Line No	SUMMARY	Initial Allocation 2016/17	Variations previously agreed	Year End Adjustments	Budget C/Fwd to 2017/18	Final Allocation 2016/17
		£	£	£	£	£
1	**HRA HOUSING INVESTMENT CAPITAL PROGRAMME**					
2	New Homes	185,000	3,956,600	138,010	(675,000)	3,604,610
3	Improvements to Stock	4,840,000	258,770	58,700	(2,820,080)	2,337,390
4	Recreation & Play Areas	62,000	12,590	0	(12,960)	61,630
5	Room in Roof Conversions	165,000	40,000	0	(201,940)	3,060
6	Common Room Conversions	0	110,000	26,600	(50,000)	86,600
7	TOTAL HRA HOUSING INVESTMENT CAPITAL PROGRAMME	**5,252,000**	**4,377,960**	**223,310**	**(3,759,980)**	**6,093,290**
8	**GENERAL FUND HOUSING INVESTMENT CAPITAL PROGRAMME**					
9	Private Sector Housing Support	135,000	59,890	(5,460)	(23,120)	166,310
10	Mandatory Disabled Facilities Grants	600,000	287,630	(45,620)	(313,620)	528,390
11	**TOTAL GENERAL FUND HOUSING INVESTMENT CAPITAL PROGRAMME**	**735,000**	**347,520**	**(51,080)**	**(336,740)**	**694,700**
12	**GENERAL FUND CAPITAL PROGRAMME**					
13	Commercial Property Acquisition	0	5,325,500	78,170	(172,450)	5,231,220
14	North Street Quarter	2,900,000	672,000	16,450	0	3,588,450
15	Newhaven Enterprise Zone	0	1,580,000	(500)	0	1,579,500
16	Newhaven Growth Quarter	0	78,570	(9,380)	0	69,190
17	Joint Transformation Programme	950,000	1,300,000	0	(1,541,770)	708,230
18	Implementing Change to Waste and Recycling service	1,800,000	(1,800,000)	0	0	0
19	Avis Way Depot	0	220,000	31,550	0	251,550
20	Vehicle, Plant & Equipment Replacement	215,000	0	(9,530)	(36,450)	169,020
21	Coastal Defence Works	0	40,170	49,730	(35,860)	54,040
22	Flood Alleviation Project	112,750	0	0	0	112,750
23	Newhaven Fort (Major Repairs & Improvements)	50,000	21,980	(50,680)	0	21,300
24	Indoor Leisure Facilities (Major Repairs & Improvements)	0	369,180	(44,860)	(6,160)	318,160
25	Parks, Recreation & Play Areas	19,000	486,420	1,700	(262,660)	244,460
26	Property Assets Major Works	150,000	322,580	(229,080)	(153,490)	90,010
27	Photovoltaic Panel Housing Installation	0	0	5,000	0	5,000
28	Community Infastructure	20,000	0	(11,930)	0	8,070
29	**TOTAL GENERAL FUND CAPITAL PROGRAMME**	**6,216,750**	**8,616,400**	**(173,360)**	**(2,208,840)**	**12,450,950**
30	**TOTAL OVERALL CAPITAL PROGRAMME**	**12,203,750**	**13,341,880**	**(1,130)**	**(6,305,560)**	**19,238,940**
31	**CAPITAL PROGRAMME FUNDING**					
32	**CAPITAL PROGRAMME FUNDING**					
33	Borrowing					8,711,870
34	Capital Receipts					1,907,390
35	Reserves					4,200,710
36	Capital Grants					2,124,930
37	Section 106 Contributions					143,390
38	Other Capital Contributions					2,137,870
39	Capital Expenditure Financed from Revenue (General Fund)					4,710
40	Capital Expenditure Financed from Revenue (Housing Fund)					0
41	CIL Grants					8,070
42	**TOTAL CAPITAL PROGRAMME**					**19,238,940**

