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REPORT TO:	**General Purposes and Audit Committee** **17 September 2014**
AGENDA ITEM:	**8**
SUBJECT:	**Treasury Annual Review 2013/14**
LEAD OFFICER:	**Director of Finance & Assets**
CABINET MEMBER:	**Councillor Simon Hall, Cabinet Member for Finance & Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management. This report details the Council's Treasury Management activities during 2013/14 and the Council's compliance with the Prudential Code for Capital Finance.	
FINANCIAL SUMMARY: This report details the Treasury Management activities in 2013/14 and demonstrates the Council's compliance with the Prudential Code.	
FORWARD PLAN KEY DECISION REFERENCE NO.:	

For general release

1. RECOMMENDATIONS

1.1. The Committee are asked to note the contents of this report and to:

(a)Endorse the continued implementation of the Council's Treasury Strategy by the Director of Finance & Assets.

2. EXECUTIVE SUMMARY

2.1. The Council's treasury management activities are reviewed on an annual basis to take account of changes and updates in treasury practices and to ensure that best practice is incorporated within all areas of treasury management. This report:-

- Reviews the Council's treasury management activities for the year 2013/14;
- Details those areas of activity that formed the basis of the Treasury Strategy Statement & Annual Investment Strategy 2013/14 received by Full Council on 26 February 2013 (Minute A31/13) and
- Demonstrates the Council's compliance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance and the adherence to the Prudential Indicators set.

3. BACKGROUND

3.1. The Council has adopted a Treasury Policy Statement, which sets out the basis on which treasury activities are to be conducted. This document is incorporated as part of the Council's Financial Regulations.

3.1.1. The Treasury Policy Statement sets out the minimum reporting requirements to Members as being the following reports:

- An annual treasury strategy report prior to the commencement of each financial year (a statutory requirement) on treasury strategy for the year ahead.
- A mid-year treasury update report.
- An annual review of the previous year's treasury activities.

3.1.2. The Council's treasury management objectives are to manage the cash flows, borrowing and investment requirements of the Authority with minimum risk and to achieve this by minimising the Council's exposure to adverse movements in interest rates whilst maximising investment yield to enhance the Council's finances.

3.1.3. The Council's treasury management activities are regulated by statute, the CIPFA Code of Practice for Treasury Management and official guidance.

3.1.4. This report presents a review of 2013/14's activities based on the following:-

- The Economy and Interest Rates
- Lending;
- Performance;
- Borrowing;
- Compliance with Prudential Indicators; and
- Repayment of Debt and Debt Rescheduling.

3.1.5. A glossary of the terms and abbreviations used in this report is attached at **Appendix E.**

3.2. The Economy and Interest Rates

3.2.1. The European Union (EU) sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. The European Central Bank's (ECB) statement of July 2012 that it would do 'whatever it takes' to support struggling Eurozone countries led to a return of confidence in its banking system which continued into 2013/14. The Eurozone continues to face the prospect of weak growth over the next few years at a time when the size of government debt for some nations is likely to rise. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

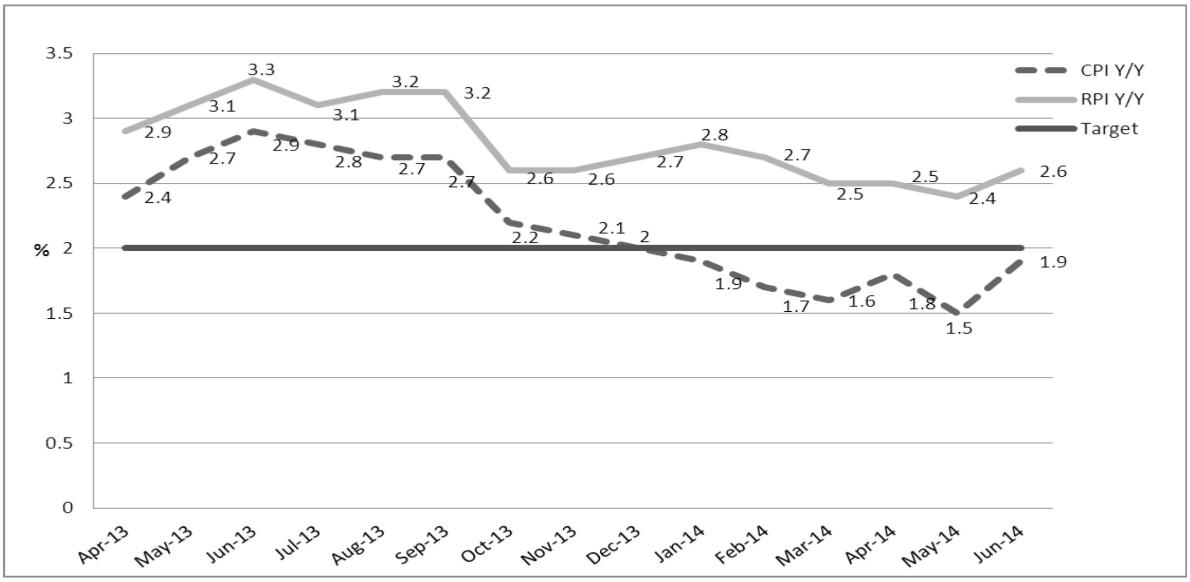
3.2.2. The UK coalition Government maintained its tight fiscal policy stance and recent strong economic growth has led to a cumulative reduction in the forecasts for total Government borrowing of £97bn over the next five years, culminating in a £5bn surplus in 2018/19.

3.2.3. The Government's 'Funding for Lending Scheme', announced in July 2012, resulted in a flood of cheap credit being made available to banks and this has resulted in money market rates falling sharply in the second half of that year and continuing into 2013/14.

3.2.4. The 2013/14 economic year started off similarly to the ending of the year 2012/13 with a challenging investment environment with low interest return. The original expectation for 2013/14 was that the Bank Rate would not rise during the year and for it only to start rising gently from the first quarter of 2015. The forecast rise has now been pushed back to start in the third quarter of 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and the Bank Rate ended the year unchanged at 0.50% for the fifth successive year.

3.2.5. Inflation has been a major concern for the Bank of England's Monetary Policy Committee (MPC). The Consumer Price Index (CPI) inflation had remained high and substantially above the 2% target during 2012. It peaked at 3.3% in June 2013 but by January 2014, it had fallen below the target rate to 1.9% and then fell further to 1.5% in May, the lowest rate since 2009. It is expected to remain slightly below the target rate for most of the two years ahead. A graph depicting UK inflation from April 2013 to June 2014 is detailed below.

