**Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2014/15**

**Summary**

**Report to advise members of the Treasury Management Service performance and to illustrate the compliance with the Prudential Indicators for 2014/15**

| **Portfolio – Finance (Councillor Richard Brooks)** | |
|---|---|
| **Wards Affected** | **All** |

**Recommendation**

**The Performance and Finance Committee is asked to:**

**(i) NOTE the report on Treasury Management including compliance with the 2014/15 Prudential Indicators;**

**(ii) ADVISE the Executive to RECOMMEND to full Council to NOTE the report on Treasury Performance for 2014/15 including compliance with the Prudential Indicators.**

## 1. Resource Implications

1.1 None directly as a result of this paper, but the Council is heavily dependant on investment income to support its current revenue expenditure. Investment returns have fallen significantly over recent years. The table below shows investment income from treasury activities (excluding Iceland) from 2006/07 to 2014/15.

1.2

| **Year** | **Investment income from treasury activities** | **Increase/decrease compared to previous year** | |
|---|---|---|---|
| | £000 | £000 | % |
| 2006/07 | 1504 | - | - |
| 2007/08 | 1819 | 315 | 20.9% |
| 2008/09 | 1780 | -39 | -2.1% |
| 2009/10 | 524 | -1256 | -70.6% |
| 2010/11 | 264 | -260 | -49.6% |
| 2011/12 | 215 | -49 | -18.6% |
| 2012/13 | 300 | 85 | 39.5% |

| | | | |
|---|---|---|---|
| 2013/14 | 208 | -92 | -42.8% |
| 2014/15 | 273 | 35 | 17.0% |

1.3 Treasury income has fallen sharply since 2007/08 mainly due to a sharp drop in interest rates after the financial crash. However a change in the investment policy in 2014/15 to enable investment in a more diversified portfolio has increased returns compared to the previous years. The main driver for returns continues to be the underlying bank base rate which has remained at 0.50% throughout the year although there are signs that this may increase in the near future

## 2. Key Issues

2.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council's investments are reported quarterly to the Executive as part of the financial report whilst scrutiny of treasury policy, strategy and activity is delegated to the Performance and Finance committee which then makes recommendations to Executive and Council.

2.2 Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.3 The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds, and the revenue effect of changing interest rates. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy.

2.4 This report is the annual report for the 2014/15 financial year. It includes both a summary of treasury management performance during the year as well demonstrating compliance with the 2014/15 Prudential Indicators.

2.5 This report fulfils the Council's legal obligation under the [Local Government Act 2003 to have regard to both the CIPFA Code and the Department for Communities and Local Government (DGLG) Investment Guidance, and the CIPFA Prudential Code for Capital Finance in Local Authorities.

## 3. Options

3.1 The Committee can receive, amend or reject this report, or ask for further information.

3.2 The Committee can amend or reject the proposed recommendations to Executive.

## 4. Proposals

4.1 The Performance and Audit Committee is asked to NOTE the report on 2014/15 treasury management performance including compliance with the 2014/15 prudential indicators.

4.2 The Performance and Audit Committee is asked to ADVISE the Executive to RECOMMEND to full Council to NOTE the report on Treasury Performance for 2014/15 including compliance with the Prudential Indicators.

## 5. Treasury Management Strategy 2014/15

5.1 The Council approved the 2014/15 Treasury Management Strategy, which includes the investment strategy, at its meeting on 26th February 2014. All treasury management activity complied with the approved treasury management strategy, the CIPFA Code of Practice and the relevant legislative provisions.

### Investment Strategy 2014/15

5.2 The approved investment strategy for 2014/15 adopted a view to investment that sought to balance risk against return. On the advice of our treasury advisors Arling Close investments were diversified in to a number of longer term investment funds. These funds give a good return but can be more volatile in the short term hence the need to keep funds invested for the longer term so as to smooth out these variations.

5.3 The Council continued to use a limited range of UK banks and building societies with investments being placed generally for short periods only. This was not only because of the poor rates offered but also the risk of bail in due to changes in legistlation (see paragrapghs 7.7 to 7.13 of this report for more information on these changes). The Council also lent money to other authorities during the year. The change in investment strategy has increased returns and looks as though it will continue to increase returns in to 2015/16. Arling Close have recently stated that they see no reason to make any changes to our current strategy based on the current economic climate.