Line No	SUMMARY	Initial Allocation 2017/18	Budget B/Fwd from 2016/17	Proposed variations	Revised Allocation 2017/18
		£	£	£	£
1	**HRA HOUSING INVESTMENT CAPITAL PROGRAMME**				
2	New Homes	283,800	675,000	(98,800)	860,000
3	Improvements to Stock	5,182,500	2,820,080	0	8,002,580
4	Recreation & Play Areas	50,000	12,960	0	62,960
5	Room in Roof Conversions	165,000	201,940	0	366,940
6	Common Room Conversions	0	50,000	0	50,000
7	TOTAL HRA HOUSING INVESTMENT CAPITAL PROGRAMME	**5,681,300**	**3,759,980**	**(98,800)**	**9,342,480**
8	**GENERAL FUND HOUSING INVESTMENT CAPITAL PROGRAMME**				
9	Private Sector Housing Support	135,000	23,120	0	158,120
10	Mandatory Disabled Facilities Grants	840,000	313,620	81,630	1,235,250
11	TOTAL GENERAL FUND HOUSING INVESTMENT CAPITAL PROGRAMME	**975,000**	**336,740**	**81,630**	**1,393,370**
12	**GENERAL FUND CAPITAL PROGRAMME**				
13	Commercial Property Acquisition and Development	4,970,000	172,450	(48,000)	5,094,450
14	North Street Quarter	0	0	0	0
15	Newhaven Enterprise Zone	0	0	0	0
16	Joint Transformation Programme	0	1,541,770	0	1,541,770
17	Implementing Change to Waste and Recycling Service	1,800,000	0	0	1,800,000
18	Vehicle, Plant & Equipment Replacement	183,000	0	0	183,000
19	IT Equipment Replacement	50,000	36,450	213,550	300,000
20	Coastal Defence Works	0	35,860	0	35,860
21	Flood Alleviation Project	136,000	0	0	136,000
22	Newhaven Fort (Major Repairs & Improvements)	50,000	0	0	50,000
23	Indoor Leisure Facilities (Major Repairs & Improvements)	250,000	6,160	0	256,160
24	Parks, Recreation & Play Areas	394,000	262,660	(146,990)	509,670
25	Property Assets Major Works	190,000	153,490	58,000	401,490
26	Community Infastructure	0	0	0	0
27	**TOTAL GENERAL FUND CAPITAL PROGRAMME**	**8,023,000**	**2,208,840**	**76,560**	**10,308,400**
28	**TOTAL OVERALL CAPITAL PROGRAMME**	**14,679,300**	**6,305,560**	**59,390**	**21,044,250**
29	**CAPITAL PROGRAMME FUNDING**				
30	**CAPITAL PROGRAMME FUNDING**				
31	Borrowing				5,542,000
32	Capital Receipts				673,940
33	Reserves				13,043,430
34	Capital Grants				1,271,110
35	Section 106 Contributions				377,770
36	Other Capital Contributions				0
37	Capital Expenditure Financed from Revenue (General Fund)				136,000
38	Capital Expenditure Financed from Revenue (Housing Fund)				0
39	CIL Grants				0
40	**TOTAL CAPITAL PROGRAMME**				**21,044,250**

APPENDIX 4

Lewes District Council

Annual Treasury Management Report 2016/2017

Contents

1. Background 1

2. Overall Summary of Activity 2016/2017 1

3. Detailed Analysis – Borrowing 2

4. Detailed Analysis - Investments 5

5. Counterparty Update 7

6. Compliance with Prudential Indicators 8

7. Investment Consultants 8

8. Reporting and Training 8

Appendix A – Prudential Indicators 2016/2017 10

Appendix B – Economic Background explained by Arlingclose 15

Appendix C – List of Term Deposits made and/or maturing in 2016/2017 16

Glossary of Terms 17

1. Background

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury management report. The report must review treasury management activities and set out the final position of the Council's Treasury Prudential Indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.2 The Council defines its Treasury Management activities as:

"the management of the Council'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."

1.3 The Council agreed its Treasury Management Strategy Statement and Investment Strategy 2016/2017 to 2018/2019 at its meeting in February 2016.

2. Overall Summary of Activity 2016/2017

2.1 The table below lists the key elements of the 2016/2017 Strategy and records actual performance against each one of them.

Key Element	Target in Strategy	Actual Performance	
Borrowing			
Underlying need to borrow (CFR) at year end	£75.049 million	£77.042 million	-
Internal borrowing at year end	£18.376 million	£20.369 million	-
New external long-term borrowing in year	None anticipated	None undertaken	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken	✓
Interest payments on external borrowing	£1.730 million	£1.728 million	✓
Investments			
Minimum counterparty credit ratings for investments of up to 6 months	Long-term A- (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A	✓
Interest receipts from external investments	£0.104m	£0.119	✓
Appointment of Investment Consultants			
Independent Treasury Adviser to be retained	Arlingclose to be retained as Treasury Adviser	Arlingclose retained as Treasury Adviser	✓

Key Element	Target in Strategy	Actual Performance	
Reporting and Training			
Reports to be made to Audit and Standards Committee and Cabinet	Every meeting	Every regular meeting.	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Staff training October 2016	-

2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2016/2017 has been carried out in accordance with the Council's agreed Strategy, the remainder of this report explores each of the key elements in more depth. Appendix A gives details of the final position on each of the Prudential Indicators, and Appendix B explores the Economic Background to the year's activity. A Glossary appears at the end of the document to explain technical terms which could not be avoided when writing this report.