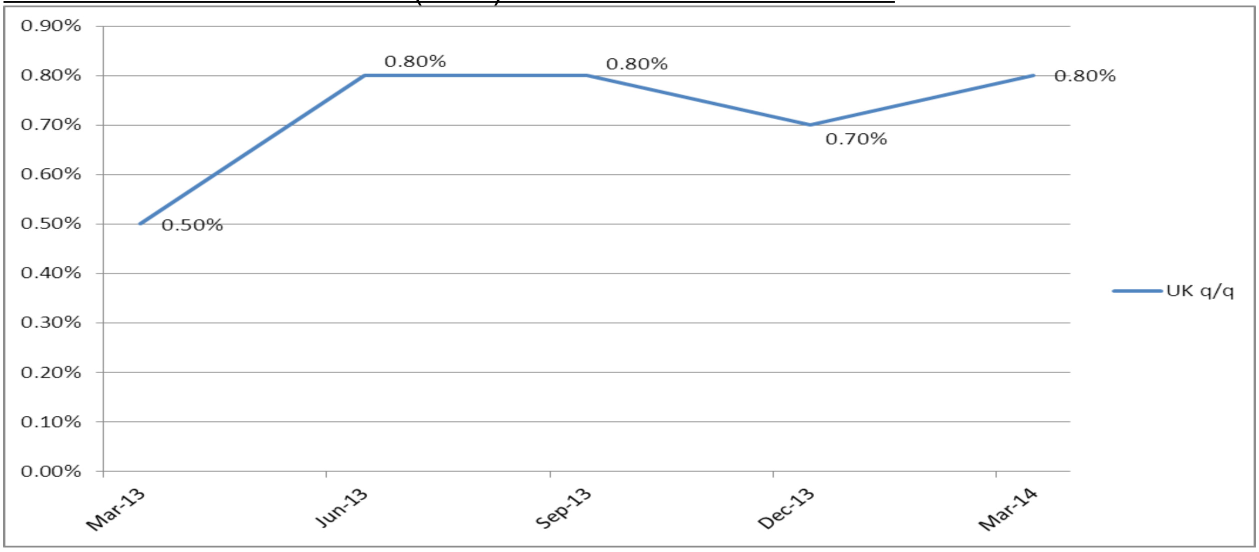
<u>UK Inflation April 2013 to June 2014</u>



3.2.6 CPI is the Consumer Price Index; RPI is the Retail Price Index. The Bank of England has been set a target of 2% for the CPI.

3.2.7 The focus in 2013/14 was also on quarterly Gross Domestic Product (GDP) figures. A graph detailing the strong growth in UK quarterly GDP figures from March 2013 to March 2014 is detailed below.

UK Gross Domestic Product (GDP) March 2013 to March 2014



3.3. Lending

3.3.1. The Council's investment policy is governed by CLG guidance which has been implemented in the annual investment strategy approved by the Council on 26 February 2013. As set out in the strategy, the criteria for the investment of the Council's surplus funds are based on formal credit ratings issued by the FITCH International Rating Agency and supplemented by additional market data such as rating outlooks, credit default swaps and bank share prices. The prime aim is to obtain capital security and then to secure the best rate of return. In addition to the FITCH rated institutions, all UK local authorities, and some public bodies comprise the Council's Approved Lending List. The rating criteria for approved counterparties was as follows:

Lending List Criteria

List	Credit Ratings Criteria
A	**FITCH rating in each of the following categories:-** F1+ on Short Term AA or above Long Term aa- or above Viability Rating 1 for Support Rating AA+ or above Sovereign Rating
B	**FITCH Rating in each of the following categories:-** F1+ on Short Term AA- or above on Long Term a+ or above Viability Rating

	1 for Support Rating AA+ or above Sovereign Rating
	Approved Organisations that meet the credit ratings set up above. All Non-UK Banks that meet the FITCH ratings set out above All UK Building Societies that meet the FITCH ratings set out above UK Banks that meet the FITCH ratings set out above **Approved Organisations not meeting the above credit ratings** Part Nationalised UK Banks All UK Local Authorities AAA rated Money Market Funds Debt Management Office

The Council's authorised list of counterparties as at 28 July 2014 is detailed in **Appendix A.** This list and the limits applicable to counterparties were approved by Full Council on 26 February 2013 (Minute A31/13). It had been drawn up to provide maximum security for the Council's funds.

3.3.2. The principle of obtaining capital security and then of securing the best rate of return underpins all treasury investment decisions. The market that exists to support local authorities understands this and has evolved to develop products to match these requirements. Without in any way compromising the commitment to these principles the treasury team has begun a process of engagement to explore the merits and associated risks of alternatives to plain time- and call-deposits that match their security characteristics. There is a growing concern that a reducing pool of quality counter-parties, such as banks, is increasing the level of risk for the Authority and one possible response to this might be to develop the number of high-grade deposit takers, to increase diversification of investments and thereby reduce the overall concentration of risk of default.

3.3.3. The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

3.3.4. Investment activity in 2013/14 conformed to the approved strategy and the Council experienced no liquidity issues in the year with an average monthly balance of **£160.113m** being maintained in temporary investments during the year. Part of this sum is made up of core balances such as provisions and reserves set aside and cash balances that can if necessary be invested for longer periods to take advantage of favourable interest rates and to hedge against future rate movements.

