

**Lewes District Council**

**Annual Treasury Management Report 2014/2015**

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## 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 2014/2015 to 2016/2017 at its meeting in February 2014.

## 2. Overall Summary of Activity 2014/2015

2.1 The table below lists the key elements of the 2014/2015 Strategy and records actual performance against each one of them.

Key Element	Required by Strategy	Actual Performance	
<b>Borrowing</b>			
Underlying need to borrow (CFR) at year end	£70.709 million	£69.979 million	✓
Internal borrowing at year end	£14.036 million	£13.306 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	£1.733 million	✓
<b>Investments</b>			
Minimum counterparty credit ratings for investments of up to 1 year	Long-term A/ Short-term F1 (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A/ Short-term F1 where required	✓
Sovereign status of counterparties	UK plus 10 specified nations	Only UK counterparties used	✓
Money Market Funds	AAA rated with Constant Net Asset Value	AAA rated with Constant Net Asset Value	✓

Key Element	Required by Strategy	Actual Performance	
Overnight exposure guideline for deposits with Cooperative	Maximum £1 million	Guideline not exceeded.	✓
Interest receipts from external investments	£0.050m	£0.088	✓
<b>Appointment of Investment Consultants</b>			
Independent Treasury Adviser to be retained	Arlingclose to be retained as Treasury Adviser	Arlingclose retained as Treasury Adviser	✓
<b>Banking Arrangements</b>			
Procurement of bank to replace The Cooperative following its withdrawal from the sector	Switch to new bank by April 2015	Lloyds Bank plc appointed as banker. Switch completed by 28 February 2015.	✓
<b>Reporting and Training</b>			
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 September 2014	✓

2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2014/2015 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 the 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).
- 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 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 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 2014/2015, the revised position reported at the time of producing the Treasury Strategy 2015/2016 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.

	2014/15 Original £m	2014/15 Revised £m	2014/15 Outturn £m
Opening CFR	71.880	71.448	71.448
Capital expenditure in year	7.746	16.594	10.006
Less financed	(7.473)	(15.472)	(9.613)
Less amount set aside for debt repayment	(1.862)	(1.861)	(1.862)
<b>Closing CFR</b>	<b>70.291</b>	<b>70.709</b>	<b>69.979</b>

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

CFR Component	2014/15 Revised £m	2014/15 Outturn £m
General Fund	5.919	4.505
Housing Revenue Account	64.790	65.474
<b>Total</b>	<b>70.709</b>	<b>69.979</b>

- 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 2015/2016.

	31/3/15 Revised £m	31/3/15 Outturn £m
(a) Capital Financing Requirement	70.709	69.979
(b) Actual external borrowing	(56.673)	(56.673)
(c) Use of Balances and Reserves as alternative to borrowing (a)-(b)	14.036	13.306
(d) Total Balances and Reserves	12.758	15.645
(e) Working capital	5.730	7.669
(f) Less Amount used as an alternative to borrowing (c) above	(14.036)	(13.306)
(g) Total investments (d)+(e)-(f)	4.452	10.008

3.7 The Council's loan portfolio at 31 March 2015 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.00	2.7000	01/03/2024
PWLB	Fixed	5.00	3.3000	01/03/2032
PWLB	Fixed	2.00	3.0500	01/09/2027
PWLB	Fixed	2.00	2.7600	01/09/2024
PWLB	Fixed	4.00	2.9700	01/09/2026
PWLB	Fixed	5.00	3.2800	01/09/2031
PWLB	Fixed	4.00	2.6300	01/09/2023
PWLB	Fixed	5.00	3.4400	01/03/2037
PWLB	Fixed	6.67	3.5000	01/03/2042
PWLB	Fixed	5.00	3.4300	01/09/2036
PWLB	Variable	5.00	0.6200	28/03/2022
PWLB	Fixed	4.00	3.0100	01/03/2027
	Sub-total	<u>51.67</u>		
Barclays	LOBO	5.00	4.5000	06/04/2054
	Total	<u>56.67</u>		

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. Every 4 years, the Lender has the option to increase the interest rate, and if it does so, the Council has the right to repay.

3.9 Total interest paid on external long-term borrowing in the year was £1.733m, which was consistent with the revised budget for the year. The debt portfolio was largely established in March 2012 on the introduction of self-financing for Housing, and no debt restructuring took place during the year. Internal borrowing continued to be used as an alternative to new external loans. The Council remained eligible to access the Government's 'Certainty Rate' allowing the Council to borrow at a reduction of 0.20% on the Standard Rate.