3. Detailed Analysis – Borrowing

3.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (eg the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). The Government limits the amount borrowed by local authorities for housing purposes only by specifying 'debt caps'. This Council's underlying debt cap has been fixed at £72.931m. In 2014/2015 local authorities were able to bid for an increase in the housing debt cap in order to enable specific projects. A bid from this Council was successful and the debt cap has been increased to £75.248m to match expenditure incurred in building new houses on 7 specified former garage sites.

3.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while usable reserves and working capital are the underlying resources available for investment below their underlying levels, known as internal borrowing, and this remained the Strategy for 2016/2017.

3.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. 'External borrowing' is where loans are raised from the Public Works Loans Board (PWLB) or banks. Alternatively it is possible to 'internally borrow' the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other counterparties.

3.4 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The original CFR projection for 2016/2017, the revised position reported at the time of producing the Treasury Strategy 2017/2018 (February 2017) and the final position for the year are shown in the table below. The variation between the revised and final position reflects the changing profile of capital spend across financial years, and the set aside of £2m in capital receipts for debt repayment which had not been anticipated in February 2017.

	2016/17 Original £m	2016/17 Revised £m	2016/17 Outturn £m
Opening CFR	70.893	71.531	71.531
Capital expenditure in year	17.471	24.855	19.160
Less financed	(11.469)	(14.506)	(10.448)
Less amount set aside for debt repayment	(1.846)	(1.289)	(3.201)
Closing CFR	**75.049**	**80.591**	**77.042**

3.5 The overall CFR can be split between the General Fund and Housing Revenue Account as follows:

CFR Component	2016/17 Revised £m	2016/17 Outturn £m
General Fund	14.810	11.709
Housing Revenue Account	65.781	65.333
Total	**80.591**	**77.042**

3.6 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held pending use).

	31/3/17 Revised £m	31/3/17 Outturn £m
(a) Capital Financing Requirement	80.591	77.042
(b) Actual external long-term borrowing	(56.673)	(56.673)
(c) Use of Balances and Reserves and working capital as alternative to borrowing (a)–(b)	23.918	20.369

3.7 The Council's long-term loan portfolio at 31 March 2017 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.00	2.70	01/03/2024
PWLB	Fixed	5.00	3.30	01/03/2032
PWLB	Fixed	2.00	3.05	01/09/2027
PWLB	Fixed	2.00	2.76	01/09/2024
PWLB	Fixed	4.00	2.97	01/09/2026
PWLB	Fixed	5.00	3.28	01/09/2031
PWLB	Fixed	4.00	2.63	01/09/2023
PWLB	Fixed	5.00	3.44	01/03/2037
PWLB	Fixed	6.67	3.50	01/03/2042
PWLB	Fixed	5.00	3.43	01/09/2036
PWLB	Variable	5.00	0.62	28/03/2022
PWLB	Fixed	4.00	3.01	01/03/2027
	Sub-total	51.67		
Barclays	Fixed	5.00	4.50	06/04/2054
	Total	56.67		

3.8 In the table above the Barclays loan was taken out in April 2004 with a term of 50 years. The original loan agreement with Barclays enabled the bank to increase the interest rate of the loan on a specified date every four years, although the Council could, in that event, repay the loan without penalty. In June 2016 the bank decided to permanently waive its right to vary the interest rate on this loan, which was effectively fixed at the rate of interest applicable at that time, 4.5%.

3.9 Total interest paid on external long-term borrowing in the year was £1.728m, which was consistent with the revised budget for the year. No new long-term borrowing was undertaken. The Council remained eligible to access the Government's 'Certainty Rate' allowing the Council to borrow, had it been appropriate to do so, at a reduction of 0.20% on the Standard Rate.

3.10 Through the year, officers, supported by Arlingclose, monitored opportunities for the rescheduling of external loans and the possibility of repayment utilising cash balances that would otherwise be invested. No beneficial rescheduling opportunities were identified and the loan portfolio remained unchanged through the year.

3.11 As determined by the Council, two separate Loans Pools operated in 2016/2017, for the General Fund and HRA respectively. At 31 March 2017 the balance on internal loans from the General Fund to the HRA was £8.660m, a net increase of £1.408m compared with the previous year (which comprised new lending of £2.215m as funding for the construction of new homes offset by a repayment of £0.807m). Interest was charged on internal borrowing at 1.33% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).

