

Lewes District Council

Annual Treasury Management Report 2015/2016

Contents

1. Background.....	1
2. Overall Summary of Activity 2015/2016	1
3. Detailed Analysis – Borrowing	2
4. Detailed Analysis - Investments	5
5. Counterparty Update	7
6. Compliance with Prudential Indicators.....	9
7. Investment Consultants	9
8. Reporting and Training	9
Appendix A – Prudential Indicators 2015/2016.....	10
Appendix B – Economic Background explained by Arlingclose	15
Appendix C – List of Term Deposits made and/or maturing in 2015/2016.....	17
Glossary of Terms	19

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 2015/2016 to 2017/2018 at its meeting in February 2015.

2. Overall Summary of Activity 2015/2016

2.1 The table below lists the key elements of the 2015/2016 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	£74.034 million	£71.530 million	✓
Internal borrowing at year end	£17.361 million	£14.857 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	£1.735 million	✓
Investments			
Minimum counterparty credit ratings for investments of up to 1 year	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	£0.075m	£0.112	✓
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	Arlingclose met with Councillors and Staff October 2015	✓

- 2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2015/2016 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 development projects to take place. A bid from this Council was successful and, after agreeing changes to the projects in 2015/2016, the increased debt cap is £74.629m to incorporate spending on 5 new build projects which will deliver 22 new homes in total.
- 3.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This, together with Balances and Reserves, are the core drivers of Treasury Management activity.
- 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 or banks. Alternatively it is possible to use the cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other borrowers as a means to avoid taking on external loans. This is known as internal borrowing.
- 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 table below shows the original

CFR projection for 2015/2016, the revised position reported at the time of producing the Treasury Strategy 2016/2017 and the final position for the year. The variation in capital expenditure (and financing) was anticipated given that the capital programme represents an allocation of funds to specific long-term projects many of which span financial years.

	2015/16 Original £m	2015/16 Revised £m	2015/16 Outturn £m
Opening CFR	70.709	69.979	69.979
Capital expenditure in year	15.666	14.075	12.957
Less financed	(10.464)	(11.304)	(9.378)
Less amount set aside for debt repayment	(1.877)	(1.857)	(2.028)
Closing CFR	74.034	70.893	71.530

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

CFR Component	2015/16 Revised £m	2015/16 Outturn £m
General Fund	6.913	7.606
Housing Revenue Account	63.980	63.924
Total	70.893	71.530

- 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). The total held in Balances and Reserves is higher than anticipated in the revised budget mainly because of expenditure on capital projects switching into 2016/2017.

	31/3/16 Revised £m	31/3/16 Outturn £m
(a) Capital Financing Requirement	70.893	71.530
(b) Actual external borrowing	(56.673)	(56.673)
(c) Use of Balances and Reserves as alternative to borrowing (a)–(b)	14.220	14.857
(d) Total Balances and Reserves	10.474	17.827
(e) Working capital	12.098	8.776
(f) Less Amount used as an alternative to borrowing (c) above	(14.220)	(14.857)
(g) Total investments (d)+(e)–(f)	8.352	11.746

3.7 The Council's loan portfolio at 31 March 2016 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	LOBO	5.00	4.50	06/04/2054
	Total	56.67		

- 3.8 In the table above the Lender's Options Borrower's Option (LOBO) loan was taken out in April 2004 with a term of 50 years. Under the terms of the LOBO, the Lender will next review the rate/terms of the loan in April 2016 and if it proposes an increase, the Council will have an option to repay.
- 3.9 Total interest paid on external long-term borrowing in the year was £1.735m, which was consistent with the revised budget for the year. No new borrowing, either long-term or short-term (for cash flow purposes) 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 2015/2016, for the General Fund and HRA respectively. At 31 March 2016 the balance on internal loans from the General Fund to the HRA was £7.251m, a reduction of £1.550m compared with the previous year. 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).

