SLOUGH BOROUGH COUNCIL

REPORT TO:	Cabinet	**DATE:**	14th September 2015

CONTACT OFFICER: Joseph Holmes, Assistant Director Finance & Audit
(For all enquiries) (01753) 875358

WARD(S): All

PORTFOLIO: Cllr. Rob Anderson; Lead Commissioner for Finance & Strategy

PART I
NON-KEY DECISION

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 2014-15 and the first part of 2015-16.

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve that the Treasury Management activities for 2014/15 and the beginning of 2015/16, as set out in the body of this report, be noted.

3. The Slough Joint Wellbeing Strategy, the JSNA and the Five Year 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 achieve 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

Risk	Mitigating action	Opportunities
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 the Report and Above	As identified	None
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 2014/15 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 2014-15 and the first part of 2015-16.

2. External Context

As the quarter progressed, economic data was largely overshadowed by events in Greece. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

Greece exiting the euro – This would not be without fall-out and a detrimental impact on other economies including the UK with the small, but by no means dismissive, risk of contagion into other Eurozone peripheral economies, such as Portugal, Ireland and Spain.

UK Economy: The economy remained resilient over the quarter. Although economic growth slowed in Q1 2015 to 0.4%, Q2 growth has been 0.7% and year/year growth to March 2015 was a relatively healthy 2.9%. GDP has now increased for nine consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before returning to 0.1%. In the May Quarterly Inflation Report, the Bank of England expected inflation to hover around zero in the near-term as falls in energy and food prices remained in the annual data series for now. The Bank was sanguine that that negative inflation would prove temporary without any damaging consequences for the UK economy. Further improvement in the labour market saw the ILO unemployment rate for March fall to 5.5% of the economically active population. Average earnings excluding bonuses rose 2.2% year/year.

The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

The US economy slowed in the Q1 2015 due to bad weather, spending cuts by the energy firms and the effects of a strong dollar. However as data revisions came through in the latter months of the quarter economic data suggested that growth had re-emerged with retail sales, housing and employment figures all strengthening during the month of May. The decision to increase interest rates in the US became a question of when rather than if; the minutes of the US Federal Reserve's policy meeting showed agreement over interest rate increases by the end of 2015.

Market reaction: Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Bond markets were distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory. There was a net increase in gilt yields over the quarter. 2-year gilt yields rose by 17bp to 0.56% whilst 3-year yields rose by 25bp to 1.01%. 5- and 10-year gilt yields increased by 35bp and 48bp to 1.51% and 2.02% respectively. 20-year gilt yields saw an increase of 47bp to 2.57%.

3. Debt Management

	Balance on 01/04/2014 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2015 £m	**Increase/ Decrease in Borrowing**
CFR	287,312				295,064	
Short Term Borrowing[1]	1	1			5,000	4,999
Long Term Borrowing	182,372				177,372	-5,000
TOTAL BORROWING	182,373	1			182,372	-1
Other Long Term Liabilities	48,349				49,584	1,235
TOTAL EXTERNAL DEBT	230,722				231,956	1,234
Average Rate % / Life (yrs)	3.53% / 18.90yrs				3.53% / 17.90yrs	

The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/2015 was £295.64 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 1st April 2014 the Authority held £182.373 million of loans, as part of its strategy for funding previous years' capital programmes.

In 2014-15 no loans were repaid though. A loan of £5m is due to be repaid in August 2015 and this will not be replaced which will generate a revenue saving from reduced interest costs of £96,000. The remaining increase in external debt shown in the above table is a increase in the liability of 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 £8.0m 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 £17.0m for capital purposes by the end of 2015-16. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Authority's treasury advisor.

---

[1] 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 2015-16.

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 01/11/2014. In April the Authority submitted its application to the CLG along with the 2015-16 Capital Estimates Return to access this reduced rate for a further 12month period from 1st November 2015.

Though no borrowing is anticipated in the short term, the result of various papers going to the Cabinet in 2015 will be to potentially bring forward the point at which the Council might need to borrow. For example, the community sports facility, leisure strategy and the asset management strategy in respect of strategic acquisitions.

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 28th 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.

LOBOs: The Authority holds £13m 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. £4m of these LOBOS had options during 2014-15 none of which were exercised by the lender. As a further £4m of LOBOS have options during 2015/16, the Authority acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4. <u>Investment Activity</u>

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.

