

## **APPENDIX 1**

### **Lewes District Council**

### **Annual Treasury Management Report 2018/2019**

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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 2018/2019 to 2020/2021 at its meeting in February 2018.

## 2. Overall Summary of Activity 2018/2019

2.1 The table below lists the key elements of the 2018/2019 Strategy and records actual performance against each one of them.

Key Element	Target in Strategy	Actual Performance	
<b>Borrowing</b>			
Underlying need to borrow (CFR) at year end	£109.930 million	£82.030 million	-
Internal borrowing at year end	£20.206 million	£35.357 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	£1.722 million	£1.743 million	✓
<b>Investments</b>			
Minimum counterparty credit ratings for unsecured investments	Long-term BBB+- (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A	✓
Interest receipts from external investments	£0.100m	£0.150m	✓
<b>Appointment of Investment Consultants</b>			
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	
<b>Reporting and Training</b>			
Reports to be made to Audit and Standards Committee and Cabinet	Every regular meeting	Every regular meeting.	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Staff training September 2018	-

2.2 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 (e.g. the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). Prior to 2018/19, the Government limited the amount of borrowing by local authorities for housing purposes by specifying 'debt caps'. The Council's underlying debt cap was 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 the Council was successful and the debt cap was increased to £75.248m to match expenditure incurred in building new houses on specified former garage sites. The Government removed the 'debt cap' during 2018/19, which enables the Council to further invest in the provision of new social housing.
- 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.
- 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 2018/2019, the revised position reported at the time of producing the Treasury Strategy 2019/2020 (February 2019) 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, particularly allocations in the capital programme in respect of facilitating loans to Lewes Housing investment Company, which was not called on in 2018/19, and a loan to Aspiration Homes LLP, which was called on in 2018/2019 to the extent of £10k.

	2018/19 Original £m	2018/19 Revised £m	2018/19 Outturn £m
Opening CFR	86.482	77.210	77.210
Capital expenditure in year	32.407	71.585	15.010
Less financed	(7.508)	(15.400)	(9.874)
Less amount set aside for debt repayment	(1.451)	(0.316)	(0.316)
<b>Closing CFR</b>	<b>109.930</b>	<b>133.079</b>	<b>82.030</b>

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

CFR Component	2018/19 Revised £m	2018/19 Outturn £m
General Fund	65.560	16.270
Housing Revenue Account	67.519	65.760
<b>Total</b>	<b>133.079</b>	<b>82.030</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 their use).

	31/3/19 Revised £m	31/3/19 Outturn £m
(a) Capital Financing Requirement	133.079	82.030
(b) Actual external long-term borrowing	(56.673)	(56.673)
(c) Borrowing required in year	(56.200)	-
(d) Use of Balances and Reserves and working capital as alternative to borrowing (a)-(b)-(c)	20.206	25.357

3.7 The Council's long-term loan portfolio at 31 March 2019 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.000	2.70	01-03-2024
PWLB	Fixed	5.000	3.30	01-03-2032
PWLB	Fixed	2.000	3.05	01-09-2027
PWLB	Fixed	2.000	2.76	01-09-2024
PWLB	Fixed	4.000	2.97	01-09-2026
PWLB	Fixed	5.000	3.28	01-09-2031
PWLB	Fixed	4.000	2.63	01-09-2023
PWLB	Fixed	5.000	3.44	01-03-2037
PWLB	Fixed	6.673	3.50	01-03-2042
PWLB	Fixed	5.000	3.43	01-09-2036
PWLB	Variable	5.000	0.92	28-03-2022
PWLB	Fixed	4.000	3.01	01-03-2027
	<b>Sub-total</b>	<b>51,673</b>		
Barclays	Fixed	5.000	4.50	06-04-2054
	<b>Sub-total</b>	<b>5.000</b>		
	<b>Total</b>	<b>56.673</b>		

- 3.8 In the table above the Barclays loan was taken out in April 2004 with a term of 50 years. In June 2016 the bank decided to permanently waive its contractual 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 £1.743m, 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 0.2% 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 2018/2019, for the General Fund and HRA respectively. At 31 March 2019 the balance on internal loans from the General Fund to the Housing Revenue Account (HRA) was £8.795m, an increase of £0.601m compared with the previous year, which comprised new lending as funding for the construction of new homes. Interest was charged on internal borrowing at 1.67% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).
- 3.12 No temporary borrowing was undertaken during the course of the financial year and consequently, there were no temporary loans outstanding at 31 March 2019.