### Borrowing Strategy 2014/15

5.4 No external borrowing was undertaken during 2014/15 and the Council remained debt free for the whole year.

5.5 The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31st March 2015 was £1.567m.

5.6 It should be noted that £17.9m of external borrowing has been undertaken in the first quarter of 2015/16 in order to finance a number of property acquisitions.

**Treasury Advisors**

5.7 The Council uses treasury management advisors to provide advice on all aspects of treasury management including interest rate forecasts, counterparty lists and management advice. This Council's current advisors, Arling Close Limited, were appointed in 2014.

**6. Economic Review Provided by Arlingclose Limited**

6.1 **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.

6.2 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.

6.3 **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.

6.4 **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.

6.5 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.

6.6 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.

6.7 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.

6.8 **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.

## 7. Investment Activity

7.1 Both the CIPFA and DCLG's Investment Guidance require the Council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.

7.2 The table below shows a summary of the investment activity for 2014/15:

| Investment Counterparty | Balance on 1/4/14 | Investments Made | Maturities/Investments Sold | Balance on 31/3/15 | Average Rate at 31st March |
|---|---|---|---|---|---|
| | £000s | £000s | £000s | £000s | % |
| **UK Central Govenrment** | | | | | |
| - Short Term | **0** | 63,700 | -63,700 | **0** | 0.25 |
| - Long Term | **0** | 0 | 0 | **0** | - |
| | | | | | |
| **UK Local Authorities** | | | | | |
| - Short Term | **0** | 2,000 | 0 | **2,000** | 0.95 |
| - Long Term | **2,000** | 1,500 | 0 | **3,500** | 1.01 |
| | | | | | |
| **Banks, Building Societies & Other Organisations** | | | | | |
| - Short Term | **12,104** | **61,431** | **-70,720** | **2,815** | 0.70 |
| - Long Term | **0** | 0 | 0 | **0** | - |
| | | | | | |
| **AAA-rated Money Market Funds** | | | | | |
| - Short Term Cash Equivalents | **6,988** | **26,889** | **-27,430** | **6,447** | 0.69 |
| - Long Term | **0** | **8,123** | **0** | **8,123** | 4.14 |
| | | | | | |
| **Total Investments** | **21,092** | **163,644** | **-161,851** | **22,885** | |
| | | | | | |

7.3 A summary of the Council's investments as at 31st March 2015 is shown at Annex A.

7.4 The ability to make reasonable returns without incurring high risks remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy for 2014/15 which defined "high credit quality" organisations as those having a term credit rating of A- or higher that are domiciled in the UK or a sovereign rating of AA+ or higher.

7.5 Investments during the year included:-

- Deposits with the Debt Management Office
- Deposits with other Local Authorities
- Investments in AAA-rated Constant & Variable Net Asset Value Money Market Funds
- Call accounts and deposits with Banks and Building Societies in the UK.

7.6 The Council's current accounts, together with a "Special Interest Bearing Account" are held with Natwest plc who do not currently meet the above credit rating criteria. The Council will treat Natwest plc as “high credit quality” for the purpose of making investments that can be withdrawn on the next working day.

**Counterparty Update**

7.7 The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish, over 2014-15 Moody’s revised the Outlook of several UK and EU banks from Stable to Negative (note, this is not the same as a rating review negative) and S&P placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries’ early adoption of the bail-in regime in the BRRD.

7.8 The Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank’s liabilities might work in practice. The Bank of England will act if, in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as a bail-in takes place.

7.9 The combined effect of the BRRD and the UK’s Deposit Guarantee Scheme Directive (DGSD) is to protect deposits of individuals and SMEs above those of public authorities, large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.

7.10 In December the Bank’s Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock and to a sharp rise in interest rates and address the risks to the UK’s financial stability. Institutions which ‘passed’ the tests but would be at risk in the event of a ‘severe economic downturn’ were Lloyds Banking Group and Royal Bank of Scotland. Lloyds Banking Group, [whose constituent banks are on the Authority’s lending list], is taking measures to augment capital and the PRA does not require the group to submit a revised capital plan. RBS, which is not on the Authority’s lending list for investments, has updated plans to issue additional Tier 1 capital. The Co-operative Bank failed the test.

7.11 The European Central Bank also published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by approximately €25bn (£20bn) in total – none of the failed banks featured on the Authority’s lending list.