4. Detailed Analysis - Investments

4.1 The Council held an average of £23.8m 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 2015/2016, 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 2015/2016. Investments during the year included:

- Term Deposits with the Debt Management Office (total £99.75m – 42 occasions)
- Term Deposits with other Local Authorities (total £20.0m – 9 occasions)
- Term Deposits with banks and building societies (total £9.0m – 8 occasions)
- Purchase of UK Treasury Bills (total £68m – 63 occasions)
- Investments in AAA-rated Constant Net Asset Value Money Market Funds (MMFs) (average balance held in year £4.87m)
- Deposit accounts with UK Banks (average balance held in year £2.27m)
- Overnight deposits with the Council's banker, Lloyds Bank (average balance held in year £1.00 million)

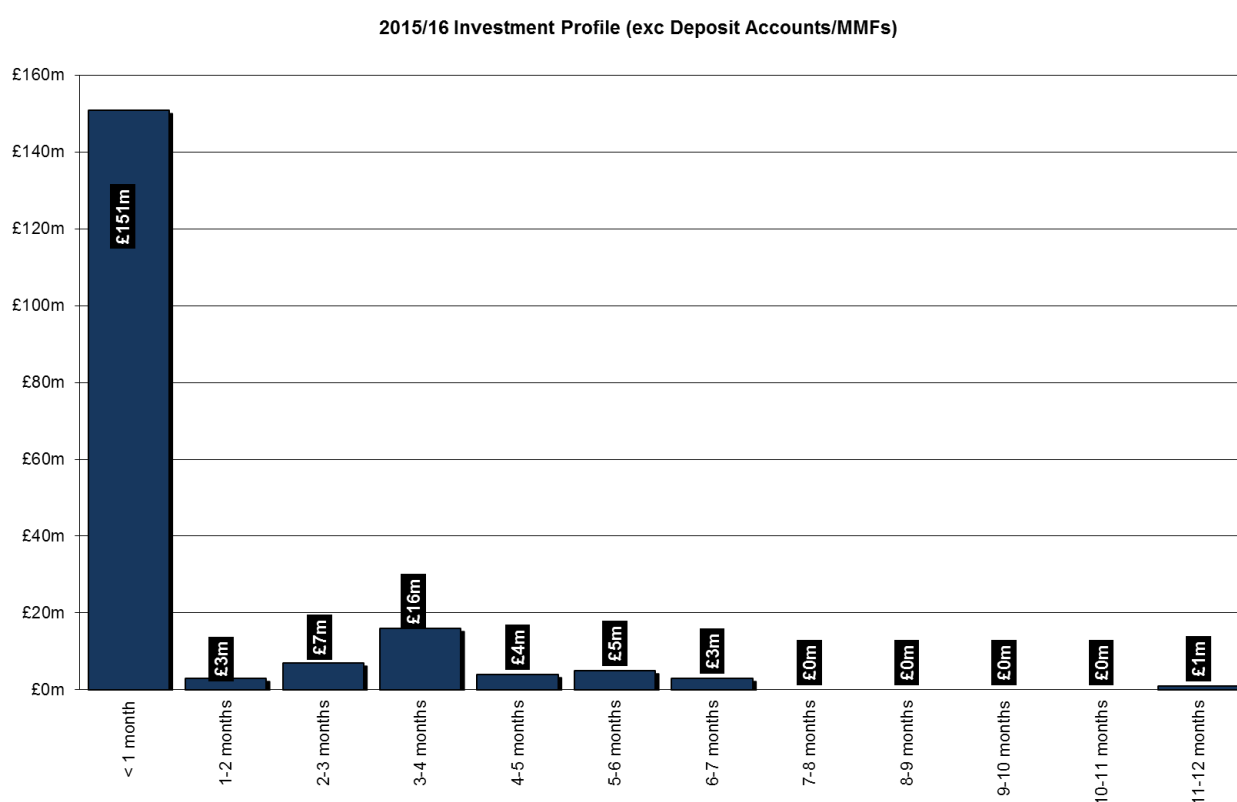
4.4 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of A across all three rating agencies Fitch, Standard and Poors, and Moody's was in operation); credit default swaps; GDP of the country in which the institution operates; 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 the use of deposit accounts.