#### 4. Detailed Analysis - Investments

4.1 The Council held an average of £18.7m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending their use.

4.2 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2018/2019, 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.

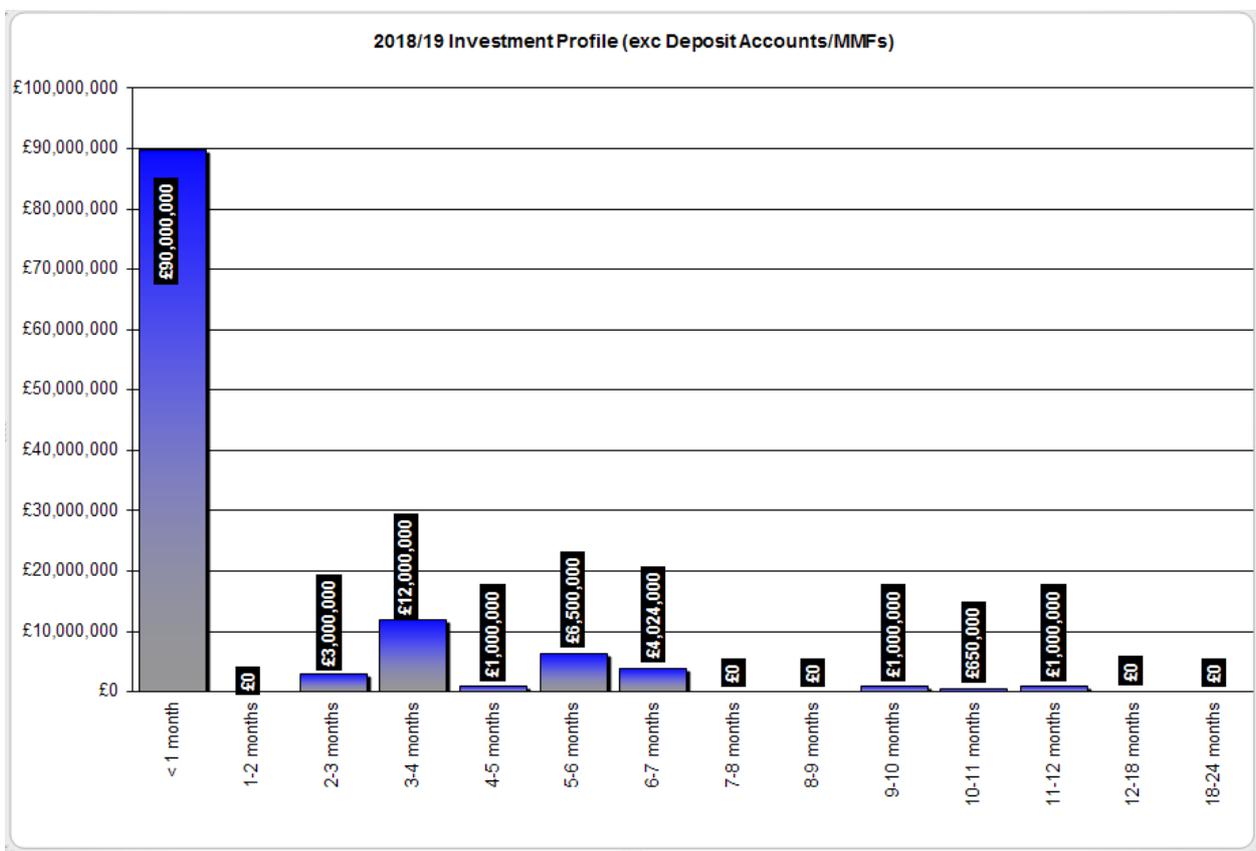
4.3 All of the Council's investments were managed in-house. Security of capital was maintained by following the counterparty policy set out in the Investment Strategy for 2018/2019. Investments made during the year included:

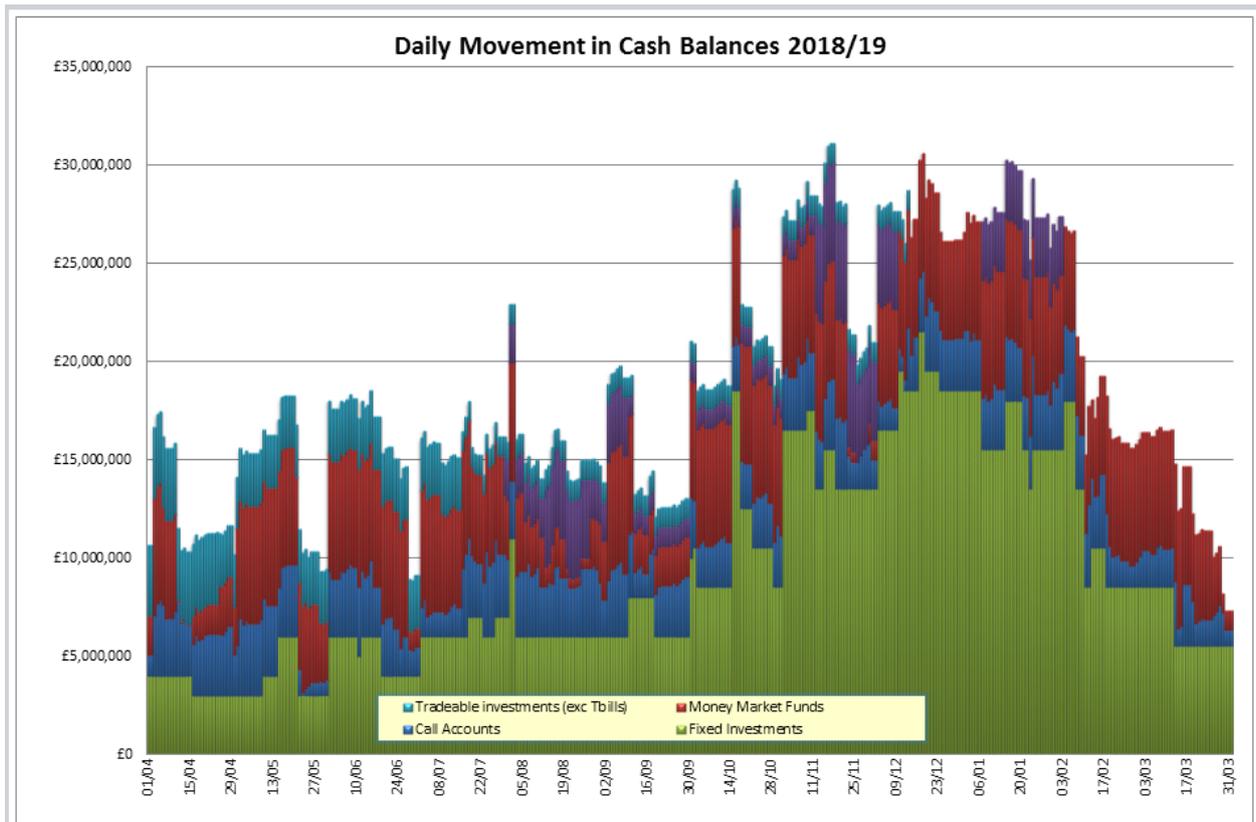
- Fixed Term Deposits with the Debt Management Office (DMO) (a total of £73 million – 27 occasions);
- Fixed Term Deposits with other Local Authorities (a total of £27.524 million – 11 occasions);
- Fixed Term Deposits with UK Banks and Building Societies (a total of £1 million – 1 occasion);
- Investments in Money Market Funds (MMFs) (average daily balance held in year £2.303 million);
- United Kingdom Treasury Bills (a total of £14 million – 14 occasions);
- Tradable Investments - Floating Rate Notes, Certificates of Deposit, Bonds (a total of £3.65 million – 4 occasions);
- Deposit accounts with UK Banks (average daily balance held in year £1.222 million);
- Deposit accounts with UK Building Societies (average daily balance held in year £1.374 million);
- Overnight deposits with the Council's banker, Lloyds Bank (average daily balance held in year £1.245 million).