7.12 In October following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, Arlingclose advised a reduction in investment duration limits for unsecured bank and building society investments to counter the risk of another full-blown Eurozone crisis. Durations for new unsecured investments with banks and building societies which were previously reduced. Duration for new unsecured investments with some UK institutions was further reduced to 100 days in February 2015.

7.13 The outlawing of 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 rose relative to other investment options. The Authority therefore increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.

**Credit risk**

7.14 Counterparty credit quality was assessed and monitored with reference to primarily to credit ratings, credit default swaps and other economic information such as government support available, share price etc. The minimum long-term counterparty credit rating determined for the 2014/15 treasury strategy was A- across the rating agencies Fitch, S&P and Moody's.

7.15 The Council's counterparty credit quality has been maintained as demonstrated by the Credit Score Analysis summarised in the table below. Table 1 of Annex B explains the credit score.

| Date | SHBC Value Weighted Average Credit Risk Score | SHBC Value Weighted Average Credit Rating | Average Number of Days to Maturity |
|---|---|---|---|
| 31/03/2014 | *6.67* | *A-* | *171* |
| 31/03/2015 | *3.74* | *AA-* | *262* |

7.16 It should be noted that a high credit score is no guarantee as to the security of a particular investment. No investment, other than those placed with the UK Government, can be expected to be 100% secure.

**Liquidity**

7.17 In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds/overnight deposits/call accounts.

**Update on Investments with Icelandic Banks**

7.18 In December 2011, the Courts determined that local authority deposits with Glitnir qualified for priority status under Icelandic bankruptcy legislation. The Council's claim were settled in March 2012, when approximately 82p/£ was recovered from a mixture of GBP, EURO and USD payments. The EUR and USD amounts were converted via a spot rate into GBP. The remaining 18% remains held in Icelandic Krona (ISK), and is still subject to exchange rate restrictions imposed by the Icelandic Government. The amount is held in an Escrow account earning interest over the year at 4.2%.

**8. Compliance With Prudential Indicators**

8.1 The Council can confirm that it has complied with its Prudential Indicators for 2014/15, which were approved on 26th February 2014 by Full Council as part of the Council's Treasury Management Strategy Statement. Full details are included in Annex C.

8.2 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2014/15. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

8.3 The Council can confirm that during 2014/15 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

**9. Risk Management for 2014/15**

9.1 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The key treasury risks being managed are:

- credit risk,
- liquidity risk,
- interest rate risk,
- refinancing risk, and
- operational risk.

The techniques employed to manage these risks are covered in detail in the Council's Treasury Management Practices, and include:

- robust counterparty monitoring and selection criteria,
- prudent cash flow forecasting,
- a range of exposure limits and indicators, and
- procedures designed to prevent fraud and error.

9.2 The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return.

9.3 The limits applied in respect of counterparties and investments are the <u>overall limits</u> approved by Council in the annual Treasury Management Strategy. However from time to time these may be tightened temporarily by the Head of

Corporate Finance in consultation with the portfolio holder for Finance to reflect increased uncertainty and increase in perceived risk in financial institutions and the economy. This will usually be at the cost of lower returns.

9.4 It should be noted that the investments ratings provided by credit ratings agencies are only a guide and do not give 100% security. There is always a risk that an institution may be unable to repay its loans whatever the credit rating

9.5 The Council measures its exposures to treasury management risks using a range of indicators as recommended by the CIPFA Code of Practice on Treasury Management.

## 10. Corporate Objectives and Key Priorities

10.1 The Treasury Management processes support the Council's objective of 'Delivering services better, faster and cheaper'.

## 11. Policy Framework

11.1 The 2014/15 Annual Investment Strategy together with the Treasury Management Strategy was approved by Full Council on the 26th February 2014.

11.2 These set out the parameters under which Treasury Management operates including the Prudential Indicators.

11.3 The Council took the decision that it will not use prudential borrowing to fund capital programme, but will use the available capital receipts. Borrowing activity is thus limited to managing our daily cash flow needs and the strategy is therefore simply to borrow at the lowest available rates for the minimum period required.

11.4 The Council fully complies with the requirements of the CIPFA Code of Practice on Treasury Management. The relevant criteria and constraints incorporated into the Treasury Management Policy Statement are:

- New borrowing is contained within the limits approved by the Council, in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities, and the Council's prudential indicators.