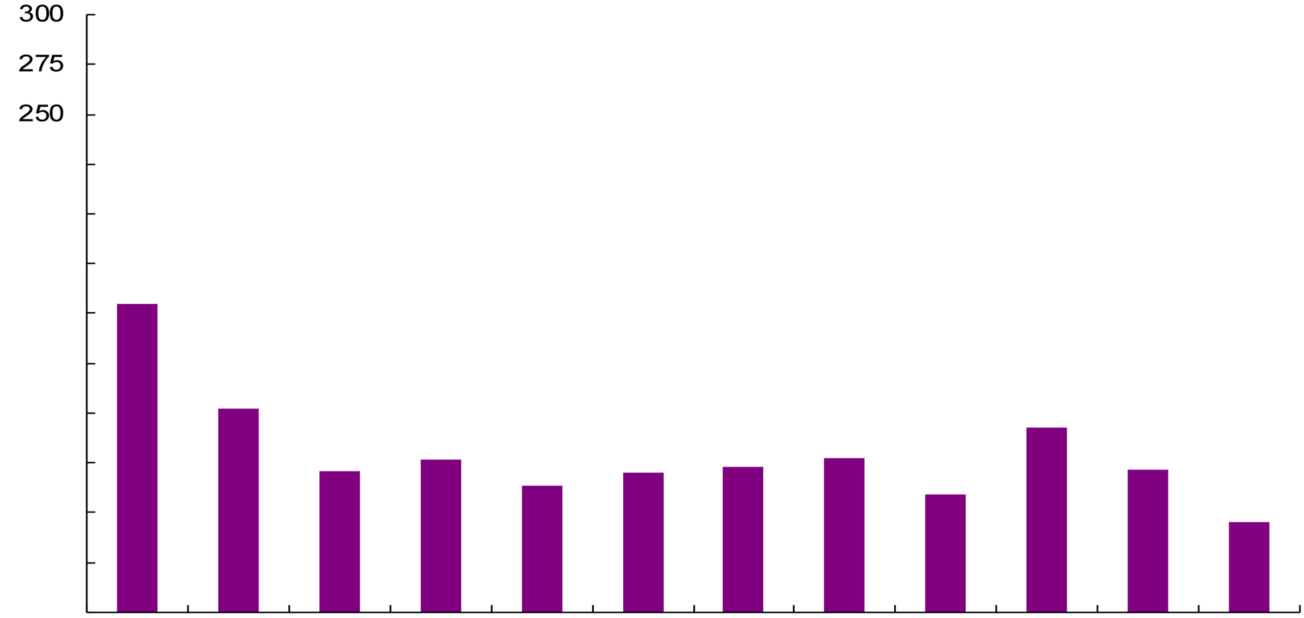
3.3.5. Available funds were invested for differing periods, to match anticipated movements in the Council's daily cash flows commensurate with achieving best value and based on forecasts of interest rate trends. The primary aim is to ensure the capital security of the Council's investments and then to secure the best rate of return.

3.3.6. Investment of the Council's cash balances is governed by the Guidance on Local Government Investments which has been issued by the Communities and Local Government Office (CLG).

3.3.7. The guidance requires certain investment policy parameters to be set within the annual Treasury Management Investment Strategy approved by Council.

Investment activity during the year conformed to this approved strategy and sufficient liquidity was maintained for the Council's cash flow requirements.

3.3.8. For the year April 2013 to March 2014, deposits totalling £954.715m were invested at an average investment rate of 0.40% compared to the benchmark rate of 0.35% for the year. This rate of return only considers cash invested during this twelve month period and not cash invested earlier that matured in this period. During the year the Council maintained an average monthly balance of £160.113m and the investments outstanding at 31st March 2014 were £115.0m. These were invested as follows: UK banks £95.0m; other UK local authorities £20.0m.



3.3.9. In placing these deposits, the treasury team will speak to a number of money brokers and institutions to secure the best deals. The bulk of these deals were made directly with the deposit taking bank or building society, or placed with the DMO or one of the AAA rated Money Market Funds.

3.3.10. On 26 February 2014, the Council entered into an agreement with Resonance Real Lettings GP Limited to invest up to £20m in the Real Lettings Property Fund Limited Partnership. This property fund, which has a 7-year life offers investors the opportunity to invest in a diversified portfolio of London residential property and aims to deliver a minimum return of 5% per annum based on the letting of the properties on 5-year lease terms. For Croydon, this investment will also provide added benefit in that the properties purchased would offer affordable accommodation for former homeless people or those at risk of homelessness, who cannot access social housing. Returns generated by the investment will serve to boost the Council's overall income in the future.

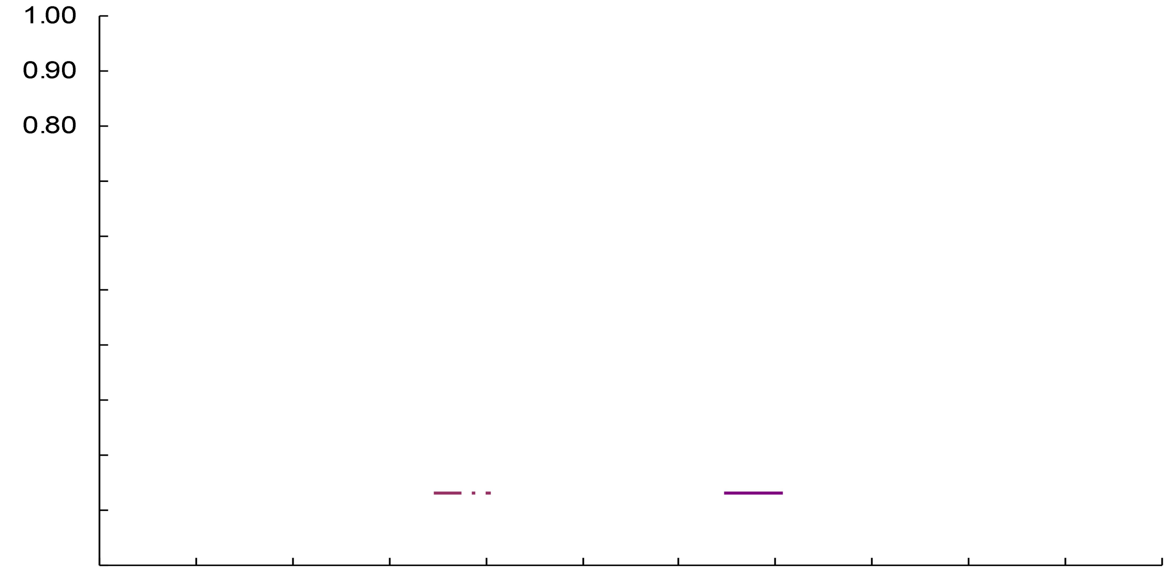
3.4 Performance Targets

3.4.1 The gross investment income earned by the Council for the financial year 2013/14 was £1.075m. This sum included interest accrued on investments made in 2012/13 that matured in 2013/14, representing an overall return of 0.65% for the financial year. This higher investment return was achieved as a result of higher deposit rates being paid by the part-nationalised banks. Of the investment income generated, £0.189m related to interest accrued on monies invested on behalf of the Housing Revenue Account (HRA) and other miscellaneous funds. The balance of £0.886m was credited to the General Fund.