3.12 For cash flow purposes, temporary borrowing with a value of £4m was undertaken at the end of the finanicial year. This was in the form of a single fixed term loan covering the period 28 March to 11 April 2017 at an interest rate of 0.5%.

4. Detailed Analysis - Investments

4.1 The Council held an average of £21.6m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending use.

4.2 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2016/2017, the Council's investment priorities continued to be:

highest priority - security of the invested capital;
followed by - liquidity of the invested capital;
finally - an optimum yield commensurate with security and liquidity.

4.3 All of the Council's investments were managed in-house. Security of capital was maintained by following the counterparty policy set out in the Investment Strategy for 2016/2017. Investments during the year included:

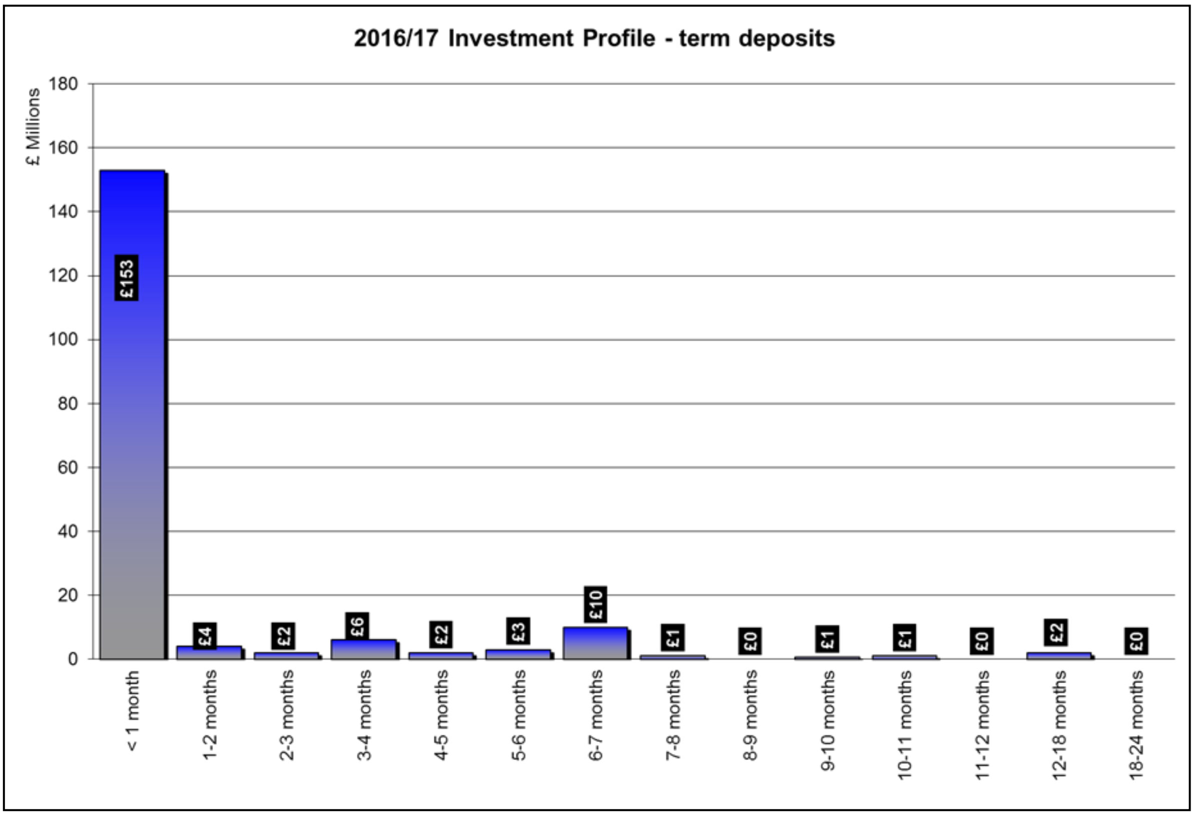
- Fixed Term Deposits with the Debt Management Office (total £116.75 million – 44 occasions)
- Fixed Term Deposits with other Local Authorities (total £14.00 million – 7 occasions)
- Fixed Term Deposits with UK Banks/Building Societies (total £27.00 million – 16 occasions)
- Investments in Money Market Funds (MMFs) (average balance held in year £5.49 million)
- United Kingdom Treasury Bills (total £20.09 million – 18 occasions)
- Tradable Investments - Floating Rate Notes, Certificates of Deposit, Bonds (total 6.78 million – 5 occasions)
- Deposit accounts with UK Banks (average balance held in year £0.73 million)
- Overnight deposits with the Council's banker, Lloyds Bank (average balance held in year £0.99 million)

