**

In August 2014 the Council invested £5m each with two Local Authorities for a period of three years at rates of 1.40% and 1.50% respectively. These were seen as favourable rates for the credit risk the council was taking on. Reference was also made of the council's Treasury Advisors long term interest rate forecast. Arlingclose only see small upward increases in rates in the next few years.

### **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
31/03/2014	5.01	A+	5.61	A
30/06/2014	5.41	A+	5.89	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 European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary Government support available to banks' senior unsecured bondholders will likely diminish within its two-year rating horizon for investment-grade entities, in April Standard & Poor's revised the Outlook of Barclays, Deutsche Bank, Credit Suisse and ING Bank from Stable to Negative. In May, Moody's also changed the outlook from stable to negative for 82 European banks and from positive to stable for two European banks. The institutions affected on the Authority's lending list are Nationwide Building Society and Svenska Handelsbanken.

The Council currently bank with the Cooperative Bank though this is due to change from 1st September 2014 when the council moves its banking to the Lloyds Bank. Moody's downgraded the long-term rating of Co-op Bank from Caa1 to Caa2 reflecting the agency's view that the ongoing deleveraging process at the Co-op will lead to a smaller and less systemically important institution, with the result there is a much reduced likelihood the UK Government would commit taxpayer's money to inject capital into the bank if required. The Authority does not use the Co-op Bank as investment counterparty and keeps its

overall exposure to the bank to a minimum each night. To mitigate against bail-in risk the council also utilises its £150,000 overdraft limit with the Coop on a Friday

### **Update on Investments with Icelandic Banks**

The Council had deposited £2.5M with Heritable Bank Plc on 22nd March 2007 for a fixed period maturing on 22nd March 2011 with interest payable annually. Heritable Bank was a UK registered bank and was placed in Administration on 7th October 2008. Ernst and Young LLP are the appointed Administrators and based on their report issued on 17th April 2009.

The Administrators latest report dated 11<sup>th</sup> February 2013 projects a base case return of between 84% and 95% and as a result the Council has reassessed the value of recoverable amount. The total dividend received as at 31st March 2013 is £1.993M. The Administrators latest report can be viewed at the following website:

<http://www.heritable.co.uk/abouttheritablebank/news/indexdb55.html%3FNewsID=90&CatID=3.html>

Investments included in the assets figures in the Balance Sheet include above impaired deposit. The details are as follows:

Date Invested	22nd March 2007
Maturity Date	22nd March 2011
Original Amount	£2,500,000
Interest rate	5.72%
Carrying Amount 31.3.2012	£861,273
Carrying Amount 31.3.2013	£507,135
Carrying Amount 31.3.2014	£75,529

The Council has now received confirmation that the remaining balance will be paid in 2014-15,

### **5. Compliance with Prudential Indicators**

The Authority confirms compliance with its Prudential Indicators for 2014/15, which was set in February 2014 as part of the Authority's Treasury Management Strategy Statement.

### **6. Outlook for Q2**

#### **Outlook for Q2 2014/15**

The stronger economic growth seen in the UK over the past six months is likely to use up spare capacity more quickly than previously assumed. Arlingclose has brought forward the timing for the first rise in Bank Rate to Q3 2015.

The rhetoric from MPC members has certainly become more hawkish, but the lack of inflationary signals is expected to allow policymakers to hold off monetary tightening for longer than the market currently expects. However, the near-term risk is that the Bank

Rate could rise sooner than anticipated, which is captured in the ‘upside risk’ range of our forecast table below.

The focus is now on the rate of increase and the medium-term peak and, in this respect, expects that rates will rise slowly and to a lower level than in the past.

