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REPORT TO:	**General Purposes and Audit Committee 14 September 2016**
AGENDA ITEM:	**8**
SUBJECT:	**Treasury Annual Review 2015/16**
LEAD OFFICER:	**Assistant Chief Executive (Corporate Resources and Section 151 Officer)**
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 2015/16 and the Council's compliance with the Prudential Code for Capital Finance.	
FINANCIAL SUMMARY: This report details the Treasury Management activities in 2015/16 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) Approve the revision of the Council's minimum rating criteria for investment purposes for the reasons and as set out in paragraph 3.3.1 and as detailed in **Appendix A** of this report.

(b) Endorse the Treasury Annual Review 2015/16 and the continued implementation of the Council's Treasury Strategy 2016/17 by the Assistant Chief Executive (Corporate Resources and Section 151 Officer).

2. EXECUTIVE SUMMARY

2.1. The Council's treasury management activities for the previous year 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 2015/16;
- Details those areas of activity that formed the basis of the Treasury Strategy Statement & Annual Investment Strategy 2015/16 received by Full Council on **23 February 2015 (Item 6 Minute C20150223)**; and
- Demonstrates the Council's compliance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance and adherence with 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 2015/16's activities based on the following:-

- The Economy and Interest Rates;
- Lending;
- Performance Targets;
- 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 D.**

3.2. The Economy and Interest Rates

3.2.1. The original market expectation at the beginning of the financial year 2015/16 was for the first increase in the UK's Bank Rate to occur in quarter 3 of 2015. However, by the end of the year, market expectations had moved back to quarter 2 of 2018 due to concerns that China's economic growth was stalling and the potential destabilisation of some emerging markets particularly exposed to the Chinese slowdown; the continuance of the collapse in oil prices during 2015 and the continuing Eurozone growth uncertainties.

3.2.2. These concerns caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. The UK's Bank Rate remained unchanged at 0.50% for the seventh successive year. This rate has been in force since 5 March 2009 and is the lowest that it has been since the inception of the Bank of England (BOE). With inflation hovering around 0% throughout 2015/16, the Bank of England's Monetary Policy Committee showed a consolidation of support for holding off any increase in the Bank Rate. The UK's quantitative easing (asset purchase) programme remained unchanged at £375bn. Economic growth (GDP) in the UK which had surged strongly in 2014/15 fell from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

3.2.3. The UK 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 2014/15 and this trend continued in 2015/16.

3.2.4. The European Central Bank (ECB) had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March 2015 at 60bn euros per month. This put downward pressure on Eurozone bond yields. There was a further increase in this QE progamme in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet European Union (EU) demands after causing major fears of a breakup of the Eurozone.

3.2.5. By contrast the US economy continued to grow healthily on the back of resilient customer demand. The first increase in the US central rate occurred in December 2015 but since then there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

3.2.6. On the international scene, concerns have increased about the slowing of the Chinese economy and also the potential vulnerability to both the bursting of the country's property bubble and the major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in the financial year 2015/16 despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession.

3.2.7. The UK elected a majority Conservative Government in May 2015. The new Government pledged to maintain a tight fiscal policy stance and to hold a referendum on the UK remaining part of the European Union.

3.3. Lending

3.3.1. The Council's investment policy is governed by the Communities and Local Government Office (CLG) guidance which was implemented by the 2015/16 investment strategy approved by Full Council on **23 February 2015 (Item 6 Minute C20150223)**. It had been drawn up to provide maximum security for the Council's funds. 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 out 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 as rated by FITCH & one other rating agency. Debt Management Office

In keeping with its General Election's pledge to hold a referendum on European Union membership (as noted in 3.2.7), the UK Government announced that this would take place on 23 June 2016. The result of the referendum was a victory for the 'Leave' campaign. On 24 June 2016, the UK's Prime Minister Mr Cameron announced his resignation. The financial markets reacted to both events with a large falls in the FTSE100 index and huge volatility in interest rates. The next few days saw the UK's political situation and the decision to exit the EU continuing to cause uncertainty in the markets and this eventually led to two of the International Rating Agencies, FITCH and Standard & Poor's, downgrading the UK's Sovereign rating. The FITCH rating agency whose ratings the Council adheres to has downgraded the UK's Sovereign Rating by one notch from AA+ to AA. This effectively has ruled out any investments with UK banks including the Council's own bankers, the Royal Bank of Scotland PLC. It is recommended therefore, that for the purposes of inclusion onto the Council's authorised lending list, a minimum Sovereign Rating of AA as per the FITCH rating agency should now apply.The Council's revised Lending List Criteria and the authorised list of counterparties as at **30 July 2016**, which incorporates the new ratings, is detailed in **Appendix A.**

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 2015/16 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 2015/16 conformed to the approved strategy and the Council experienced no liquidity issues in the year with an average monthly balance of **£132.212m** 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.