Investments	Balance on 01/04/2014 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2015 £m	Avg Rate % and Avg Life (yrs)
Short Term Investments	88.735	332.979	371.105	50.605	
Long Term Investments	0.075	10.05		10.125	
Investments in Pooled Funds		15.0		15.0	
Bonds issued by Building Societies		5.034		5.034	
Corporate Bonds					
Funds Managed Externally					
TOTAL INVESTMENTS	88.810			80.764	

The £80.764m is broken down further below:

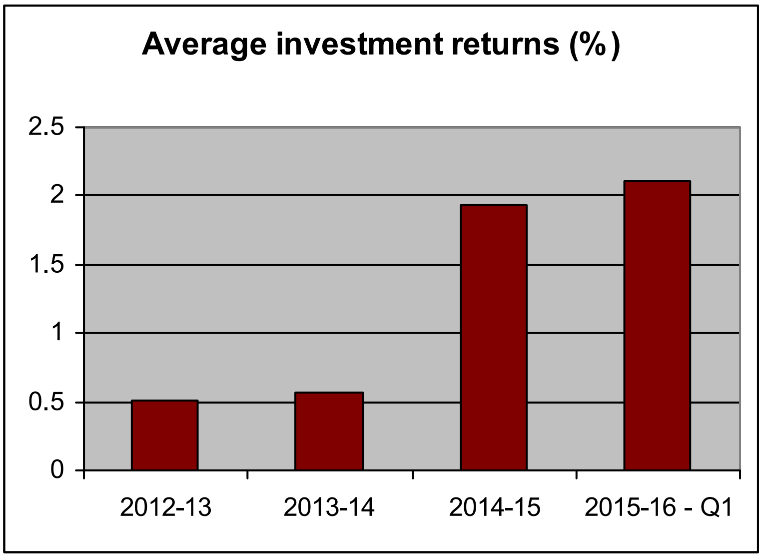
Type of Investments	**£m**
Money Market Funds	2.635
Instant Access Call Accounts-Overseas Banks	1.770
Instant Access Call Accounts-UK Banks	1.100
Pooled Property Fund	7.000
Other Pooled Funds	8.000
Fixed Term Deposits Building Societies	11.000
Bonds issued by Building Societies	5.034
Fixed Term Deposits UK Banks	10.100
Certificates of Deposit UK Banks	5.000
Certificates of Deposit Overseas Banks	10.000
Fixed Term Deposits Overseas Banks	5.000
Local Authorities	14.000
Municipal Bonds Agency	0.050
Heritable Bank Outstanding Balance	0.075
	80.764

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 2014/15 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 instant access accounts, fixed-rate term deposits but also Certificates of Deposit and Floating Rate Note Covered Bonds. The maximum duration of these investments was 3 years 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 £1.85m (£0.550m and achieved £1.768m (£0.542m in 2013-14). The average cash balances were £97.6m during the 2014-15. Also income of £0.283m was realised by making an upfront payment to the pension scheme.

As can be seen by the below, the change to the treasury Management Strategy for 2014-15 has yielded a significant benefit to the Council's investment returns.



Externally Managed Funds:
At the end of April 2014 the Council invested £7m 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. During 2014-15 the CCLA fund, generated £334,000 a return of over 5%, which has thus far proved the highest returning of our investments. The fund also appreciated in value by £442,000 during the year,

The council has also invested £8.0m in other pooled funds as follows:

- £2.5m in 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.
- £5.5m in the 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.

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. The custody arrangements therefore give the council access to a larger range of suitable counterparties. Using the custody arrangement the council has also placed £5m in two Floating Rate Note Covered Bonds with the Yorkshire and Leeds Building Societies respectively. The bonds are secured against mortgages and are exempt form bail-in risk. The current rating for YBS covered bonds is AA+ and Leeds BS covered bonds are AAA rated 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. Because the bonds are secured against mortgages the duration of the investments can be for a longer time frame. The Yorkshire FRN was placed for a period of 20 months in July 2014 and the Leeds FRN for a period of 3 years in February 2015

Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 23/07/2015 £m	Avg Rate % and Avg Life (yrs)
Short Term Investments	50.605	122.380	119.720	53.266	
Long Term Investments	10.125	5.0		15.125	
Investments in Pooled Funds	15.0	3.0		18.0	
Bonds issued by Building Societies	5.034			5.034	
Corporate Bonds					