4.4 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of BBB+ across all three rating agencies Fitch, Standard and Poor's, 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 Money Market Funds (MMF), overnight deposits and deposit accounts, the average daily balance held being £7.255 million.

4.6 A full list of investments (excluding deposit account or MMF transactions) made or maturing 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 first chart below gives an analysis of aggregate fixed term deposits by duration. The second chart shows how the total amount invested varied from day to day over the course of the year, from a low of £7.3m to a high of £31.1m. The movement largely reflects the cycle of grant, council tax and business rate receipts and precept payments made.





4.7 The income return generated from investments in the year was £0.150 million, above the total budget for investment income of £0.100 million. This position arose as a result of the requirement to re-profile major projects within the approved capital programme, ensuring an increase in the short-term availability of additional cash for investment.

4.8 The average rate of return from investments at the end of each quarter in 2018/2019 is shown in the table below, along with comparative benchmark information, the 7-day LIBID rate.

Average rate of investments in:	Lewes District Council	7 day LIBID
Quarter 1 ending 30 June 2018	0.57%	0.36%
Quarter 2 ending 30 September 2018	0.84%	0.51%
Quarter 3 ending 31 December 2018	0.43%	0.58%
Quarter 4 ending 31 March 2019	0.38%	0.57%
Whole year 2018/2019	0.83%	0.51%

## 5. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2018/2019. A detailed review of each of the Prudential Indicators is at Appendix A.

## **6. Investment Consultants**

- 6.1 The Council appointed Arlingclose as its Treasury Adviser in 2012 following an open procurement. The agreement with Arlingclose was for an initial four-year term expiring on 30 June 2016, with the Council having the option to extend for a further year.
- 6.2 The Council exercised the option to extend the agreement to the end of June 2017 and following discussion with Arlingclose opted to maintain the appointment for a further year. A further year's extension is anticipated prior to a formal review of arrangements in conjunction with Eastbourne Borough Council, given that a shared finance team (with treasury management responsibility) is being established.

## **7. Reporting and Training**

- 7.1 The Deputy Chief Executive and, subsequently, the new Chief Finance Officer reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2018/2019. A mid-term summary report was issued in November 2018.
- 7.2 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, where appropriate, Arlingclose workshops alongside colleagues from other local authorities during 2018/2019.
- 7.3 In 2018/19, Arlingclose met with 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.
- 7.4 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 treasury management function. It did not prove practicable for this session to take place. Following the election in May 2019 of a significant number of new councillors, the next councillor briefing session is now expected to take place in autumn 2019.

## **8. Local Authority Regulatory Changes instigated in 2018/2019**

- 8.1 Revised CIPFA Codes:
- i. CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The timing precluded adoption of the required changes from the 2011 Code in the 2018/2019 Treasury Management Strategy which had already been drafted. Where relevant, the changes were incorporated into the 2018/2019 monitoring reports. All changes were fully implemented in the 2019/2020 Treasury Management Strategy.
  - ii. The 2017 Prudential Code introduced the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future

financial sustainability. Where the strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions. CIPFA recognised that authorities may require a lead-in period to create a Capital Strategy and that this requirement may not be able to be fully implemented until 2019/2020: this Council has adopted that timescale.