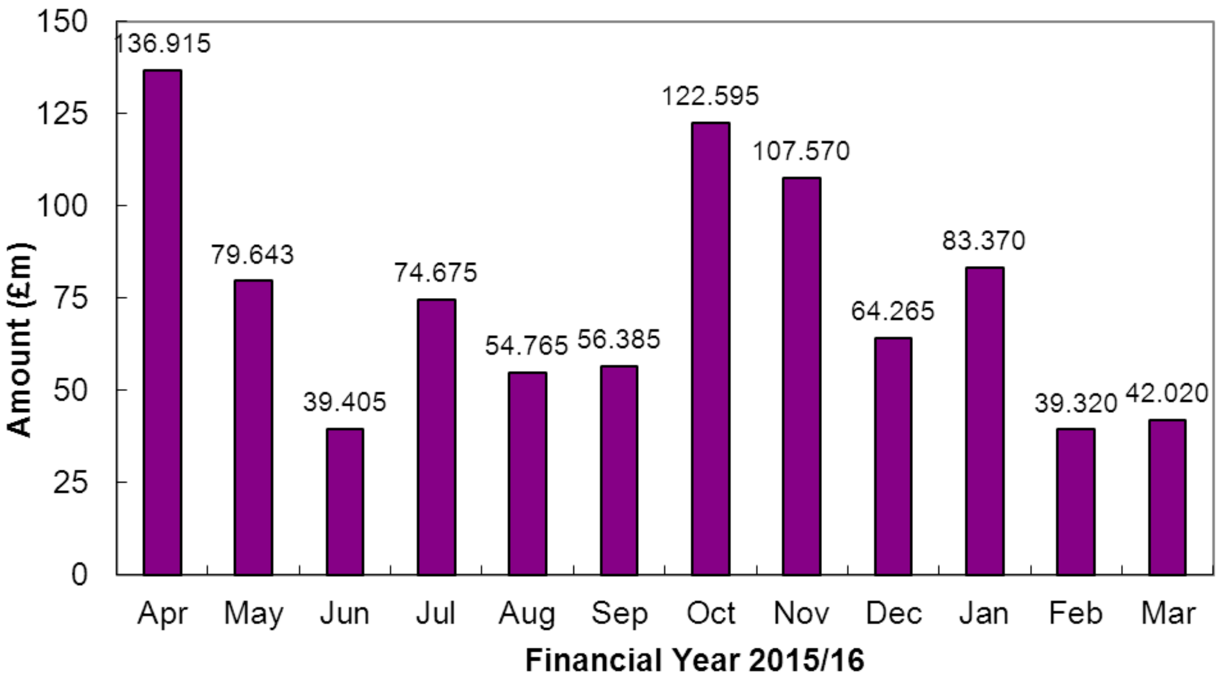
3.3.5. Available funds were invested for differing periods, to match anticipated movements in the Council's daily cash flows commensurate with achieving best value and based on forecasts of interest rate trends. The primary aim is to ensure the capital security of the Council's investments and then to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

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 2015 to March 2016, deposits totalling £900.928m were invested at an average investment rate of 0.45% compared to the benchmark rate of 0.36% for the year. During the year the Council maintained an average monthly balance of £132.212m and the investments outstanding at 31st March 2016 were £121.125mm. These were invested as follows: UK banks £110.0m; UK local authorities £10.0m and AAA rated Money Market Funds £1.125m.

Investments made in 2015/16



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 placed with one of the AAA rated Money Market Funds.

3.3.10. In 2015/16, the Council invested a further £10m in the Real Lettings Property Fund Limited Partnership. In total, the Council has now invested £30m in this property fund. The fund has a 7-year life offering 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.