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
<b>Official Bank Rate</b>											
Upside risk	0.25	0.25	0.25	0.50	0.25	0.50	0.50	0.50	0.50	0.75	0.75
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.75</b>	<b>0.75</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.25</b>	<b>1.50</b>
Downside risk					0.25	0.25	0.50	0.50	0.75	0.75	1.00

## 7 **Comments of Other Committees**

Not Applicable

## 8 **Conclusion**

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2013/14 and the first quarter of 2014/15. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

## 9 **Appendices Attached**

A' - Prudential Indicators

B' - Money Markets and PWLB Rates

C'- Maturity Rates for New Investments

## 10 **Background Papers**

Financial detail provided from the Council’s Treasury Management System and General Ledger.

### Capital Financing Requirement

Estimates of the Authority's cumulative maximum external borrowing requirement for 2014/15 to 2016/17 are shown in the table below:

	31/03/2014 Actual £000s	31/03/2015 Estimate £000s	31/03/2016 Estimate £000s	31/03/2017 Estimate £000s
Gross CFR	287,312	284,773	299,353	304,145
Less: Other Long Term Liabilities	-48,349	-45,284	-42,201	-39,117
<b>Borrowing CFR</b>	<b>238,963</b>	<b>239,489</b>	<b>257,152</b>	<b>265,028</b>
Less: Existing Profile of Borrowing	-182,373	-182,372	-197,372	-202,372
<b>Gross Borrowing Requirement/Internal Borrowing</b>	<b>56,590</b>	<b>57,115</b>	<b>59,780</b>	<b>62,656</b>
Usable Reserves	-127,428	-117,428	-82,428	-77,428
<b>Net Borrowing Requirement/Investment Capacity</b>	<b>-70,838</b>	<b>-60,313</b>	<b>-22,648</b>	<b>-14,772</b>

In the Prudential Code Amendment (November 2012), it states that the chief finance officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2014 Actual £000s	31/03/2015 Estimate £000s	31/03/2016 Estimate £000s	31/03/2017 Estimate £000s
CFR	287,312	284,773	299,353	304,145
Gross Debt	230,722	227,658	239,573	241,489
<b>Difference</b>	<b>56,590</b>	<b>57,115</b>	<b>59,780</b>	<b>62,656</b>
<b>Borrowed in excess of CFR? (Yes/No)</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>

### Usable Reserves

Estimates of the Authority's level of Usable Reserves for 2013/14 to 2015/16 are as follows:

	31/03/2014 Actual £000s	31/03/2015 Estimate £000s	31/03/2016 Estimate £000s	31/03/2017 Estimate £000s
Usable Reserves	-127,428	-117,428	-82,428	-77,428

## Prudential Indicator Compliance

### (a) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Authority to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

The Section 151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak in 2013-14 was £193m.

	Authorised Limit (Approved) as at 31/03/2014 £000s	Operational Boundary (Approved) as at 31/03/2014 £000s	Actual External Debt as at 06/08/2014 £000s
Borrowing	267	259	182
Other Long-term Liabilities	48	46	48
<b>Total</b>	<b>315</b>	<b>305</b>	<b>230</b>

### (b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limits for 2014/15 £/%	Maximum during Q1 2014/15 £/%
<b>Upper Limit for Fixed Rate Exposure</b>	100%	
Compliance with Limits:	87%	Yes
<b>Upper Limit for Variable Rate Exposure</b>	50%	
Compliance with Limits:	13%	Yes

### (c) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 06/08/2014 £000s	% Fixed Rate Borrowing as at 06/08/2014	Compliance with Set Limits?
under 12 months	50	0			Yes
12 months and within 24 months	50	0	5,000	2.74%	Yes
24 months and within 5 years	50	0	7,000	3.84%	Yes
5 years and within 10 years	75	0	14,000	7.68%	Yes
10 years and within 15 years	95	0	29,000	15.90%	Yes
15 years and within 20 years	95	0	25,522	14.00%	Yes
20 years and within 25 years	95	0	53,000	29.06%	Yes
25 years and above	95	0	48,840	26.78%	Yes