4.4 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of A across all three rating agencies Fitch, Standard and Poors, and Moody's applied); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

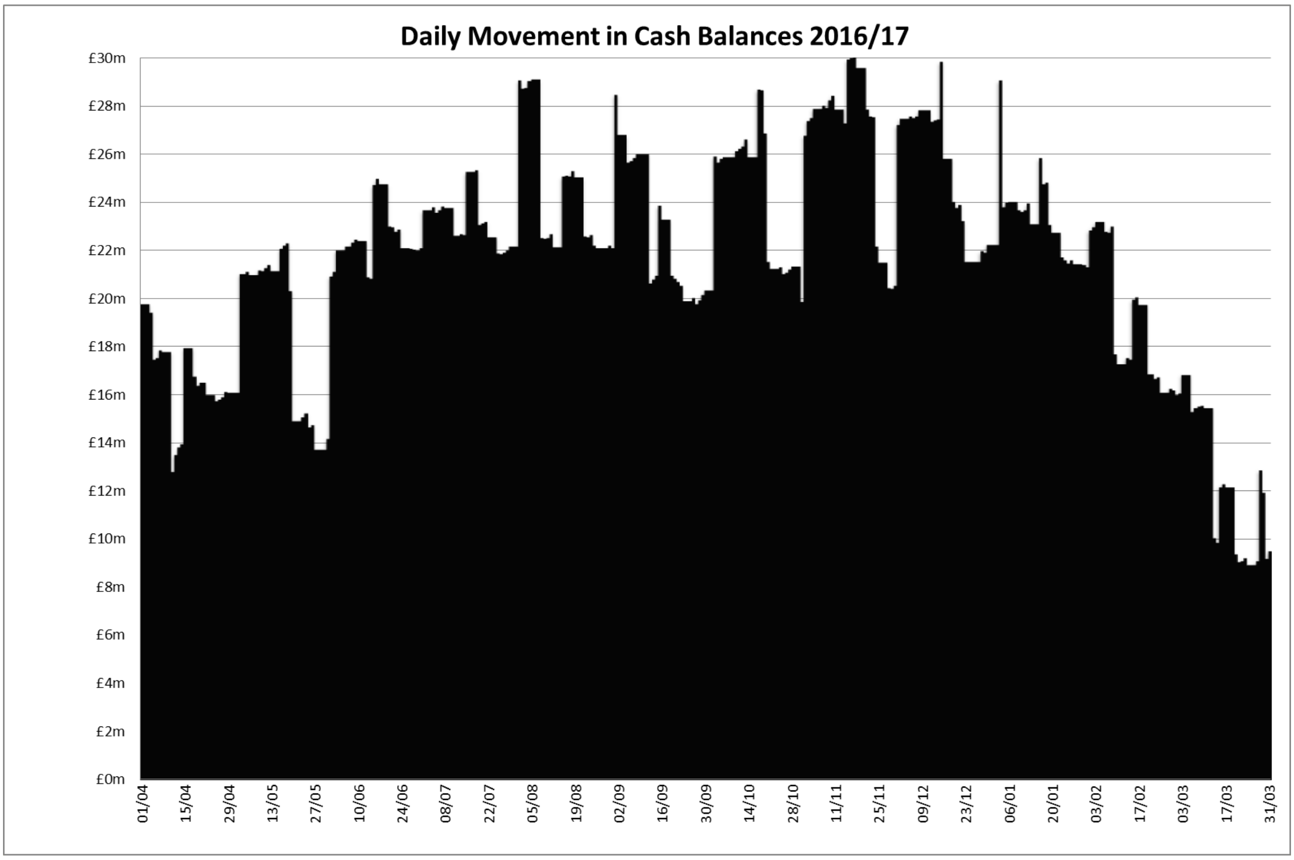
4.5 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and deposit accounts, the average balance held being £7.21 million.

4.6 The Council sought to optimise returns commensurate with its objectives of security and liquidity. The Treasury Management Strategy anticipated an increase in the UK Bank Rate of 0.25% in the third quarter of 2016. However the UK economic outlook changed significantly on 23 June 2016. The surprise result of the referendum on EU membership and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment. The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, and resulted in a cut in Bank Rate to 0.25%.

4.7 A full list of term deposits made in the year is given at Appendix C. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The chart below gives an analysis of aggregate fixed term deposits by duration.



4.8 The next chart shows how the total amount invested varied from day to day over the course of the year. The movement largely reflects the cycle of grant, council tax and business rate receipts and precept payments made.