- iii. In the 2017 Treasury Management Code the definition of 'investments' was widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

## 8.2 MHCLG Investment Guidance and Minimum Revenue Provision (MRP):

- i. In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).
- ii. Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called 'loans' (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should be in place if investment yields fall.
- iii. The definition of prudent MRP was changed to 'put aside revenue over time to cover the Capital Financing Requirement (CFR); it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

## 8.3 MiFID II:

- i. As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could 'opt up' to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make

investment decisions and understand the risks involved.

- ii. The Council has met the conditions to opt up to professional status and has done so in order to maintain its professional client status. The Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

## Appendix A – Prudential Indicators 2018/2019

### 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 Chief Finance Officer reports that the Council has had no difficulty meeting this requirement in 2018/2019, 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 2019/2020.

### 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	2018/19 Original £m	2018/19 Revised £m	2018/19 Actual £m
1a	Non-HRA	26.913	62.319	9.436
1b	HRA	5.494	9.266	5.574
	<b>Total</b>	<b>32.407</b>	<b>71.585</b>	<b>15.010</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	2018/19 Original %	2018/19 Revised %	2018/19 Actual %
2a	Non-HRA	1.47	1.47	1.30
2b	HRA	15.82	15.82	11.28

## 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. The amounts shown are as at 31 March.

No	Capital Financing Requirement	2018/19 Original £m	2018/19 Revised £m	2018/19 Actual £m
3a	Non-HRA	43.951	65.560	16.270
3b	HRA	65.979	67.519	65.760
	<b>Total CFR</b>	<b>109.930</b>	<b>133.079</b>	<b>82.030</b>

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

Capital Financing Requirement	2018/19 Original £m	2018/19 Revised £m	2018/19 Actual £m
<b>Balance B/F</b>	86.482	77.210	77.210
Capital expenditure financed from borrowing	24.899	56.185	5.136
Revenue provision for Debt Redemption.	(1.451)	(0.316)	(0.316)
<b>Balance C/F</b>	<b>109.930</b>	<b>133.079</b>	<b>82.030</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. The 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 31/03/2019	Revised £m	Actual £m
4a	Borrowing	112.858	56.673
4b	Other Long-term Liabilities	0.392	0.704
4c	<b>Total</b>	<b>113.250</b>	<b>57.377</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	2018/19 Original £m	2018/19 Revised £m	2018/19 Actual £m
5a	Increase in Band D Council Tax	47.96	47.96	59.97
5b	Increase in Average Weekly Housing Rents	0.82	0.82	4.22

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 2018/2019 into 2019/2020.

## 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 2018/2019 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	2018/19 Original £m	2018/19 Revised £m	2018/19 Actual £m
6a	Borrowing	106.500	121.300	63.67
6b	Other Long-term Liabilities	0.532	0.392	0.704
<b>6c</b>	<b>Total</b>	<b>107.032</b>	<b>121.692</b>	<b>57.004</b>

- 8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow 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 Chief Finance Officer 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 2018/2019 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	2018/19 Original £m	2018/19 Revised £m	2018/19 Actual £m
7a	Borrowing	111.500	111.300	56.300
7b	Other Long-term Liabilities	0.532	0.392	0.704
7c	<b>Total</b>	<b>112.032</b>	<b>111.692</b>	<b>57.004</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 i.e. 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.		2018/19 Original £m	2018/19 Revised £m	2018/19 Actual £m
9	<b>Upper Limit for Fixed Interest Rate Exposure</b>	110.0	110.0	100.0
10	<b>Upper Limit for Variable Interest Rate Exposure</b>	(27.5)	(27.5)	(27.5)

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	75	0
11b	12 months and within 24 months	0	75	0
11c	24 months and within 5 years	0	75	0
11d	5 years and within 10 years	0	100	44
11e	10 years and above	0	100	56

## 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 2018/19.

No.	Upper Limit for total principal sums invested over 364 days	2018/19 Original %	2018/19 Revised £m	2018/19 Actual £m
12	Upper limit	50	2	-

## 13. HRA Limit on Indebtedness

The 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. The Government removed the 'debt cap' during 2018/19. The Council has retained the indicator 2018/19 for reporting to show the position if the 'debt cap' had remained in place.