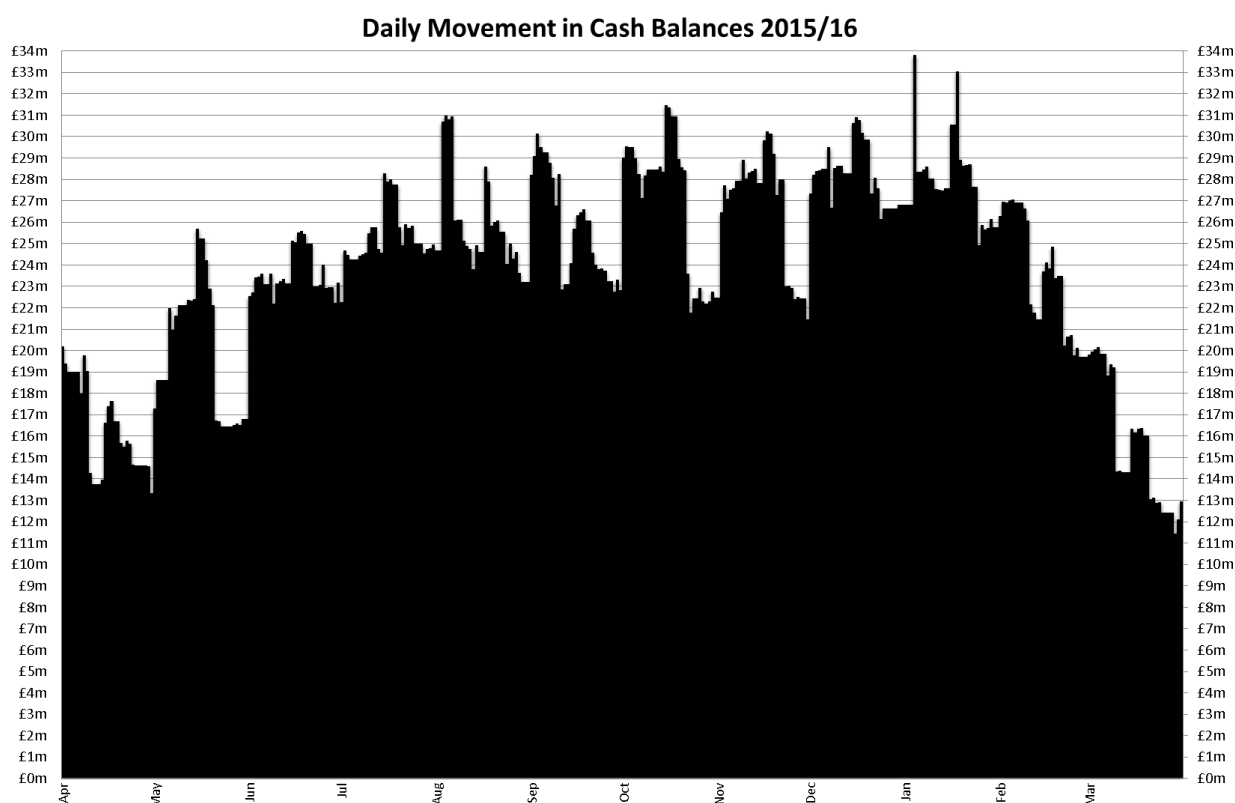
4.6 In September 2015, Cabinet agreed that a nominee account should be opened with a second broker to allow a maximum of £20m to be invested in negotiable instruments (eg Treasury Bills) at any one time. The Investment Strategy limited the amount that could be held in a single broker's account to £10m and Cabinet's decision increased the opportunity to make these investments in the second half of 2015/2016.

4.7 The Council sought to optimise returns commensurate with its objectives of security and liquidity. As expected when setting the investment income budget for 2015/2016, the UK Bank Rate was maintained at 0.5% through the year. In the regular absence of other counterparties which matched the Council's credit criteria, the main types of investment made were with the UK Government, with the preferred approach being the purchase of Treasury Bills (average return achieved 4.89%). When this was not practicable, deposits were placed with the Debt Management Office at an interest rate of 0.25%, below the UK Bank Rate for the year.

4.8 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.



4.9 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.



- 4.10 Interest generated from investments in the year was £0.112 million, well above the total budget for investment income, £0.075 million. This favourable position arose as a result of higher than anticipated levels of cash being held pending expenditure on capital programme projects, etc.
- 4.11 The average rate of return from investments at the end of each quarter in 2015/2016 is shown in the table below, along with comparative benchmark information from the Arlingclose client base. The return was below the benchmark, reflecting the very low credit risk and low duration of the Council's investment portfolio.

Average rate of investments at:	Lewes District Council	Arlingclose client base
30 June 2015	0.46%	0.64%
30 September 2015	0.49%	0.66%
31 December 2015	0.47%	0.65%
31 March 2016	0.53%	0.71%

5. Counterparty Update

- 5.1 The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in

government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

- 5.2 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) for example. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.
- 5.3 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-Thuringen.
- 5.4 S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.
- 5.5 At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.
- 5.6 In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.
- 5.7 In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. Interest rates are likely to stay low for longer making long-term bonds an increasingly attractive option. The Council did not make use of these long-term investment options during 2015/16.
- 5.8 The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Arlingclose will continue to monitor both banks.

- 5.9 The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Council therefore ended the year exploring secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds to utilise in 2016/2017.

6. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2015/2016. 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. The reappointment followed a competitive tendering process. In 2015/2016, Arlingclose 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 Director of Finance reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2015/2016. A mid-term summary report was issued in November 2015.
- 8.2 All councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, were offered the opportunity to attend a local briefing session led by Arlingclose on 12 October 2015.
- 8.3 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 2015/2016.

Appendix A – Prudential Indicators 2015/2016

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 Director of Corporate Services reports that the Council has had no difficulty meeting this requirement in 2015/2016, 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 2016/2017.

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	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
1a	Non-HRA	4.842	9.514	7.845
1b	HRA	5.164	4.239	4.437
	Total	10.006	13.753	12.282

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	2015/16 Original %	2015/16 Revised %	2015/16 Actual %
2a	Non-HRA	0.95	0.88	0.76
2b	HRA	20.69	20.82	20.75

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	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
3a	Non-HRA	8.421	6.913	7.606
3b	HRA	65.613	63.980	63.924
	Total CFR	74.034	70.893	71.530

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

Capital Financing Requirement	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
Balance B/F	70.709	69.979	69.979
Capital expenditure financed from borrowing	5.202	2.771	3.579
Revenue provision for Debt Redemption.	-1.877	-1.857	-2.028
Balance C/F	74.034	70.893	71.530

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 31/03/2016	Revised £m	Actual £m
4a	Borrowing	56.673	56.673
4b	Other Long-term Liabilities	0.418	0.418
4c	Total	57.091	57.091

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	2015/16 Original £	2015/16 Revised £	2015/16 Actual £
5a	Increase in Band D Council Tax	84.39	120.93	28.90
5b	Increase in Average Weekly Housing Rents	5.93	3.89	0.91

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, for example housing new-build projects being deferred from 2015/2016 into 2016/2017.

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 2015/2016 Actual values shown below are the maximum levels of borrowing experienced at any time during the year.

No.	Authorised Limit for External Debt	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
6a	Borrowing	76.00	76.00	56.67
6b	Other Long-term Liabilities	0.50	0.50	0.42
6c	Total	76.50	76.50	57.09

- 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 Director of Corporate Services 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 immediately following meeting of the Cabinet. The 2015/2016 Actual values shown below are the maximum levels of borrowing experienced at any time during the year.

No.	Operational Boundary for External Debt	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
7a	Borrowing	70.50	70.50	56.67
7b	Other Long-term Liabilities	0.50	0.50	0.42
7c	Total	71.00	71.00	57.09

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.		2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
9	Upper Limit for Fixed Interest Rate Exposure	76.5	76.5	51.7
10	Upper Limit for Variable Interest Rate Exposure	(27.5)	(27.5)	(28.8)

- 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	19
11e	10 years and above	0	100	81

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 2015/16.

No.	Upper Limit for total principal sums invested over 364 days	2015/16 Original %	2015/16 Revised %	2015/16 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	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
13a	HRA CFR	65.613	63.980	63.924
13b	HRA Debt Cap	75.248	75.248	74.629
	Difference	9.635	11.268	10.705

Appendix B – Economic Background explained by Arlingclose

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Appendix C – List of Term Deposits made and/or maturing in 2015/2016