*(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date<sup>2</sup>)*

(d) **Total principal sums invested for periods longer than 364 days**

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

Upper Limit for total principal sums invested over 364 days	2014/15 Approved £000s	15/8/20 Actual £000s	31/03/2015 Estimate £000s	31/03/16 Estimate £000s
	<b>30,000</b>	<b>19,000</b>	<b>26,000</b>	<b>29,000</b>

<sup>2</sup> Page 15 of the Guidance Notes to the 2011 CIPFA Treasury Management Code

**Money Market Data and PWLB Rates**

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

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

**Table 1: Bank Rate, Money Market Rates**

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2014	0.50	0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014	0.50	0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014	0.50	0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014	0.50	0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
<b>Average</b>	<b>0.50</b>	<b>0.35</b>	<b>0.39</b>	<b>0.43</b>	<b>0.48</b>	<b>0.63</b>	<b>0.87</b>	<b>1.14</b>	<b>1.52</b>	<b>2.05</b>
<b>Maximum</b>	<b>0.50</b>	<b>0.40</b>	<b>0.50</b>	<b>0.43</b>	<b>0.50</b>	<b>0.77</b>	<b>0.94</b>	<b>1.36</b>	<b>1.76</b>	<b>2.24</b>
<b>Minimum</b>	<b>0.50</b>	<b>0.31</b>	<b>0.36</b>	<b>0.42</b>	<b>0.46</b>	<b>0.56</b>	<b>0.84</b>	<b>1.00</b>	<b>1.36</b>	<b>1.91</b>
<b>Spread</b>	<b>--</b>	<b>0.09</b>	<b>0.14</b>	<b>0.01</b>	<b>0.04</b>	<b>0.21</b>	<b>0.10</b>	<b>0.37</b>	<b>0.40</b>	<b>0.33</b>

**Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.30	4.40	4.36	4.34
	<b>Low</b>	1.40	2.70	3.62	4.24	4.34	4.30	4.28
	<b>Average</b>	1.49	2.86	3.76	4.34	4.43	4.40	4.38
	<b>High</b>	1.67	3.05	3.86	4.42	4.52	4.49	4.48

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

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.20	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.30	4.38
	<b>Low</b>	1.99	2.77	3.65	4.05	4.25	4.33
	<b>Average</b>	2.14	2.92	3.79	4.17	4.35	4.42
	<b>High</b>	2.35	3.11	3.89	4.26	4.43	4.50



**Table 4: PWLB Variable Rates**

	<b>1-M Rate</b>	<b>3-M Rate</b>	<b>6-M Rate</b>	<b>1-M Rate</b>	<b>3-M Rate</b>	<b>6-M Rate</b>
	<b>Pre- CSR</b>	<b>Pre- CSR</b>	<b>Pre- CSR</b>	<b>Post- CSR</b>	<b>Post- CSR</b>	<b>Post- CSR</b>
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57
<b>Low</b>	0.55	0.56	0.57	1.45	1.46	1.47
<b>Average</b>	0.56	0.57	0.60	1.46	1.47	1.50
<b>High</b>	0.60	0.63	0.70	1.50	1.53	1.60

**Approved Investment Counterparties**

Counterparty		Cash limit	Time limit †
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£15m each	10 years*
	AA+		5 years*
	AA		4 years*
	AA-		3 years*
	A+		2 years
	A		1 year
	A-		
The Co-operative Bank		£0.5m	Next Day
Bank of Scotland (Lloyds banking Group)		£15m	6 Months
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		£20m each	50 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher		£10m each	10 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings		£5m each	5 years
UK Building Societies without credit ratings		£3m each	1 year
Money market funds and other pooled funds		£7m each	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser		£5m each	3 months
		£1m each	1 year
		£100k each	5 years

† The time limit is doubled for investments that are secured on the borrower's assets

\* But no longer than 2 years in fixed-term deposits and other illiquid instruments

\*\* But no longer than 5 years in fixed-term deposits and other illiquid instruments