- Investments are made in accordance with the CLG guidance on Local Authority Investments, on the basis of Fitch, Moody's and Standard & Poors credit ratings and as detailed in the Treasury Management Policy statement and approved schedules and practices.

- Sufficient funds are available to meet the Council's estimated outgoings for any day.

- Investment objectives are to maximise the return to the Council, subject to the overriding need to protect the capital sum.

| | |
|---|---|
| **ANNEXES** | Annex A – Investments as at 31st March 2015<br>Annex B - Credit Score Analysis, Bank & Money Market Rates<br>Annex C – Compliance with Prudential Indicators |
| **BACKGROUND PAPERS** | Prudential Code for Capital Finance in Local Authorities |
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**CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED**

| | **Required** | **Consulted** | **Date** |
|---|---|---|---|
| **Resources** | | | |
| Revenue | ✓ | | |
| Capital | | | |
| Human Resources | | | |
| Asset Management | | | |
| IT | | | |
| **Other Issues** | | | |
| Corporate Objectives & Key Priorities | ✓ | | |
| Policy Framework | | | |
| Legal | N/A | | |
| Governance | N/A | | |
| Sustainability | N/A | | |
| Risk Management | ✓ | | |
| Equalities Impact Assessment | N/A | | |
| Community Safety | N/A | | |
| Human Rights | N/A | | |
| Consultation | N/A | | |
| P R & Marketing | N/A | | |

**Annex A**

## Treasury Related Investments Balances as at 31-Mar-15

| Investments | Notes | Maturity Date | Interest Rate % | Principal £ |
|---|---|---|---|---|
| **Cash Equivalents** | | | | |
| Special Interest Bearing Account | On call | | 0.250 | 133,813 |
| Close Brothers | On call | | 0.400 | 0 |
| Lloyds | On call | | 0.400 | 0 |
| War Stock | Updated annually as at 31st March | | 0.625 | 4,993 |
| **Available for Sale** | | | | |
| Black Rock 'AAA' Fund | Instant Access | | | |
| CCLA - 'AAA' Fund | Instant Access | | | |
| Ignis 'AAA' Fund | Instant Access | | 0.500 | 2,000,000 |
| Insight 'AAA' Fund | 4 Day Notice | | 0.820 | 2,998,210 |
| Payden & Rygel 'AAA' Fund | - | | | 0 |
| Scottish Widows 'AAA' Fund | 2 Day Notice | | 0.680 | 1,448,752 |
| **Fixed Term Investments under three months:** | | | | |
| Lloyds Bank | | 14-May-15 | 0.950 | 1,000,000 |
| Coventry Building Society | | 09-Jun-15 | 0.690 | 1,000,000 |
| **Total Cash Equivalents** | | | | **8,585,767** |
| **Loans and Receivables - Short Term** | | | | |
| **Fixed Term Investments over three months** | | | | |
| Greater London Authority | | 30-Oct-15 | 0.950 | 2,000,000 |
| Icelandic Banks - ISK Escrow - Glitnir | Updated annually as at 31st March | | 4.2 | 676,779 |
| **Total Loans and Receivables - Short Term** | | | | **2,676,779** |
| **Total Short Term Investments** | | | | **11,262,547** |
| **Loans and Receivables - Long Term** | | | | |
| **Fixed Term Investments over twelve months** | | | | |
| Lancashire County County | | 30-Sep-16 | 1.100 | 1,500,000 |
| LB of Islington | | 28-Oct-16 | 1.150 | 2,000,000 |
| **Available For Sale** | | | | |
| CCLA Property Fund | | | 4.250 | 1,999,059 |
| M&G Investments - Global Dividend Fund | | | 3.310 | 1,008,806 |
| M&G Investments - Strategic Corporate Bond Fund | | | 2.491 | 2,036,508 |
| Threadneedle - Corporate Bond Fund | | | 5.590 | 2,016,343 |
| Threadneedle - Global Equity Fund | | | 5.540 | 1,062,400 |
| **Total Loans and Receivables - Long Term** | | | | **11,623,116** |
| **Total Investments** | | | | **22,885,662** |