3.4.2 The average 7-day London Interbank Bid (LIBID) can be used as a benchmark against which investment returns can be measured. This is generally accepted as a reasonable proxy for cash. Investments were restricted to the duration limits recommended by the Council's Treasury Advisers, Capita Asset Services and only made with institutions on the Council's authorised lending list.

3.4.3 The graph below details the rate of investment returns achieved on investments made each month in 2013/14 compared to the benchmark average 7-day LIBID rate for the month.

Actual investment rates achieved compared to the average 7-Day LIBID rates 2013/14



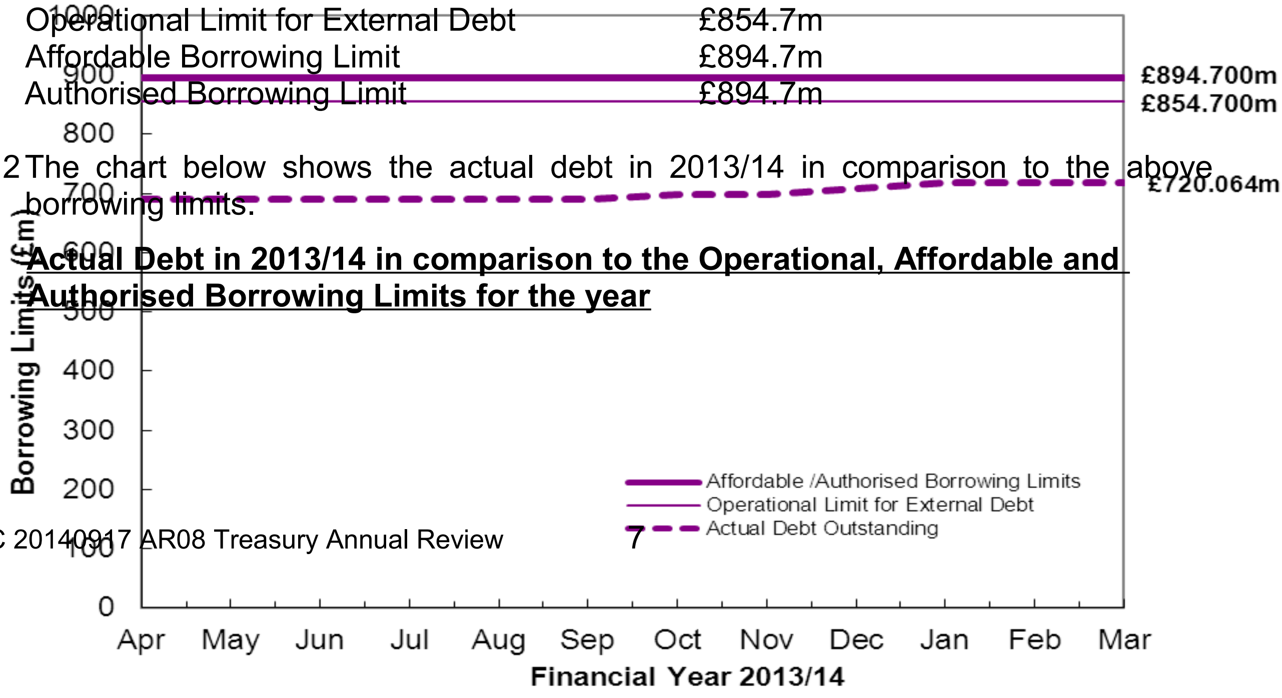
3.5 Borrowing

3.5.1 The Council set borrowing limits that were approved by Full Council on 26 February 2013 for the year 2013/14 as part of the legislative constraints specified in Section 3 of the Local Government Act 2003 which require the Council to determine and keep under review how much it can afford to borrow. These were:

Operational Limit for External Debt	£854.7m
Affordable Borrowing Limit	£894.7m
Authorised Borrowing Limit	£894.7m

3.5.2 The chart below shows the actual debt in 2013/14 in comparison to the above borrowing limits.

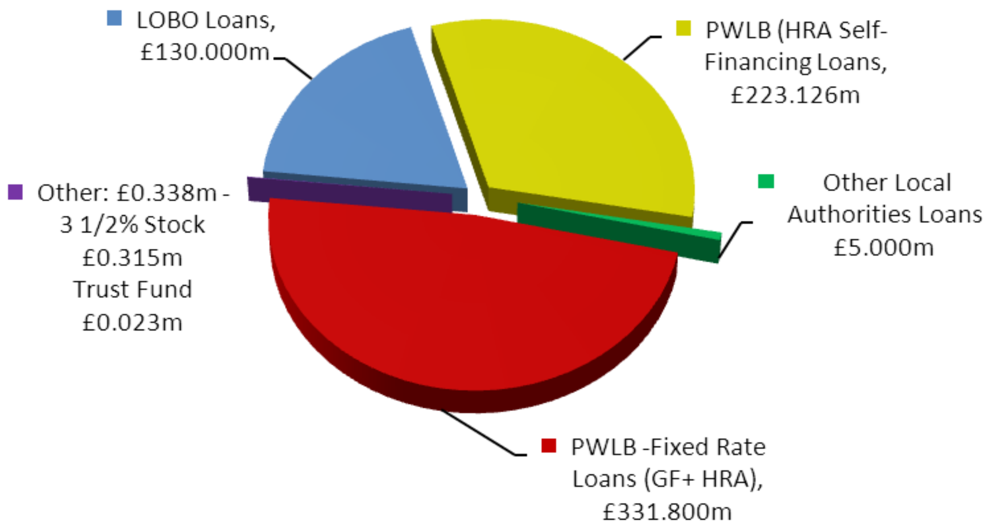
Actual Debt in 2013/14 in comparison to the Operational, Affordable and Authorised Borrowing Limits for the year