Funds Managed Externally					
TOTAL INVESTMENTS	80.764			91.425	
Increase/ (Decrease) in Investments £m				10.661	

The £91.425m is broken down further below:

Type of Investments	Short Term £000s	Long Term £000s	Total 000s
Money Market Funds	3,545		3,545
Instant Access Call Accounts-Overseas Banks	14,800		14,800
Fixed Term Deposits Local Authorities	4,000	15,000	19,000
Fixed Term Deposits Building Societies	3,000		3,000
Fixed Term Deposits Unrated Building Societies	6,000		6,000
Fixed Term Deposits UK Banks	7,000		7,000
Certificates of Deposits UK Banks	10,000		10,000
Fixed Term Deposits Overseas Banks	5,000		5,000
Pooled Funds Property		10,000	10,000
Pooled Funds Cash Plus	2,500		2,500
Pooled Fund Short Bond	5,500		5,500
Covered Floating Rate Note Bond	2,000	3,004	5,004
Heritable Bank Outstanding Balance		76	76
Total	**63,345**	**28,005**	**91,425**

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

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£10m
Total investments with institutions domiciled in foreign countries rated below AA+	£10m
Total non-specified investments	£60m

The Council currently has £28m in long term investments and £6m in investments without credit ratings.

Budgeted Income and Outturn
The Authority's budgeted investment income for the year has been estimated at £1.943m. The average cash balances were £95.401m during the first quarter of 2015-16.

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 2015-16 Treasury Management Strategy was approved in January 2015. The council has invested in a number of different treasury instruments during 2014-15 and will continue to do so in 2015-16 with the purpose of increasing returns whist 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.

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
31/03/2013	4.0	AA-	3.11	AA
31/03/2014	5.01	A+	5.61	A
31/03/2015	4.60	A+	2.93	AA
30/06/2015	3.85	AA-	2.35	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

Counterparty Update

All three credit ratings agencies have reviewed their ratings in the last quarter to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

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

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

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

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 11th 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 2014 is £2.425M. The Administrators latest report can be viewed at the following website:

http://www.heritable.co.uk/aboutheritablebank/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 a final payment will be paid in August 2015,

5. Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2015/16, which was set in January 2015 as part of the Authority's Treasury Management Strategy Statement.

6. Outlook for Q2

Outlook for Q2 2015/16

Arlingclose's expectation for the first rise in the Bank Rate (base rate) remains the second calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited. The appropriate level for Bank Rate for the post-crisis UK economy is likely to be lower than the previous norm. We would suggest this is between 2.0% and 3.0%. There is also sufficient momentum in the US economy for the Federal Reserve to raise interest rates in 2015.

The weak global environment and resulting low inflation expectations are likely to dampen long term interest rates. We project gilt yields will follow a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued. The uncertainties surrounding the timing of UK and US interest rate rises, and the status of Greek negotiations, are likely to prompt short term volatility in gilt yields.

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00

7. Summary

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 the 2014-15 and the first part of 2015-16. 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.

6 Comments of Other Committees

Not Applicable

7 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 2014/15 and the first quarter of 2015/16. 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.

8 Appendices Attached

A' - Prudential Indicators
' B' - Money Markets and PWLB Rates
C'- Maturity Rates for New Investments

9 Background Papers

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

<u>**Appendix A**</u>

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:

	31/03/2015 Actual £000s	31/03/2016 Estimate £000s	31/03/2017 Estimate £000s	31/03/2018 Estimate £000s
Gross CFR	295,064	312,064	314,064	315,064
Less: Other Long Term Liabilities	-49,584	-46,399	-44,558	-42,740
Borrowing CFR	**245,480**	**265,665**	**269,506**	**272,324**
Less: Existing Profile of Borrowing	-182,372	-177,372	-173,372	-170,372
Gross Borrowing Requirement/Internal Borrowing	**63,108**	**88,293**	**96,134**	**101,952**
Usable Reserves	**-130,266**	**-127,266**	**-125,266**	**-123,266**
Net Borrowing Requirement/Investment Capacity	**-67,158**	**-38,973**	**-29,132**	**-21,314**

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.