Loan	Bank	Principal	From	To	Rate %
220714	Barclays Bank plc	1,000,000	13 Aug 14	13 Aug 15	1.0000%
222514	Telford and Wrekin Council	3,000,000	6 Feb 15	15 Apr 15	0.4000%
222815	Debt Management Office	2,000,000	1 Apr 15	7 Apr 15	0.2500%
222915	Nationwide Building Society	1,000,000	8 Apr 15	8 Jul 15	0.5000%
223015	Debt Management Office	1,000,000	15 Apr 15	20 Apr 15	0.2500%
223115	Debt Management Office	2,000,000	6 May 15	21 May 15	0.2500%
223215	Nationwide Building Society	1,000,000	6 May 15	6 Aug 15	0.5000%
223315	Debt Management Office	2,500,000	7 May 15	8 May 15	0.2500%
223415	Debt Management Office	1,000,000	8 May 15	11 May 15	0.2500%
223515	Debt Management Office	1,000,000	8 May 15	18 May 15	0.2500%
223615	Debt Management Office	1,500,000	15 May 15	19 May 15	0.2500%
223715	Debt Management Office	1,500,000	15 May 15	21 May 15	0.2500%
223815	Debt Management Office	2,500,000	1 Jun 15	8 Jun 15	0.2500%
223915	Debt Management Office	1,000,000	3 Jun 15	9 Jun 15	0.2500%
224015	Debt Management Office	3,000,000	8 Jun 15	22 Jun 15	0.2500%
224115	Debt Management Office	3,000,000	15 Jun 15	22 Jun 15	0.2500%
224215	Debt Management Office	1,000,000	22 Jun 15	25 Jun 15	0.2500%
224315	Debt Management Office	1,750,000	25 Jun 15	2 Jul 15	0.2500%
224415	Plymouth City Council	2,000,000	30 Jun 15	1 Jul 15	0.3500%
224515	Debt Management Office	3,000,000	2 Jul 15	13 Jul 15	0.2500%
224615	Nationwide Building Society	1,000,000	8 Jul 15	8 Oct 15	0.5000%
224715	Debt Management Office	2,000,000	13 Jul 15	20 Jul 15	0.2500%
224815	Debt Management Office	4,000,000	15 Jul 15	21 Jul 15	0.2500%
224915	Debt Management Office	3,000,000	21 Jul 15	27 Jul 15	0.2500%
225015	Debt Management Office	3,000,000	27 Jul 15	7 Aug 15	0.2500%
225115	Coventry Building Society	2,000,000	3 Aug 15	3 Dec 15	0.5000%
225215	Debt Management Office	2,000,000	3 Aug 15	7 Aug 15	0.2500%
225315	Debt Management Office	6,000,000	3 Aug 15	10 Aug 15	0.2500%
225415	Debt Management Office	1,000,000	6 Aug 15	10 Aug 15	0.2500%
225515	Debt Management Office	4,000,000	10 Aug 15	14 Aug 15	0.2500%
225615	Nationwide Building Society	1,000,000	10 Aug 15	10 Feb 16	0.6600%
225715	Debt Management Office	4,000,000	14 Aug 15	17 Aug 15	0.2500%
225815	Debt Management Office	2,000,000	17 Aug 15	19 Aug 15	0.2500%
225915	Debt Management Office	3,000,000	17 Aug 15	24 Aug 15	0.2500%
226015	Debt Management Office	2,500,000	24 Aug 15	28 Aug 15	0.2500%
226115	Debt Management Office	1,500,000	28 Aug 15	7 Sep 15	0.2500%
226215	Debt Management Office	5,000,000	1 Sep 15	11 Sep 15	0.2500%
226315	Thurrock Borough Council	2,000,000	23 Sep 15	11 Feb 16	0.4700%
226415	Debt Management Office	1,000,000	3 Sep 15	11 Sep 15	0.2500%
226515	Debt Management Office	2,000,000	14 Sep 15	23 Sep 15	0.2500%
226615	Debt Management Office	2,500,000	15 Sep 15	21 Sep 15	0.2500%
226715	Newport City Council	3,000,000	23 Sep 15	7 Oct 15	0.4000%
226815	Debt Management Office	2,000,000	1 Oct 15	12 Oct 15	0.2500%
226915	The Moray Council	1,000,000	2 Oct 15	2 Nov 15	0.4800%
227015	Nationwide Building Society	1,000,000	8 Oct 15	8 Dec 15	0.4600%
227115	Thurrock Borough Council	2,000,000	30 Nov 15	22 Feb 16	0.4800%
227215	Debt Management Office	2,000,000	12 Oct 15	22 Oct 15	0.2500%
227315	Debt Management Office	3,000,000	15 Oct 15	22 Oct 15	0.2500%
227415	Debt Management Office	2,000,000	2 Nov 15	9 Nov 15	0.2500%
227515	Thurrock Borough Council	3,000,000	16 Nov 15	10 Mar 16	0.5000%
227615	Debt Management Office	1,000,000	16 Nov 15	19 Nov 15	0.2500%
227715	Debt Management Office	2,000,000	7 Dec 15	14 Dec 15	0.2500%
227815	Debt Management Office	2,000,000	14 Dec 15	21 Dec 15	0.2500%
227915	Debt Management Office	2,500,000	15 Dec 15	21 Dec 15	0.2500%

Loan	Bank	Principal	From	To	Rate %
228015	Debt Management Office	5,000,000	4 Jan 16	5 Jan 16	0.2500%
228115	Nationwide Building Society	1,000,000	18 Feb 16	18 Aug 16	0.7100%
228215	Debt Management Office	2,000,000	15 Mar 16	21 Mar 16	0.2500%
228315	Eastbourne Borough Council	2,000,000	24 Mar 16	1 Jun 16	0.5000%
228415	Stafford Borough Council	2,000,000	24 Mar 16	1 Apr 16	0.5000%

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.