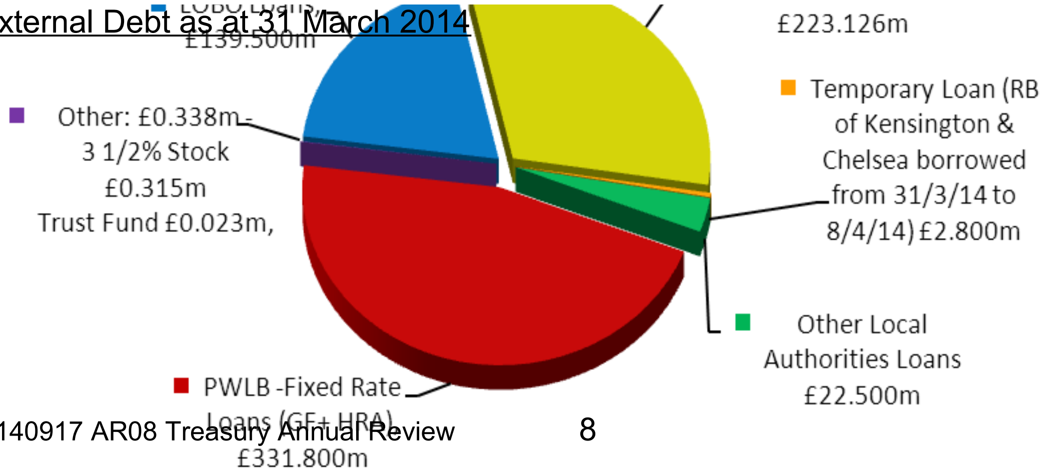
3.5.3 The Authorised Limit sets the maximum amount that the Council can borrow for capital and revenue purposes. This ceiling was not exceeded and the Council's overall borrowing as at 31 March 2014 stood at £720.064m. The Operational Limit was also observed.

The Council's external debt profiles at 31st March 2013 and 31st March 2014 are detailed graphically as follows:

External Debt as at 31 March 2013



External Debt as at 31 March 2014



3.5.4 In 2013/14, the Council took up £27m of new borrowing at an overall average interest rate of 2.13%. These interest rate levels are very low and unprecedented, representing real savings in the Authority's cost of borrowing. Of the £27m borrowed, £9.5m was taken up as a Lenders Option Borrowers Option (LOBO) loan from Siemens Financial Services on 30 December 2013. This LOBO loan was agreed on 11 November 2013 and was for a 15 year term with 2 option dates in Year 5 and in Year 10 when Siemens has the option to have the loan repaid. The interest rate achieved was 3.33% - a comparable 15 year maturity loan from PWLB on 10 November was 4.00%. In October 2013 the Council negotiated a £7.5m loan with Portsmouth City Council at an interest rate of 1.45%, the loan was for three years maturing on 27 March 2017; a further £10m was also taken up from London Borough of Newham at an interest rate of 1.62% this loan was also for three years maturing on 31 May 2017.

3.5.5 The Government's 2012 budget introduced a 20 basis points discount on loans from the PWLB for those authorities providing improved information and transparency on their locally determined long-term borrowing and associated capital spending plans. This special rate was termed the 'certainty rate'. The Council applied to HM Treasury to be eligible for this rate to finance its prudential borrowing and also to refinance maturing long term debt over the next three financial years. The application was successful. Although no new loans were taken up from the PWLB at this lower rate in 2013/14, the facility is in place to do so in the future.

3.5.6 **Appendix B** displays the movements in the PWLB interest rates for the 10-year, 25-year and 50-year loan periods during 2013/14.

3.5.7 In September 2013, the Council was successful in bidding for a £20m loan facility for energy efficiency and carbon reduction schemes within the Capital Programme. The funding will be advanced from the European Investment Bank (EIB) through Amber Green LEEF 2 LLP over a 10-year term and will be made available in two tranches; the first tranche is for up to £6m to be drawn before 31 December 2014 at an interest rate of 1.80% and the second tranche is for up to £14m to be drawn down between 1 August 2015 to 31 July 2016 at an interest rate of 2.50%.The comparable 10 year PWLB loan rate on the day was 3.55% .

3.5.8 In a separate development, the EIB has contacted the Council directly to offer to put into place a £100m loan facility to fund aspects of the Council's Education Capital Strategy over the next few years. Negotiations are being conducted between senior officers from both organisations to have this facility approved within the next few months. The EIB has indicated that it will endeavor to ensure that interest rates on loans advanced will be lower than the PWLB certainty rates on the day. Once secured, this facility together with that detailed in 3.5.7, will offer cheaper alternative sources of long term funding generating substantial savings of interest payable on the Authority's overall debt in the future. Although the EIB is unable to give a forward indication of the depth of the discount offered, the level of savings to be Authority are likely to be in the region of hundreds of thousands of pounds.

3.5.9 The Council's treasury strategy for the current year was approved by Full Council on 24 February 2014 (Minute Item 7 C20140224). Within the report were detailed the different borrowing strategies available, of which temporary borrowing and borrowing from other local authorities were options. With UK local authorities struggling to identify approved counterparties to invest in and with low rates being achieved as a result of this risk-adverse approach, the markets have recently become active in local authority to local authority lending. Loans obtainable are for periods up to 5 years at interest rates well below the PWLB's certainty rate. Borrowing undertaken for up to 364 days is termed temporary borrowing and this form of borrowing is also being offered by other local authorities, currently at 0.60%. Temporary borrowing can be used for cash flow purposes pending a more advantageous time to borrow long term. To maximise savings on the interest payable on the Council's external debt, the Treasury Section will aim to utilise a combination of temporary borrowing, local authority borrowing for up to 5 years and the loan facilities detailed in 3.5.7 and 3.5.8 as well as utilising internal cash balances whenever possible.

3.5.10 The interest rate payable on the Council's long term fixed rate debt has remained consistently below the average of all non-debt free London Boroughs. This has been independently verified by CIPFA and is detailed below.

Interest rate payable on long term fixed rate external debt

	2005/ 2006	**2006/ 2007**	**2007/ 2008**	**2008/ 2009**	**2009/ 2010**	**2010/ 2011**	**2011/ 2012**	**2012/ 2013**	**2013/ 2014**
	%	%	%	%	%	%	%	%	%
Croydon	5.11	4.64	4.77	4.60	4.42	4.32	4.36	4.06	3.97
London Boroughs (Average)	6.73	5.66	5.90	5.82	5.65	5.11	4.39	4.55	4.53

The above data is attached as a chart in **Appendix C**.

3.6 **Compliance with Prudential Indicators**

3.6.1 The Prudential Code for Capital Finance in Local Authorities which was updated in 2011 was approved by Full Council on 26 February 2013 (Minute A31/13). It serves as a professional code of practice to support local authorities in complying with Part 1 of the Local Government Act 2003. The Code required the continual monitoring of the Prudential Indicators set by the Council.