No	Capital Financing Requirement	2018/19 Original £m	2018/19 Revised £m	2018/19 Actual £m
13a	HRA CFR	65.979	67.519	65.760
13b	HRA Debt Cap	75.248	75.248	75.248
	<b>Difference</b>	<b>9.269</b>	<b>7.729</b>	<b>9.488</b>

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

*Economic background:* After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be showing signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

*Financial markets:* December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

*Credit background:* Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ring-fenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ring-fenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ring-fenced and non-ring-fenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ring-fencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc) transferred their business lines into retail (ring-fenced) and investment banking (non-ring-fenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the senior unsecured debt and deposits.

## Appendix C – List of Investments made and/or maturing in 2018/2019

Counterparty	Principal £	From / To		Interest/Return £
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<b>Term Deposits</b>				
Nationwide Building Society	1,000,000	15-Dec-18	16-Apr-18	1,304
Thurrock Borough Council	3,000,000	12-Feb-18	14-May-18	4,114
Debt Management Office	1,000,000	10-May-18	22-May-18	85
Thurrock Borough Council	3,000,000	14-May-18	14-Nov-18	9,528
Debt Management Office	2,000,000	15-May-18	22-May-18	96
South Highton Parish Council	24,000	29-May-18	29-Nov-18	76
Debt Management Office	3,000,000	01-Jun-18	11-Jun-18	205
Debt Management Office	2,000,000	11-Jun-18	19-Jun-18	109
Surrey Heath Borough Council	1,000,000	12-Jun-18	12-Dec-18	3,008
Thurrock Borough Council	2,000,000	02-Jul-18	02-Oct-18	2,521
Debt Management Office	1,000,000	18-Jul-18	23-Jul-18	34
Debt Management Office	1,000,000	27-Jul-18	03-Aug-18	54
Debt Management Office	4,000,000	01-Aug-18	03-Aug-18	74
Debt Management Office	2,000,000	10-Sep-18	19-Sep-18	247
Thurrock Borough Council	2,500,000	02-Oct-18	02-Apr-19	11,219
Debt Management Office	2,000,000	01-Oct-18	03-Oct-18	55
Debt Management Office	2,000,000	01-Oct-18	08-Oct-18	192
Debt Management Office	2,000,000	08-Oct-18	18-Oct-18	274
Debt Management Office	6,000,000	15-Oct-18	22-Oct-18	575
Debt Management Office	4,000,000	15-Oct-18	18-Oct-18	164
Eastbourne Borough Council	2,000,000	22-Oct-18	23-Jan-19	3,567
Debt Management Office	2,000,000	22-Oct-18	29-Oct-18	192
Thurrock Borough Council	3,000,000	14-Nov-18	14-May-19	13,389
Debt Management Office	8,000,000	01-Nov-18	05-Nov-18	438
Debt Management Office	4,000,000	05-Nov-18	09-Nov-18	219
Debt Management Office	4,000,000	05-Nov-18	12-Nov-18	384
Thurrock Borough Council	5,000,000	09-Nov-18	11-Feb-19	9,400
Debt Management Office	2,000,000	15-Nov-18	19-Nov-18	110
Eastbourne Borough Council	3,000,000	03-Dec-18	01-Mar-19	5,425
Debt Management Office	3,000,000	10-Dec-18	17-Dec-18	288
Debt Management Office	1,000,000	17-Dec-18	24-Dec-18	96
Debt Management Office	3,000,000	17-Dec-18	02-Jan-19	658
Debt Management Office	2,000,000	17-Dec-18	19-Dec-18	55
Debt Management Office	3,000,000	02-Jan-19	07-Jan-19	205
Debt Management Office	2,500,000	15-Jan-19	21-Jan-19	205
Debt Management Office	2,000,000	24-Jan-19	08-Feb-19	411
Debt Management Office	2,500,000	04-Feb-19	08-Feb-19	140
Debt Management Office	2,000,000	13-Feb-19	18-Feb-19	137
Eastbourne Borough Council	3,000,000	01-Mar-19	13-Mar-19	641