	31/03/2015 Actual £000s	31/03/2016 Estimate £000s	31/03/2017 Estimate £000s	31/03/2018 Estimate £000s
CFR	295,064	312,064	314,064	315,064
Gross Debt	231,956	223,771	217,930	213,112
Difference	**63,108**	**88,293**	**96,134**	**101,952**
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**	**No**

Usable Reserves
Estimates of the Authority's level of Usable Reserves for 2015/16 to 2017/18 are as follows:

	31/03/2015 Actual £000s	31/03/2016 Estimate £000s	31/03/2017 Estimate £000s	31/03/2018 Estimate £000s
Usable Reserves	**-130,266**	**-127,266**	**-125,266**	**-123,266**

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 2014-15 was £182m.

	Authorised Limit (Approved) as at 31/03/2015 £000s	Operational Boundary (Approved) as at 31/03/2015 £000s	**Actual External Debt** as at 22/07/2015 £000s
Borrowing	267	257	182
Other Long-term Liabilities	48	48	49
Total	**315**	**305**	**231**

(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 2015/16 £/%	Maximum during Q1 2015/16 £/%
Upper Limit for Fixed Rate Exposure	100%	87%
Compliance with Limits:	87%	Yes
Upper Limit for Variable Rate Exposure	50%	13%
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 22/07/2015 £000s	% Fixed Rate Borrowing as at 22/07/2015	Compliance with Set Limits?
under 12 months	50	0	13,000	7.13%	Yes
12 months and within 24 months	50	0	4,000	2.19%	Yes
24 months and within 5 years	50	0	3,001	1.65%	Yes
5 years and within 10 years	75	0	18,000	9.87%	Yes
10 years and within 15 years	95	0	25,508	13.99%	Yes
15 years and within 20 years	95	0	30,022	16.46%	Yes
20 years and within 25 years	95	0	53,000	29.06%	Yes
25 years and above	95	0	35,841	19.65%	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[2])

(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	2015/16 Approved £000s	22/7/2015 Actual £000s	31/03/2016 Estimate £000s	31/03/17 Estimate £000s
	40,000	**28,000**	**33,000**	**36,000**

[2] Page 15 of the Guidance Notes to the 2011 CIPFA Treasury Management Code

<u>**Appendix B**</u>

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. Borrowing eligible for the project rate can be undertaken at a 0.40% 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
Average		0.50		0.41	0.48	0.43	0.52	0.75	0.98	0.99	1.21	0.53
Maximum		0.50		0.45	0.58	0.56	0.65	0.84	1.00	1.17	1.44	1.81
Minimum		0.50		0.30	0.40	0.43	0.51	0.55	0.97	0.87	1.04	1.29
Spread		--		0.15	0.18	0.13	0.14	0.29	0.03	0.30	0.40	0.53

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

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
	Low	1.31	2.02	2.60	3.16	3.28	3.23	3.21
	Average	1.43	2.29	2.95	3.49	3.58	3.52	3.49
	High	1.53	2.52	3.24	3.77	3.85	3.78	3.75

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
	Low	1.60	2.06	2.62	2.94	3.16	3.26
	Average	1.80	2.34	2.97	3.30	3.49	3.57
	High	1.98	2.57	3.27	3.60	3.77	3.85

Table 4: PWLB Variable Rates

	1-M Rate	**3-M Rate**	**6-M Rate**	**1-M Rate**	**3-M Rate**	**6-M Rate**
	Pre-CSR	**Pre-CSR**	**Pre-CSR**	**Post-CSR**	**Post-CSR**	**Post-CSR**
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
Low	0.62	0.61	0.66	1.52	1.51	1.56
Average	0.63	0.65	0.68	1.53	1.55	1.58
High	0.64	0.67	0.71	1.54	1.57	1.61

Appendix C

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£5m 20 years	£5m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£15m 4 years	£15m 5 years	£15m 15 years	£5m 5 years	£5m 10 years
AA-	£15m 3 years	£15m 4 years	£15m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£15m 3 years	£15m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£15m 2 years	£15m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£5m 13 months	£15m 5 years	£5m 13 months	£5m 5 years
BBB+	£5m 100 days	£5m 6 months	£15m 2 years	£2.5m 6 months	£2.5m 2 years
BBB or BBB-	£5m next day only	£15m 100 days	n/a	n/a	n/a
None	£3m 12 months	n/a	£5m 25 years	n/a	£5m 5 years
Pooled funds	£10m per fund				

This table must be read in conjunction with the notes below

† 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