3.6.2 The purpose of the Prudential Indicators set is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.

3.6.3 The Prudential Indicators set by this Authority for 2013/14 and the actual outturn figures are detailed in **Appendix D.**

3.7 **Repayment of Debt and Debt Rescheduling**

3.7.1 In 2013/14, as a result of both, the high premiums attached to the premature repayment of debt and the PWLB's introduction of separate interest rates applicable for borrowing and repayment, there were minimal opportunities for the rescheduling of the Council's long term debt and therefore none was undertaken.

3.7.2 The borrowing strategy adopted in 2013/14 ensures that debt will mature over a spread of future years so as to avoid ‘clustering’ and thus exposure to any future in-year events, with the exception of commercial debt borrowing, will mature over the next 50 years.

4 **CONSULTATION**

4.1 Full consultation has taken place with the Council’s Treasury Management Advisers,Capita Asset Services in the preparation of this report.

5. **FINANCIAL CONSIDERATIONS**

5.1 Revenue and Capital consequences of this report are dealt within this report. There are no additional financial considerations other than those identified in this report.

5.2 **The effect of the decision**

Approval of this report will endorse the continued implementation of the Council’s Treasury Management Strategy by the Director of Finance & Assets.

5.3 **Risks**

There are no further risks issues other than those already detailed in this report**.**

5.4 **Options**

These are fully dealt with in this report

5.5 **Savings/ future efficiencies**

This report sets out the treasury activities in 2013/14 and demonstrates the Council’s compliance with the Prudential Code and the limits set in both the Code and the Treasury Strategy Statement and the Annual Investment Strategy 2013/14 report presented to Members on 26 February 2013.
Approved by: Richard Simpson, Director of Finance and Assets (Chief Executive’s Department)

6. **COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

6.1 The Council Solicitor comments that there are no additional legal considerations beyond those detailed in the report.

6.2 Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer.

7. **HUMAN RESOURCES IMPACT**

7.1 There are no direct HR implications arising from this report

7.2 Approved by: Heather Daley, Director of Human Resources.

8. **CUSTOMER IMPACT**

8.1 There are no Customer impacts arising from this report.

9. EQUALITIES IMPACT ASSESSMENT (EIA)

9.1 Consistent with the requirements of equal opportunities legislation including the Disability Equality Duty, the Council carries out an equality impact assessment on new policies, or existing policies which are the subject of major change.

9.2 The Council's Capital and Revenue Budget 2013/14 is not subject to an equality impact assessment. However, in those areas where the setting of the capital and revenue budget result in new policies or policy change, then it is the responsibility of the relevant service department to carry out an equality impact assessment which evaluates how the new or changed policy will impact on disadvantaged sections of the community, including disabled people. The impact assessment includes consultation with disabled people and user-led disabled people organisations.

10. ENVIRONMENT AND DESIGN IMPACT

10.1 There are no Environment and Design impacts arising from this report.

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no Crime and Disorder reduction impacts arising from this report.

12. HUMAN RIGHTS IMPACT

12.1 There are no Human Rights impacts arising from this report.

13. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

13.1 There are no specific Data Protection or Freedom of Information considerations arising from this report.

CONTACT OFFICER:	Derick Fernandes, Treasury Manager Ext. 62526
BACKGROUND DOCUMENTS:	None

Appendix A

LONDON BOROUGH OF CROYDON

Authorised Lending List as at 28 July 2014 (Criteria as per FITCH)