4.9 Interest generated from investments in the year was £0.119 million, well above the total budget for investment income, £0.104 million. This favourable position arose as a result of higher than anticipated levels of cash being held pending expenditure on capital programme projects, etc.

4.10 The average rate of return from investments at the end of each quarter in 2016/2017 is shown in the table below, along with comparative benchmark information, the 7-day LIBID rate.

Average rate of investments at:	Lewes District Council	7 day LIBID
30 June 2016	0.51%	0.45%
30 September 2016	0.48%	0.37%
31 December 2016	0.44%	0.32%
31 March 2017	0.43%	0.30%

5. Counterparty Update

5.1 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.

5.2 Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

5.3 None of the banks on the Council's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

6. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2016/2017. A detailed review of each of the Prudential Indicators is at Appendix A.

7. Investment Consultants

In June 2012 Arlingclose had been reappointed as the Council's treasury management adviser, for a four year term with the Council having the option to extend for a further year. The Council exercised its option to extend, which will now come to an end on 30 June 2017. A joint procurement exercise covering all of the East Sussex district and borough councils took place in early 2017, the result of which enables the Council to enter into a new agreement with Arlinclose from July 2017. In 2016/2017, Arlinglose was the primary source of information, advice and assistance relating to investment activity, with individual investment decisions being made by the Council.

8. Reporting and Training

8.1 The Deputy Chief Executive reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2016/2017. A mid-term summary report was issued in November 2016.

8.2 The training needs of the Council's treasury management staff were reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Members of staff attended Arlingclose workshops alongside colleagues from other local authorities during 2016/2017.

8.3 In May 2016, Arlingclose met with all Council officers with a role in treasury management both to explain developments within the sector, as well as review the Council's own investment and debt portfolios.

8.4 The Treasury Strategy had anticipated that Arlingclose would hold a local briefing session for all councillors tasked with treasury management responsibility, including scrutiny of the the treasury management function. It did not prove practicable for this session to take place, and the next councillor briefing is now expected to take place in autumn 2017.

Appendix A – Prudential Indicators 2016/2017

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme These Indicators are also included below for completeness of reporting.

2. Net Borrowing and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 The Deputy Chief Executive reports that the Council has had no difficulty meeting this requirement in 2016/2017, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the budget for 2017/2018.

3. Estimates of Capital Expenditure (direct link to Capital Programme)

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

No.	Capital Expenditure	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
1a	Non-HRA	8.731	14.102	6.093
1b	HRA	8.740	9.717	13.146
	Total	**17.471**	**23.819**	**19.239**

4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2016/17 Original %	2016/17 Revised %	2016/17 Actual %
2a	Non-HRA	1.64	1.61	1.88
2b	HRA	15.71	15.70	15.02

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

No	Capital Financing Requirement	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
3a	Non-HRA	10.067	13.858	11.709
3b	HRA	64.982	65.722	65.333
	Total CFR	**75.049**	**79.580**	**77.042**

5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
Balance B/F	70.893	71.531	71.531
Capital expenditure financed from borrowing	6.002	11.239	8.712
Revenue provision for Debt Redemption.	-1.846	-3.190	-3.201
Balance C/F	**75.049**	**79.580**	**77.042**

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (see 8 below).

No.	Actual External Debt as at 31/03/2017	Revised £m	Actual £m
4a	Borrowing	56.673	56.673
4b	Other Long-term Liabilities	0.080	0.281
4c	**Total**	**56.753**	**56.954**

7. Incremental Impact of Capital Investment Decisions Stream (direct link to Capital Programme)

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No.	Incremental Impact of Capital Investment Decisions	2016/17 Original £	2016/17 Revised £	2016/17 Actual £
5a	Increase in Band D Council Tax	127.19	167.97	111.29
5b	Increase in Average Weekly Housing Rents	1.31	1.21	0.69

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, new borrowing increases interest payable, and funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure. The actual indicators are less than the revised as a result of significant capital projects being deferred from 2016/2017 into 2017/2018.

8. Authorised Limit and Operational Boundary for External Debt

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The 2016/2017 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Authorised Limit for External Debt	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
6a	Borrowing	76.00	81.00	60.67
6b	Other Long-term Liabilities	0.50	0.50	0.28
6c	**Total**	**76.50**	**81.50**	**60.95**

8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Deputy Chief Executive has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet. The 2016/2017 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	**Operational Boundary for External Debt**	**2016/17 Original £m**	**2016/17 Revised £m**	**2016/17 Actual £m**
7a	Borrowing	70.50	75.50	60.67
7b	Other Long-term Liabilities	0.50	0.50	0.28
7c	**Total**	**71.00**	**76.00**	**60.95**

9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted best practice.