3.10 As noted in the Treasury Management Policy, two separate Loans Pools operated in 2014/2015, for the General Fund and HRA respectively. At 31 March 2015 the balance on internal loans from the General Fund to the HRA was £8.801m, a reduction of £1.323m compared with the previous year. Interest was charged on internal borrowing at 1.44% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).

#### 4. Detailed Analysis - Investments

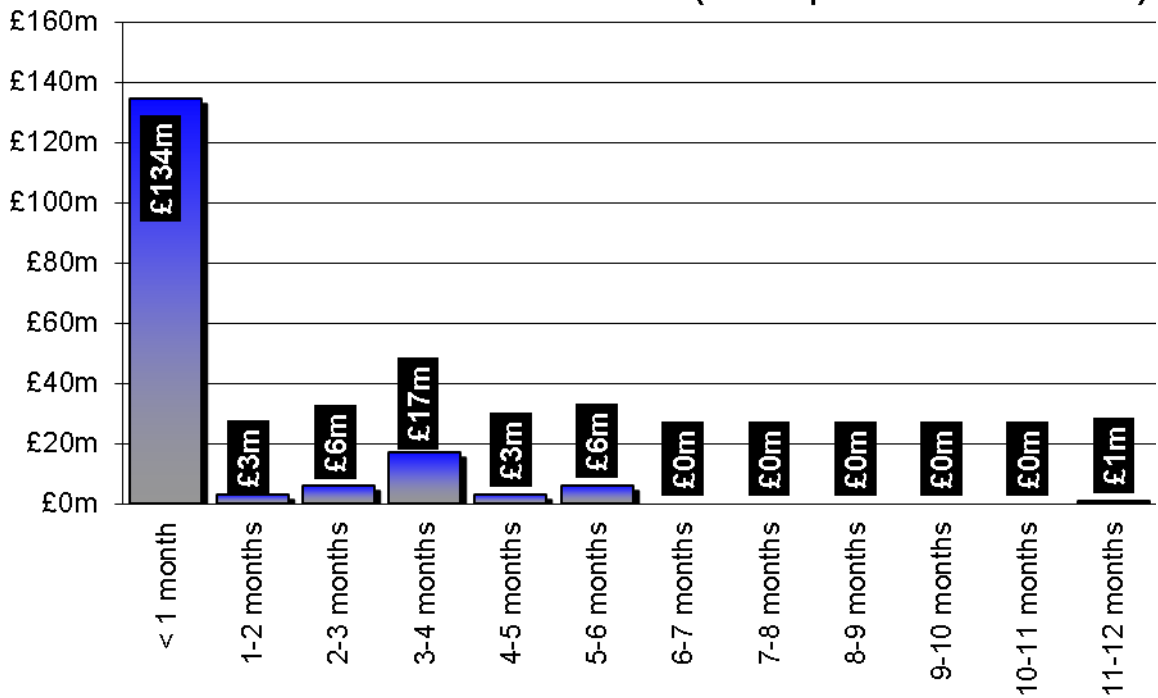
4.1 The Council held an average of £15.5m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending use.

4.2 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2014/2015, the Council's investment priorities were:

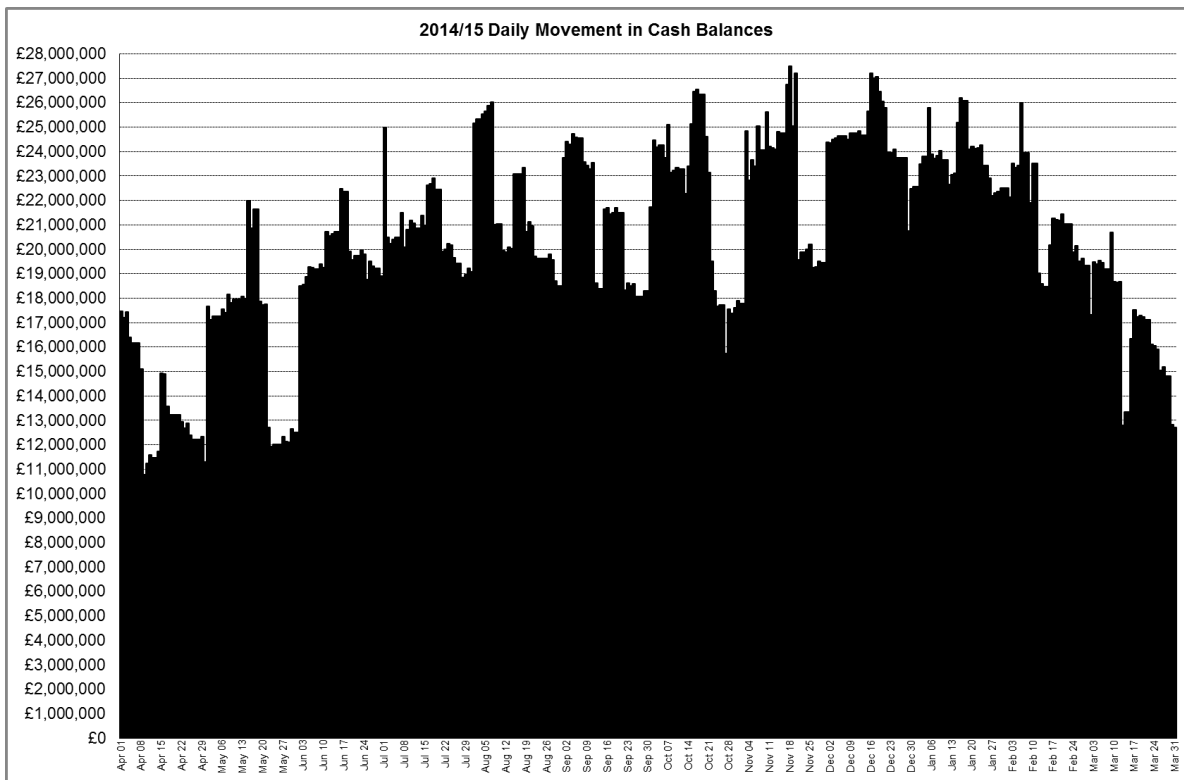
**highest priority** - security of the invested capital;  
**followed by** - liquidity of the invested capital;  
**finally** - an optimum yield commensurate with security and liquidity.

- 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 2014/2015. Investments during the year included:
- Term Deposits with the Debt Management Office (total £84.6m – 37 occasions)
  - Term Deposits with other Local Authorities (total £9.0m – 4 occasions)
  - Term Deposits with banks and building societies (total £13.0m – 13 occasions)
  - Purchase of UK Treasury Bills (total £68.5 – 45 occasions)
  - Investments in AAA-rated Constant Net Asset Value Money Market Funds (MMFs) (average balance held in year £1.357m)
  - Deposit accounts with UK Banks (average balance held in year £2.55m)
- 4.4 In response to market conditions, the Council's day to day approach was to hold an overdrawn balance at the Co-operative bank – the average daily overdrawn balance for the year was £0.172m.
- 4.5 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.
- 4.6 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.
- 4.7 The Council sought to optimise returns commensurate with its objectives of security and liquidity. As expected when setting the investment income budget for 2014/2015, the UK Bank Rate was maintained at 0.5% through the year. As can be seen, the main type of investment made during 2014/2015 was with the Government's Debt Management Office, used in the absence of other counterparties which matched the Council's credit criteria. Deposits with the Debt Management Office attracted an interest rate of 0.25%, below the UK Bank Rate for the year.
- 4.8 A full list of temporary investments 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.

### 2014/15 Investment Profile (exc Deposit Accounts/MMFs)



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 The budget for income generated by external investments in 2014/2015 was £0.050 million. Actual interest generated was significantly higher at £0.088

million, reflecting higher than anticipated levels of cash being held pending expenditure on capital programme projects as well as higher levels of return achieved through the extended use of MMF's, Treasury Bills and Deposit accounts.

## **5. Banking Arrangements**

5.1 In November 2013 the Co-operative Bank contacted all of the local authorities to which it provides banking services to explain that it would be withdrawing from this market sector. The Co-operative Bank's plan was to simplify and rebuild the Bank focusing on serving the needs of individuals and small and medium sized business customers.

5.2 The Council participated in a procurement exercise with other East Sussex District and Borough Councils to appoint a common bank. The outcome of the procurement was the appointment of Lloyds Bank plc as the Council's banker. Accounts at Lloyds Bank were operative from 1 September 2014 and accounts with the Co-operative Bank were closed on 28 February 2015.