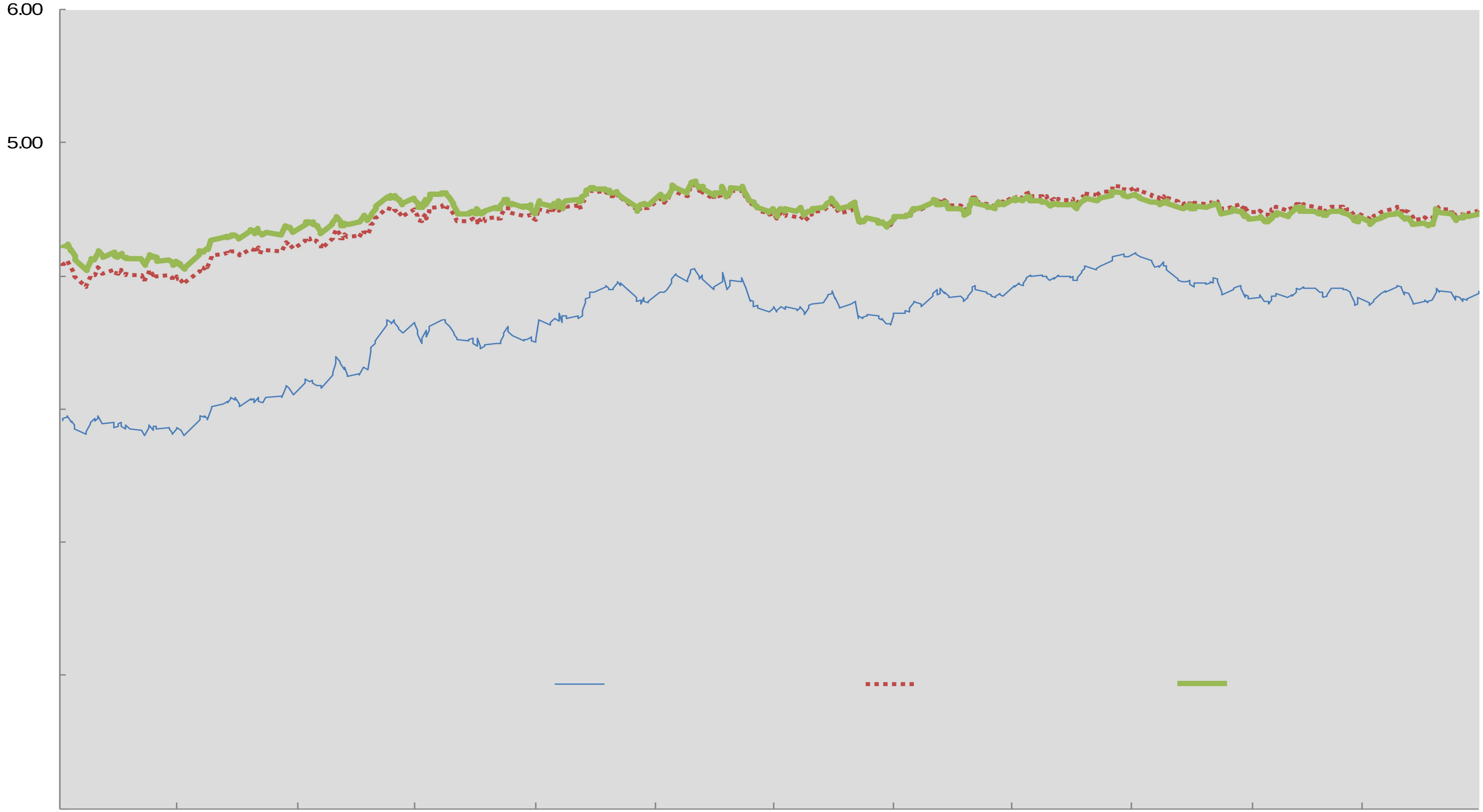
LIST A

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Royal Bank Of Canada **(Canada)**	20,000,000	AA	F1+	aa	1	AAA
Scottish Widows Money Market Fund	15,000,000	AAA				
Goldman Sachs Money Market Fund	15,000,000	AAA				
JP Morgan Money Market Fund	15,000,000	AAA				
Morgan Stanley Money Market Fund	15,000,000	AAA				
Royal Bank of Scotland Plc **(Part Nationalised) (UK)**	25,000,000	A	F1	bbb	1	AA+
Lloyds Bank Plc **(Part Nationalised) (UK)**	20,000,000	A	F1	a-	1	AA+
Debt Management Account **(UK Government Body)**	No Limits					

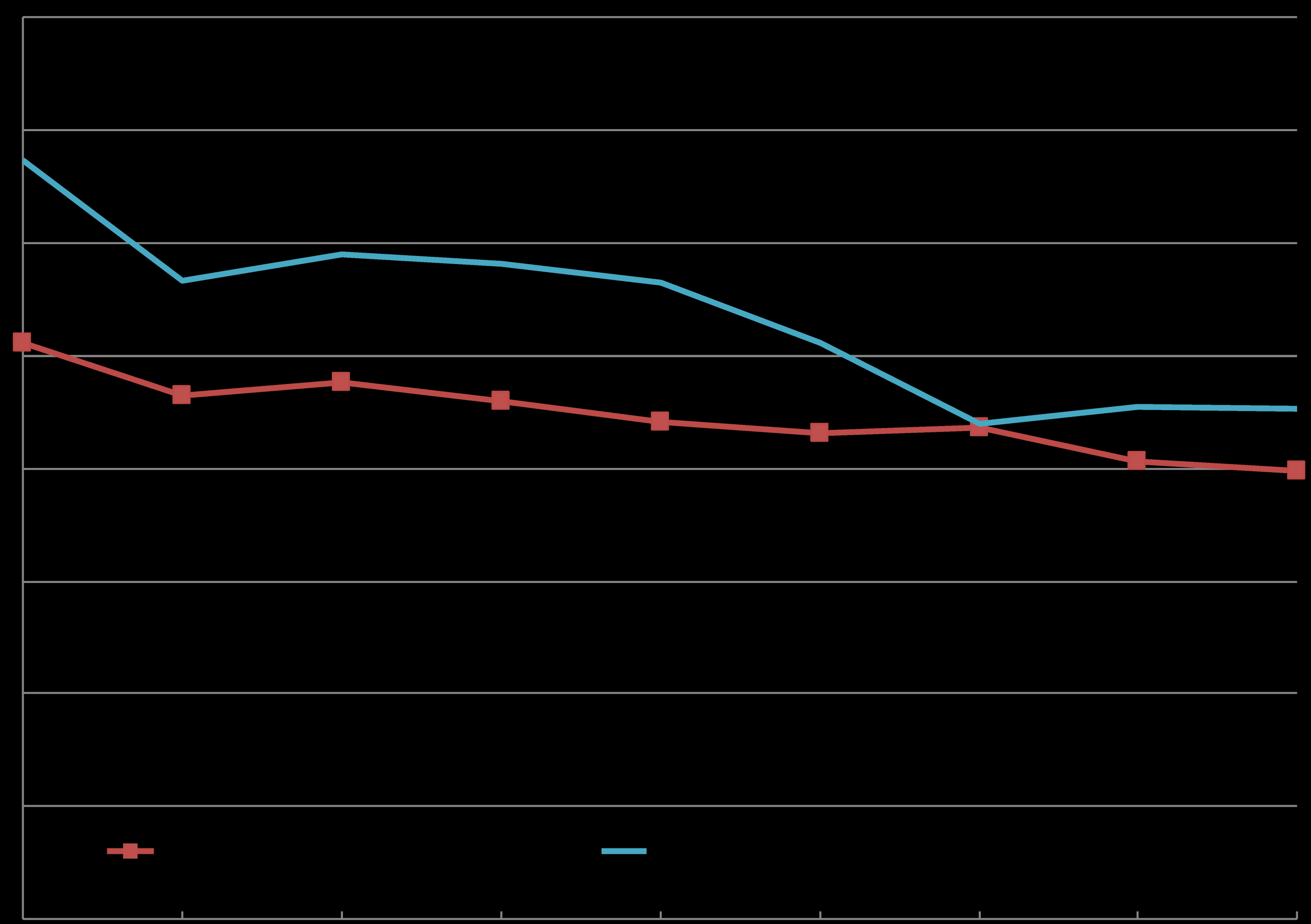
LIST B

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Australia & New Zealand Banking Group **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Montreal **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Nova Scotia **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
Canadian Imperial Bank Of Commerce **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
Commonwealth Bank Of Australia **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
DBS Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
HSBC Bank Plc **(UK)**	10,000,000	AA-	F1+	a+	1	AA+
National Australia Bank **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Overseas Chinese Banking Corporation Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Standard Chartered PLC **(UK)**	10,000,000	AA-	F1+	aa-	1	AA+
Svenska Handelsbanken AB **(Sweden)**	10,000,000	AA-	F1+	aa-	1	AAA
Toronto-Dominion Bank **(Canada)**	10,000,000	AA-	F1+	aa-	1	AAA
United Overseas Bank Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Westpac Banking Corporation **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
All UK Local Authorities	10,000000					