**Annex B**

**Table 1 - Credit Score Analysis**

| Long-Term Credit Rating | Score |
|---|---|
| AAA | 1 |
| AA+ | 2 |
| AA | 3 |
| AA- | 4 |
| A+ | 5 |
| A | 6 |
| A- | 7 |
| BBB+ | 8 |
| BBB | 9 |
| BBB- | 10 |

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Authority aimed to achieve a score of 7 or lower, to reflect the Authority's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

**Table 2: Bank Rate, Money Market Rates**

| **Date** | | **Bank Rate** | | **O/N LIBID** | **7-day LIBID** | **1-month LIBID** | **3-month LIBID** | **6-month LIBID** | **12-month LIBID** | **2-yr SWAP Bid** | **3-yr SWAP Bid** | **5-yr SWAP Bid** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 01/04/2014 | | 0.50 | | 0.36 | 0.39 | 0.42 | 0.46 | 0.56 | 0.84 | 1.05 | 1.44 | 2.03 |
| 30/04/2014 | | 0.50 | | 0.36 | 0.40 | 0.42 | 0.47 | 0.57 | 0.85 | 1.09 | 1.47 | 2.02 |
| 31/05/2014 | | 0.50 | | 0.35 | 0.40 | 0.43 | 0.48 | 0.67 | 0.87 | 1.11 | 1.46 | 1.98 |
| 30/06/2014 | | 0.50 | | 0.36 | 0.40 | 0.43 | 0.50 | 0.71 | 0.94 | 1.33 | 1.70 | 2.17 |
| 31/07/2014 | | 0.50 | | 0.37 | 0.41 | 0.43 | 0.50 | 0.72 | 0.97 | 1.34 | 1.71 | 2.17 |
| 31/08/2014 | | 0.50 | | 0.36 | 0.42 | 0.43 | 0.50 | 0.77 | 0.98 | 1.22 | 1.53 | 1.93 |
| 30/09/2014 | | 0.50 | | 0.43 | 0.45 | 0.43 | 0.51 | 0.66 | 1.00 | 1.25 | 1.57 | 1.99 |
| 31/10/2014 | | 0.50 | | 0.40 | 0.43 | 0.43 | 0.51 | 0.66 | 0.98 | 1.10 | 1.38 | 1.78 |
| 30/11/2014 | | 0.50 | | 0.35 | 0.50 | 0.43 | 0.51 | 0.66 | 0.97 | 0.93 | 1.15 | 1.48 |
| 31/12/2014 | | 0.50 | | 0.43 | 0.48 | 0.42 | 0.51 | 0.66 | 0.97 | 0.92 | 1.12 | 1.44 |
| 31/01/2015 | | 0.50 | | 0.45 | 0.45 | 0.43 | 0.51 | 0.66 | 0.95 | 0.83 | 0.98 | 1.18 |
| 28/02/2015 | | 0.50 | | 0.43 | 0.47 | 0.43 | 0.51 | 0.66 | 0.96 | 0.99 | 1.22 | 1.53 |
| 31/03/2015 | | 0.50 | | 0.50 | 0.62 | 0.43 | 0.51 | 0.74 | 0.97 | 0.88 | 1.06 | 1.34 |
| | | | | | | | | | | | | |
| **Average** | | **0.50** | | **0.39** | **0.44** | **0.43** | **0.50** | **0.67** | **0.95** | **1.09** | **1.38** | **1.79** |
| **Maximum** | | **0.50** | | **0.50** | **0.62** | **0.43** | **0.51** | **0.81** | **1.00** | **1.38** | **1.77** | **2.26** |
| **Minimum** | | **0.50** | | **0.24** | **0.36** | **0.42** | **0.46** | **0.56** | **0.84** | **0.80** | **0.96** | **1.18** |
| **Spread** | | **--** | | **0.26** | **0.26** | **0.01** | **0.05** | **0.25** | **0.16** | **0.58** | **0.81** | **1.08** |

*The average, low and high rates correspond to the rates during the financial year rather than only those in the tables below*

**Capital Financing Requirement (CFR)**
Estimates of the Council's cumulative maximum external borrowing requirement for 2014/15 to 2016/17 are shown in the table below:

| | **31/03/2015 Approved £000s** | **31/03/2015 Actual £000s** |
|---|---|---|
| **Capital Financing Requirement** | 10,815 | 1,567 |