## **6. Compliance with Prudential Indicators**

The Council can confirm that it has complied with its Prudential Indicators for 2014/2015. 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 2014/2015, 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 2014/2015. A mid-term summary report was issued in November 2014.

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 23 September 2014.

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 2014/2015.



## Appendix A – Prudential Indicators 2014/2015

### 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 2014/2015, 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 2015/2016

### 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	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
1a	Non-HRA	2.063	10.714	4.737
1b	HRA	5.683	5.880	5.164
	<b>Total</b>	<b>7.746</b>	<b>16.594</b>	<b>9.901</b>

### 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	2014/15 Original %	2014/15 Revised %	2014/15 Actual %
2a	Non-HRA	0.95	0.95	0.66
2b	HRA	21.51	21.21	21.31

## 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	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
3a	Non-HRA	4.512	5.919	4.505
3b	HRA	65.779	64.790	65.474
	<b>Total CFR</b>	<b>70.291</b>	<b>70.709</b>	<b>69.979</b>

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

Capital Financing Requirement	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
<b>Balance B/F</b>	71.880	71.448	71.448
Capital expenditure financed from borrowing	0.273	1.122	0.393
Revenue provision for Debt Redemption.	(1.862)	(1.861)	(1.862)
<b>Balance C/F</b>	<b>70.291</b>	<b>70.709</b>	<b>69.979</b>

## 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 31/03/2015	Revised £m	Actual £m
4a	Borrowing	56.673	56.673
4b	Other Long-term Liabilities	0.000	0.071
<b>4c</b>	<b>Total</b>	<b>56.673</b>	<b>56.744</b>

## 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	2014/15 Original £	2014/15 Revised £	2014/15 Actual £
5a	Increase in Band D Council Tax	38.30	99.19	50.04
5b	Increase in Average Weekly Housing Rents	8.31	4.10	1.95

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 capital projects being deferred from 2014/2015 into 2015/2016.

## 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 2014/15 Actual values shown below are the maximum levels of borrowing experienced at any time during the year.

No.	Authorised Limit for External Debt	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
6a	Borrowing	72.00	72.00	56.67
6b	Other Long-term Liabilities	0.50	0.50	0.07
6c	<b>Total</b>	<b>72.50</b>	<b>72.50</b>	<b>56.74</b>

- 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 Finance 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 2014/15 Actual values shown below are the maximum levels of borrowing experienced at any time during the year.

No.	Operational Boundary for External Debt	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
7a	Borrowing	66.50	66.50	56.67
7b	Other Long-term Liabilities	0.50	0.50	0.07
7c	<b>Total</b>	<b>67.00</b>	<b>67.00</b>	<b>56.74</b>

## 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.		2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
9	<b>Upper Limit for Fixed Interest Rate Exposure</b>	72.5	72.5	51.7
10	<b>Upper Limit for Variable Interest Rate Exposure</b>	(27.5)	(27.5)	(22.7)

- 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	8
11e	10 years and above	0	100	92

## 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 2014/15.

No.	Upper Limit for total principal sums invested over 364 days	2014/15 Original %	2014/15 Revised %	2014/15 Actual %
12	Upper limit	50	50	0

## 13. HRA Limit on Indebtedness

This Prudential Indicator is associated with the introduction of 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	2014/15 Original £m	2014/15 Revised £m	2014/15 Actual £m
13a	HRA CFR	65.779	64.790	65.474
13b	HRA Debt Cap	72.931	72.931	72.931
	<b>Difference</b>	<b>7.152</b>	<b>8.141</b>	<b>7.457</b>

## **Appendix B – Economic Background explained by Arlingclose**

**Growth and Inflation:** The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

**Labour Market:** The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

**UK Monetary Policy:** The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament.

On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion

was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with 'tapering', i.e. a reduction in asset purchases by \$10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough the weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word "patient" from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

**Market reaction:** From July, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission though into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