PWLB Interest rates for the 10 year, 25 year and 50 year loan periods in 2013/14



Appendix B



Appendix C

Appendix D

PRUDENTIAL INDICATORS FOR 2013/14

		2013/14	2013/14	Notes
	PRUDENTIAL INDICATORS	**Budget** **£'000**	**Actual** **£'000**	1
1.	**Prudential Indicators for Capital Expenditure**			
1.1	Capital Expenditure General Fund HRA	 159,667 34,621	 130,246 31,864	
	Total	194,228	162,110	2
1.2	In year Capital Financing Requirement General Fund HRA	 120,300 9,078	 66,500 3,866	
	Total	129,378	70,366	2
1.3	Capital Financing Requirement as at 31 March 2014 – **balance sheet figures** General Fund (net of Minimum Revenue Provision (MRP) costs) HRA	 545,000 333,905	 459,040 314,418	
	Total	878,905	773,458	3
2	**Prudential Indicators for Affordability**			
2.1	Ratio of financing costs to net revenue stream			
	General Fund HRA	11.50% 16.50%	6.25% 13.56%	4 5
2.2	General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum). - In year increase	 £13.00	 £2.30	 6
2.3	HRA impact of Prudential (unsupported) borrowing on housing rents (per annum)	0	0	
3	**Prudential Indicators for External Debt**			
3.1	Borrowing Requirement			
	Long Term Debt brought forward 1 April Long Term Debt carried forward 31 March	737,564 865,412	690,264 720,064	 7
	Additional borrowing requirement	127,848	29,800	

Appendix D

4	**Prudential Indicators for Treasury Management**			
4.1	Borrowing limits - upper limit for fixed interest rate exposure expressed as:-			
	Net principal re fixed rate borrowing / investments	905,412	545,064	
4.2	Borrowing limits - upper limit for variable rate exposure expressed as:-			
	Net principal re variable rate borrowing / investments	20%	8.33%	
4.3	Lending limits - upper limit for total principal sums invested for over 364 days expressed as a % of total investments	30%	0%	

Notes:

1. Actual is based upon draft accounts 2013/14 which are yet to be audited.

2. Long term funding of £70.366m was used to finance capital expenditure in the year. Of this, £66.5m was for the General Fund (GF) and £3.866m was for the Housing Revenue Account (HRA).

3. The Capital Financing Requirement (CFR) reflects the local authority's underlying need to borrow for a capital purpose. The CFR as 31 March 2014 included amounts advanced towards Bernard Weatherill House-.

4. This reflects the impact on the GF of the Council's external debt. The GF's net revenue stream consists of the amount to be met from government grants and local taxpayers. The GF's ratio of financing cost was lower that estimated as a result of the new borrowing undertaken at lower than estimated interest rates.

5. This reflects the impact on the HRA of the Council's external debt. The HRA's net revenue stream consists of rental income received and other income as shown in the HRA accounts.

6. This represents the extra annual levy on a Band D tax bill arising from the take up of GF unsupported borrowing.

7. This was the actual external debt outstanding as at 31st March 2014. It reflects the additional £27m of new loans taken up in 2013/14 and a temporary loan of £2.8m taken up on 31 March 2014 for cash flow purposes. It also includes the £223.126m taken up for the HRA Self Financing settlement sum on 28 March 2012.

Appendix E

GLOSSARY OF TERMS USED IN THE TREASURY ANNUAL REVIEW REPORT

Affordable Borrowing Limit and Authorised Limit for external debt	The maximum amount the Council can borrow for capital and revenue purposes, allowing a prudent margin for unexpected events. The Affordable Borrowing Limit reflects a level of borrowing which, while not desirable, is affordable in the short term. The Council does not have the power to borrow above the Authorised Limit.
Capital Financing Requirement	A calculated notional figure that represents the authority's underlying need to borrow to finance capital expenditure. Note that this does not necessarily mean that this is the sum borrowed.
CIPFA	The Chartered Institute of Public Finance and Accountancy. The leading professional accountancy body for the public services.
CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes Fully Updated Edition 2011	The professional code governing treasury management, which was approved by Full Council on 26 February 2013 (Min.A31/13).
Consumer Price Index (CPI)	The Consumer Price Index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.
Debt Management Office (DMO)	The Debt Management Office (DMO) is an Executive Agency of Her Majesty's Treasury. The DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. The majority of the Council's debt is arranged through the DMO (see PWLB below).
European Central Bank (ECB)	The European Central Bank (ECB) is the central bank for Europe's single currency, the Euro. The ECB's main task is to maintain the Euro's purchasing power and thus price stability in the Eurozone. The ECB also sets the bank lending rate across the Eurozone.
European Union (EU)	The European Union (EU) is a politico- economic union of 28 member states that are primarily located in Europe.
European Investment Bank (EIB)	The European Investment Bank (EIB) is owned by the 28 EU countries. It borrows money on the capital markets and lends it at a low interest rate to projects that improve infrastructure, energy supply or environmental standards both inside the EU and in

	neighbouring or developing countries.

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FITCH	An internationally recognised rating agency which is used and approved by the Council's Treasury Advisers, Capita Asset Services. Standard & Poors and Moody's are also rating agencies.
Gross Domestic Product (GDP)	Gross Domestic Product (GDP) is a measure of a country's economic activity, including all the services and goods produced in a year, within that country.
Lenders Option / Borrowers Option Loans (LOBO's)	A form of borrowing where loans run at a fixed rate of interest for a fixed period of time, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercises the option to change the interest rate the borrower can then decide whether to accept the new terms or repay the loan. These can offer more attractive rates to the borrower than conventional lending.
London Interbank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Minimum Revenue Provision (MRP)	The amount which must be set aside from revenue each year to cover future repayment of loans. There is no MRP requirement for HRA borrowing.
Monetary Policy Committee (MPC)	Interest rates are set by the Bank of England's Monetary Policy Committee (MPC). The MPC sets an interest rate it judges will enable the inflation target to be met (2% per annum currently). The Bank's Monetary Policy Committee (MPC) is made up of nine members - the Governor, three Deputy Governors for Monetary Policy, Financial Stability and Markets & Banking, the Bank's Chief Economist and four external members appointed directly by the Chancellor.
Operational boundary for external debt	The maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.(see Affordable & Authorised limits above).
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.

Retail Price Index (RPI)	The RPI was once the principal official measure of inflation. It has been superseded by the CPI.