Counterparty	Principal £	From / To	Interest/Return £
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**Treasury Bills**

UK Treasury Bill 0% 28-Aug-2018	1,000,000	30-Jul-18	28-Aug-18	457
UK Treasury Bill 0% 28-Aug-2018	1,000,000	30-Jul-18	28-Aug-18	452
UK Treasury Bill 0% 10-Sep-2018	1,000,000	13-Aug-18	10-Sep-18	534
UK Treasury Bill 0% 10-Sep-2018	1,000,000	13-Aug-18	10-Sep-18	524
UK Treasury Bill 0% 01-Oct-2018	1,000,000	3-Sep-18	1-Oct-18	557
UK Treasury Bill 0% 29-Oct-2018	1,000,000	1-Oct-18	29-Oct-18	517
UK Treasury Bill 0% 26-Nov-2018	1,000,000	29-Oct-18	26-Nov-18	499
UK Treasury Bill 0% 10-Dec-2018	1,000,000	12-Nov-18	10-Dec-18	477
UK Treasury Bill 0% 10-Dec-2018	1,000,000	12-Nov-18	10-Dec-18	482
UK Treasury Bill 0% 10-Dec-2018	1,000,000	12-Nov-18	10-Dec-18	489
UK Treasury Bill 0% 10-Dec-2018	1,000,000	12-Nov-18	10-Dec-18	475
UK Treasury Bill 0% 04-Feb-2019	1,000,000	7-Jan-19	4-Feb-19	497
UK Treasury Bill 0% 04-Feb-2019	1,000,000	7-Jan-19	4-Feb-19	499
UK Treasury Bill 0% 04-Feb-2019	1,000,000	7-Jan-19	4-Feb-19	505

**Other**

Daimler AG (Bond - Fixed)	650,000	14-Sep-17	16-Jul-18	12,900
Daimler AG (Bond - Fixed)	1,000,000	4-Oct-17	16-Jul-18	18,545
Nordea AB (Certificate of Deposit)	1,000,000	25-Oct-17	25-Apr-18	18,544
BMW Finance NV (Bond - Fixed)	1,000,000	19-Dec-17	14-Dec-18	6,712

## Glossary of Terms

<i>Affordable Borrowing Limit</i>	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.
<i>Base Rate</i>	The main interest rate in the economy set by the Bank Of England, upon which others rates are based.
<i>Bonds</i>	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.
<i>Capital Expenditure</i>	Spending on the purchase, major repair, or improvement of assets e.g. buildings and vehicles.
<i>Capital Financing Requirement (CFR)</i>	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.
<i>Chartered Institute of Public Finance and Accountancy (CIPFA)</i>	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.
<i>Counterparty</i>	Organisation with which the Council makes an investment.
<i>Credit Default Swaps</i>	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.
<i>Credit Rating</i>	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
<i>Fixed Deposits</i>	Loans to institutions which are for a fixed period at a fixed rate of interest.
<i>Gilts</i>	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 the gilt it will be traded at price decided in the market.

<i>Housing Revenue Account (HRA)</i>	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.
<i>Lenders' Option Borrower's Option (LOBO)</i>	A long term loan with a fixed interest rate. On pre- determined dates (e.g. 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.
<i>LIBID</i>	The rate of interest at which first-class banks in London will bid for deposit funds.
<i>Minimum Revenue Provision (MRP)</i>	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.
<i>Operational boundary</i>	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
<i>Prudential Code/Prudential Indicators</i>	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.
<i>Public Works Loan Board (PWLb)</i>	A central government agency which provides long-term and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
<i>Treasury Management Strategy Statement (TMSS)</i>	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.
<i>Treasury Bills (T-Bills)</i>	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.