No.	**Adoption of the CIPFA Code of Practice in Treasury Management**
8	The Council approved the adoption of the CIPFA Treasury Management Code in 2002. Following revisions to the Code published in December 2009, reconfirmed its adoption of the Code in February 2010.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums ie fixed rate debt net of fixed rate investments.

10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		**2016/17 Original £m**	**2016/17 Revised £m**	**2016/17 Actual £m**
9	**Upper Limit for Fixed Interest Rate Exposure**	76.50	81.50	51.67
10	**Upper Limit for Variable Interest Rate Exposure**	(27.5)	(27.5)	(25.1)

10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council’s Treasury Management Strategy.

10.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

11. Maturity Structure of Fixed Rate borrowing

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %	Actual %
11a	under 12 months	0	70	0
11b	12 months and within 24 months	0	70	0
11c	24 months and within 5 years	0	75	0
11d	5 years and within 10 years	0	75	35
11e	10 years and above	0	100	65

12. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. No investments of more than 364 days were made during 2016/17.

No.	Upper Limit for total principal sums invested over 364 days	2016/17 Original %	2016/17 Revised %	2016/17 Actual %
12	Upper limit	50	50	0

13. HRA Limit on Indebtedness

This indicator is associated with self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA Debt Cap specified by the Government.

No	Capital Financing Requirement	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
13a	HRA CFR	64.982	65.722	65.333
13b	HRA Debt Cap	75.248	75.248	75.248
	Difference	**10.266**	**9.526**	**9.915**

Appendix B – Economic Background explained by Arlingclose

Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets: Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