## Appendix C – List of Term Deposits made and/or maturing in 2014/2015

Deal	Counterparty	Principal	From	To	Rate
216013	Conwy County Borough Council	2000000	29 Nov 13	30 May 14	0.450%
216213	Nationwide Building Society	1000000	07 Nov 13	07 May 14	0.530%
217213	Nationwide Building Society	1000000	24 Jan 14	24 Apr 14	0.470%
217713	Nationwide Building Society	1000000	28 Mar 14	28 Apr 14	0.400%
217814	Debt Management Office	1750000	01 Apr 14	04 Apr 14	0.250%
217914	Debt Management Office	5000000	01 Apr 14	09 Apr 14	0.250%
218014	Debt Management Office	1500000	15 Apr 14	17 Apr 14	0.250%
218114	Debt Management Office	1500000	15 Apr 14	25 Apr 14	0.250%
218214	Debt Management Office	1000000	25 Apr 14	30 Apr 14	0.250%
218314	Nationwide Building Society	1000000	28 Apr 14	30 Jun 14	0.440%
218414	Debt Management Office	2000000	01 May 14	07 May 14	0.250%
218514	Debt Management Office	2000000	01 May 14	08 May 14	0.250%
218614	Debt Management Office	2250000	01 May 14	09 May 14	0.250%
218714	Barclays Bank plc	1000000	07 May 14	09 Jun 14	0.380%
218814	Barclays Bank plc	1000000	07 May 14	07 Jul 14	0.410%
218914	Barclays Bank plc	1000000	07 May 14	07 Aug 14	0.440%
219014	Debt Management Office	2500000	08 May 14	12 May 14	0.250%
219114	Debt Management Office	3000000	09 May 14	19 May 14	0.250%
219214	Debt Management Office	2500000	12 May 14	22 May 14	0.250%
219314	Debt Management Office	2600000	15 May 14	22 May 14	0.250%
219414	Nationwide Building Society	1000000	30 May 14	29 Aug 14	0.480%
219514	Debt Management Office	2500000	02 Jun 14	19 Jun 14	0.250%
219614	Debt Management Office	2500000	02 Jun 14	10 Jun 14	0.250%
219714	Debt Management Office	1000000	02 Jun 14	12 Jun 14	0.250%
219814	Debt Management Office	1000000	05 Jun 14	25 Jun 14	0.250%
219914	Debt Management Office	1500000	11 Jun 14	23 Jun 14	0.250%
220014	Barclays Bank plc	1000000	12 Jun 14	13 Oct 14	0.500%
220114	Debt Management Office	1750000	16 Jun 14	23 Jun 14	0.250%
220214	Debt Management Office	5000000	01 Jul 14	02 Jul 14	0.250%
220314	Nationwide Building Society	1000000	01 Jul 14	01 Sep 14	0.450%
220414	Debt Management Office	4000000	01 Aug 14	08 Aug 14	0.250%
220514	Debt Management Office	2000000	01 Aug 14	11 Aug 14	0.250%
220614	Debt Management Office	2000000	07 Aug 14	08 Sep 14	0.250%
220714	Barclays Bank plc	1000000	13 Aug 14	13 Aug 15	1.000%
220814	Debt Management Office	2000000	15 Aug 14	18 Aug 14	0.250%
220914	Nationwide Building Society	1000000	01 Sep 14	02 Mar 15	0.640%
221014	Nationwide Building Society	1000000	01 Sep 14	02 Feb 15	0.580%
221114	Debt Management Office	1000000	01 Sep 14	08 Sep 14	0.250%
221214	Debt Management Office	1000000	02 Sep 14	12 Sep 14	0.250%
221314	Debt Management Office	2000000	08 Sep 14	12 Sep 14	0.250%
221414	Debt Management Office	2250000	15 Sep 14	22 Sep 14	0.250%
221514	Debt Management Office	1500000	06 Oct 14	13 Oct 14	0.250%
221614	Cornwall County Council	2000000	07 Oct 14	12 Feb 15	0.430%
221714	Debt Management Office	4000000	13 Oct 14	22 Oct 14	0.250%
221814	Debt Management Office	3000000	15 Oct 14	20 Oct 14	0.250%
221914	Debt Management Office	2000000	03 Nov 14	19 Nov 14	0.250%
222014	Debt Management Office	1000000	07 Nov 14	10 Nov 14	0.250%
222114	Debt Management Office	1000000	20 Nov 14	21 Nov 14	0.250%
222214	Gloucester City Council	2000000	15 Dec 14	02 Jan 15	0.450%
222314	Debt Management Office	3000000	02 Jan 15	05 Jan 15	0.250%
222414	Debt Management Office	2000000	15 Jan 15	19 Jan 15	0.250%
222514	Telford and Wrekin Council	3000000	06 Feb 15	15 Apr 15	0.400%
222614	Debt Management Office	6000000	02 Mar 15	13 Mar 15	0.250%
222714	Debt Management Office	2000000	16 Mar 15	23 Mar 15	0.250%



## 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.