In the Prudential Code Amendment (November 2012), it states that the Chief Finance Officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him/her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

| | **31/03/2015 Approved £000s** | **31/03/2015 Actual £000s** |
|---|---|---|
| CFR | 10,815 | 1,567 |
| Gross Debt | | |
| **Difference** | **0** | **0** |
| **Borrowed in excess of CFR? (Y/N)** | **N** | **N** |

**Prudential Indicator Compliance**

**(a) Authorised Limit and Operational Boundary for External Debt**

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- No borrowing was required during 2013/14, and there were no breaches to the Authorised Limit and the Operational Boundary during the year.

| | **Operational Boundary (Approved) as at 31/03/2015 £000's** | **Authorised Limit (Approved) as at 31/03/2015 £000's** | **Actual External Debt as at 31/03/2015 £000's** |
|---|---|---|---|
| Borrowing | 10,000 | 12,000 | 0 |
| Other Long-term Liabilities | 1,000 | 2,000 | 0 |
| **Total** | **11,000** | **14,000** | **0** |

### (b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.
-

| | **Approved Limits for 2014/15** |
|---|---|
| **Upper Limit for Fixed Rate Exposure** | £2m |
| Compliance with Limits: | Yes |
| **Upper Limit for Variable Rate Exposure** | £0m |
| Compliance with Limits: | Yes |

### (c) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

| **Maturity Structure of Fixed Rate Borrowing** | **Upper Limit %** | **Lower Limit %** | **Actual Fixed Rate Borrowing as at 31/03/2015 £m** | **% Fixed Rate Borrowing as at 31/03/2015** | **Compliance with Set Limits?** |
|---|---|---|---|---|---|
| under 12 months | 100% | 0% | 0 | 0% | Yes |
| 12 months and within 24 months | 100% | 0% | 0 | 0% | Yes |
| 24 months and within 5 years | 100% | 0% | 0 | 0% | Yes |
| 5 years and within 10 years | 100% | 0% | 0 | 0% | Yes |
| 10 years and above | 100% | 0% | 0 | 0% | Yes |

### (d) Capital Expenditure

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.

| **Capital Expenditure** | **2014/15 Approved £000's** | **2014/15 Actual £000's** |
|---|---|---|
| **Total** | **14,428** | **3,366** |

Capital expenditure has been and will be financed or funded as follows:

| **Capital Financing** | **2014/15 Approved £m** | **2014/15 Actual £m** |
|---|---|---|
| Capital receipts | 2,063 | 1,254 |
| Government Grants and Other Contributions | 550 | 283 |
| Sums Set Aside From Revenue | | 262 |
| Borrowing | 11,815 | 1,567 |
| **Total Available Financing** | **14,428** | **3,366** |

The table shows that the capital expenditure plans of the Authority could not be funded entirely from sources other than borrowing. As at 31st March 2015, £1.567m of borrowing was required to finance the approved capital programme.

(e) **Ratio of Financing Costs to Net Revenue Stream**

- 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 financing costs.
- The ratio is based on costs net of investment income.

| **Ratio of Financing Costs to Net Revenue Stream** | **2014/15 Approved %** | **2014/15 Actual %** |
|---|---|---|
| Total | -1.63 | -2.43 |

Note: The ratio can be negative for councils in a net investment position and the wording of the above paragraph would need to be amended.

(f) **Adoption of the CIPFA Treasury Management Code**

This indicator demonstrates that the Authority adopted the principles of best practice.

| **Adoption of the CIPFA Code of Practice in Treasury Management** |
|---|
| The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 26th February 2014. |

(g) **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 Authority having to seek early repayment of the sums invested.

| **Upper Limit for total principal sums invested over 364 days** | **2014/15 Approved £000's** | **2014/15 Actual £000's** |
|---|---|---|
| | 15,000 | 11,623 |

(h) **Security: Average Credit Rating**

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio

| | Target | Actual as at 31st March 2015 |
|---|---|---|
| Portfolio average credit rating | A | AA- |

For the purpose of this indicator, unrated building societies are assigned an indicative rating of BBB, and unrated local authorities are assumed to hold an AA+ rating.

(i) **Liquidity: Cash Available Within Three Months**

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period.

| | Target | Actual as at 31st March 2015 |
|---|---|---|
| Total cash available without borrowing | £8m | £9.0m |
| Total cash available including external borrowing | £8m | £9.0m |