Appendix C – List of Term Deposits made and/or maturing in 2016/2017

Ref	Counterparty	From	To	Days	Principal	Int
228115	Nationwide Building Society	18 Feb 16	18 Aug 16	182	1,000,000	0.71%
228315	Eastbourne Borough Council	24 Mar 16	1 Jun 16	69	2,000,000	0.50%
228415	Stafford Borough Council	24 Mar 16	1 Apr 16	8	2,000,000	0.50%
228516	Debt Management Office	1 Apr 16	5 Apr 16	4	5,000,000	0.25%
228616	Debt Management Office	5 Apr 16	11 Apr 16	6	3,500,000	0.25%
228716	Thurrock Borough Council	27 May 16	28 Nov 16	185	3,000,000	0.50%
228816	Debt Management Office	15 Apr 16	18 Apr 16	3	3,000,000	0.25%
228916	Debt Management Office	18 Apr 16	25 Apr 16	7	2,000,000	0.25%
229016	Debt Management Office	3 May 16	9 May 16	6	4,000,000	0.25%
229116	Debt Management Office	9 May 16	19 May 16	10	2,250,000	0.25%
229216	Debt Management Office	16 May 16	20 May 16	4	2,000,000	0.25%
229316	Debt Management Office	18 May 16	20 May 16	2	1,000,000	0.25%
229416	Debt Management Office	1 Jun 16	2 Jun 16	1	3,500,000	0.25%
229516	Debt Management Office	1 Jun 16	6 Jun 16	5	4,000,000	0.25%
229616	Debt Management Office	6 Jun 16	13 Jun 16	7	5,000,000	0.25%
229716	Nationwide Building Society	6 Jun 16	6 Dec 16	183	1,000,000	0.71%
229816	Thurrock Borough Council	1 Jul 16	5 Oct 16	96	1,750,000	0.46%
229916	Coventry Building Society	10 Jun 16	1 Jul 16	21	2,000,000	0.40%
230016	Debt Management Office	13 Jun 16	20 Jun 16	7	3,000,000	0.25%
230116	Debt Management Office	15 Jun 16	20 Jun 16	5	3,000,000	0.25%
230216	Coventry Building Society	18 Jul 16	25 Jul 16	7	2,000,000	0.35%
230316	Debt Management Office	18 Jul 16	19 Jul 16	1	2,000,000	0.25%
230416	Debt Management Office	18 Jul 16	25 Jul 16	7	1,000,000	0.25%
230516	Coventry Building Society	25 Jul 16	1 Aug 16	7	2,000,000	0.35%
230616	Debt Management Office	1 Aug 16	8 Aug 16	7	5,500,000	0.25%
230716	Coventry Building Society	1 Aug 16	8 Aug 16	7	2,000,000	0.35%
230816	Debt Management Office	15 Aug 16	22 Aug 16	7	3,000,000	0.15%
230916	Nationwide Building Society	18 Aug 16	20 Feb 17	186	1,000,000	0.40%
231016	Debt Management Office	1 Sep 16	5 Sep 16	4	2,000,000	0.15%
231116	Debt Management Office	1 Sep 16	12 Sep 16	11	2,000,000	0.15%
231216	Debt Management Office	15 Sep 16	19 Sep 16	4	3,000,000	0.15%
231316	Thurrock Borough Council	5 Oct 16	4 Jan 17	91	1,750,000	0.25%
231416	Coventry Building Society	3 Oct 16	10 Oct 16	7	2,000,000	0.19%
231516	Coventry Building Society	10 Oct 16	24 Oct 16	14	2,000,000	0.20%
231616	Debt Management Office	10 Oct 16	20 Oct 16	10	3,000,000	0.15%
231716	Thurrock Borough Council	21 Oct 16	23 Jan 17	94	500,000	0.25%
231816	Debt Management Office	17 Oct 16	20 Oct 16	3	3,000,000	0.15%
231916	Coventry Building Society	24 Oct 16	31 Oct 16	7	1,000,000	0.19%
232016	Thurrock Borough Council	28 Nov 16	30 May 17	183	3,000,000	0.35%
232116	Coventry Building Society	1 Nov 16	15 Nov 16	14	2,000,000	0.20%
232216	Debt Management Office	1 Nov 16	7 Nov 16	6	2,000,000	0.15%
232316	Debt Management Office	2 Nov 16	7 Nov 16	5	1,000,000	0.15%
232416	Debt Management Office	7 Nov 16	14 Nov 16	7	3,500,000	0.15%
232516	Debt Management Office	8 Nov 16	14 Nov 16	6	2,000,000	0.15%
232616	Debt Management Office	14 Nov 16	21 Nov 16	7	4,000,000	0.15%
232716	Debt Management Office	15 Nov 16	24 Nov 16	9	1,500,000	0.15%
232816	Coventry Building Society	15 Nov 16	22 Nov 16	7	2,000,000	0.19%
232916	Debt Management Office	21 Nov 16	24 Nov 16	3	3,000,000	0.15%
233016	Debt Management Office	22 Nov 16	24 Nov 16	2	1,000,000	0.15%
233116	Debt Management Office	1 Dec 16	9 Dec 16	8	3,000,000	0.15%
233216	Coventry Building Society	1 Dec 16	15 Dec 16	14	2,000,000	0.20%
233316	Debt Management Office	6 Dec 16	13 Dec 16	7	1,000,000	0.15%
233416	Debt Management Office	9 Dec 16	16 Dec 16	7	3,000,000	0.15%
233516	Nationwide Building Society	13 Dec 16	13 Jun 17	182	1,000,000	0.42%
233616	Coventry Building Society	15 Dec 16	16 Jan 17	32	2,000,000	0.22%
233716	Debt Management Office	15 Dec 16	19 Dec 16	4	1,000,000	0.15%
233816	Debt Management Office	15 Dec 16	22 Dec 16	7	2,000,000	0.15%
233916	Debt Management Office	3 Jan 17	4 Jan 17	1	3,000,000	0.15%
234016	Debt Management Office	3 Jan 17	9 Jan 17	6	2,500,000	0.15%
234116	Debt Management Office	3 Jan 17	13 Jan 17	10	2,000,000	0.15%
234216	Debt Management Office	9 Jan 17	19 Jan 17	10	2,000,000	0.15%
234316	Debt Management Office	16 Jan 17	9 Feb 17	24	4,000,000	0.15%
234416	Coventry Building Society	17 Jan 17	17 Feb 17	31	2,000,000	0.22%
234516	Debt Management Office	15 Feb 17	1 Mar 17	14	2,000,000	0.15%
234616	Debt Management Office	17 Feb 17	20 Feb 17	3	2,000,000	0.15%
234716	Debt Management Office	3 Mar 17	6 Mar 17	3	1,000,000	0.10%
234816	Debt Management Office	10 Mar 17	13 Mar 17	3	4,500,000	0.10%

Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Base Rate	The main interest rate in the economy, set by the Bank Of England, upon which others rates are based.
Bonds	Debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty	Organisation with which the Council makes an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices can be monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term outlook, the long term outlook, as well as an assessment of the extent to which the parent

	company or the state will honour any obligations. At present, the three main agencies providing credit rating services are Fitch Ratings, Moody's and Standard and Poor's.
Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every five years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.
Treasury Bills (T-Bills)	These are issued by the UK Government as part of the Debt Management Office's cash management operations. They do not pay interest but are issued at a discount and are redeemed at par. T-Bills have up to 12 months maturity when first issued.