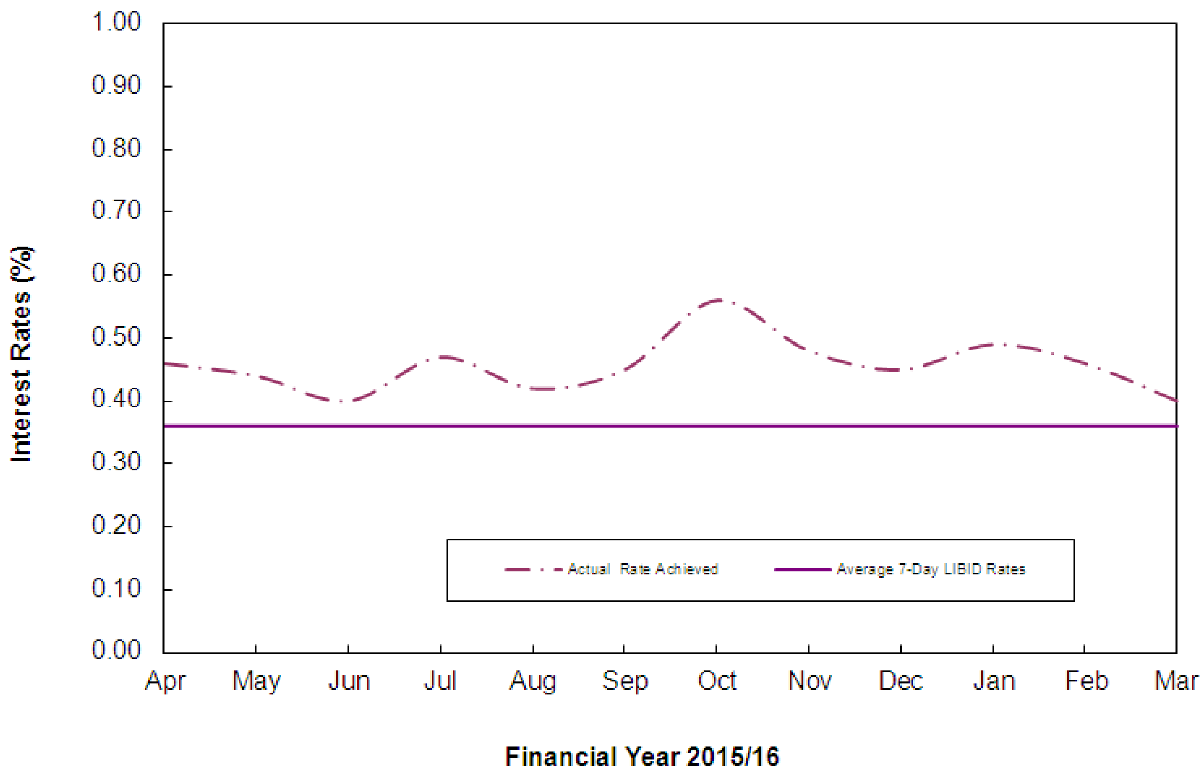
3.4 Performance Targets

3.4.1 The gross investment income earned by the Council for the financial year 2015/16 was £1.059m. This sum included interest accrued on investments made in 2014/15 that matured in 2015/16, representing an overall return of 0.73% for the financial year. This higher investment return was achieved as a result of higher deposit rates being paid by the part-nationalised banks on investments fixed in 2014/15. Of the investment income generated, £0.240m related to interest accrued on monies invested on behalf of the Housing Revenue Account (HRA) and other miscellaneous funds. The balance of £0.819m 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.

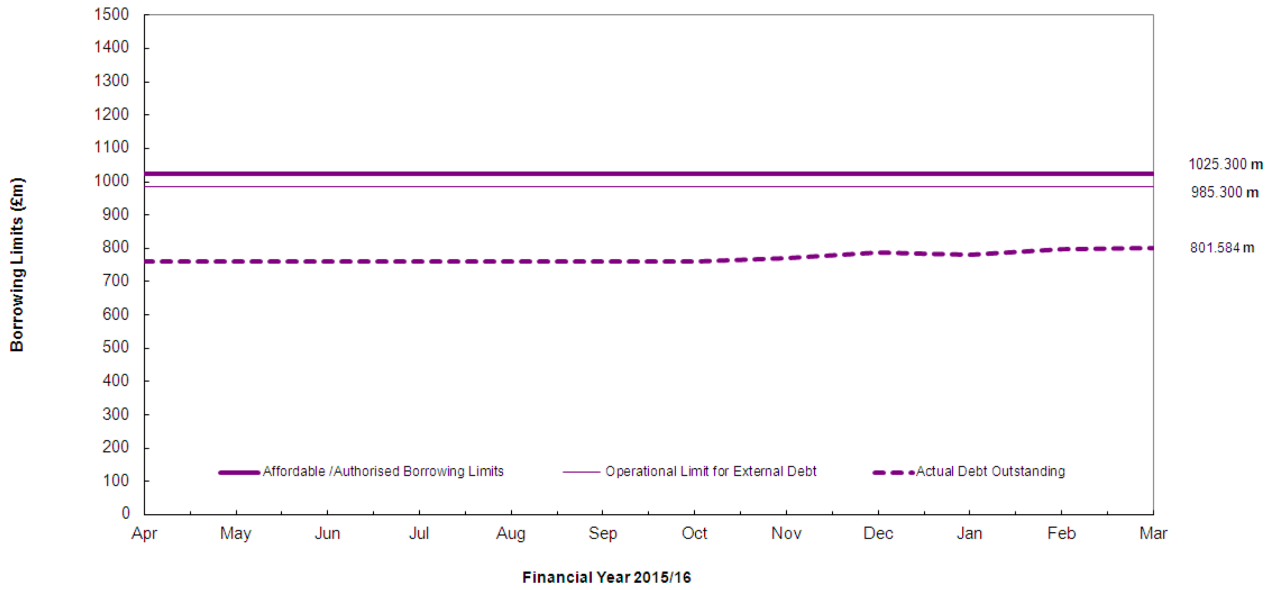
3.4.3 The graph below details the rate of investment returns achieved on investments made each month in 2015/16 compared to the benchmark average 7-day LIBID rate for the month.

<u>Actual investment rates achieved compared to the average 7-Day LIBID rates 2015/16</u>



3.5 Borrowing

3.5.1 The Council set borrowing limits that were approved by Full Council on 23 February 2015 for the year 2015/16 as part of the legislative constraints specified in Section 3 of the Local Government Act 2003 which requires the Council to determine and keep under review how much it can afford to borrow. These sums were:



Operational Limit for External Debt	£985.3m
Affordable Borrowing Limit	£1,025.3m
Authorised Borrowing Limit	£1,025.3m

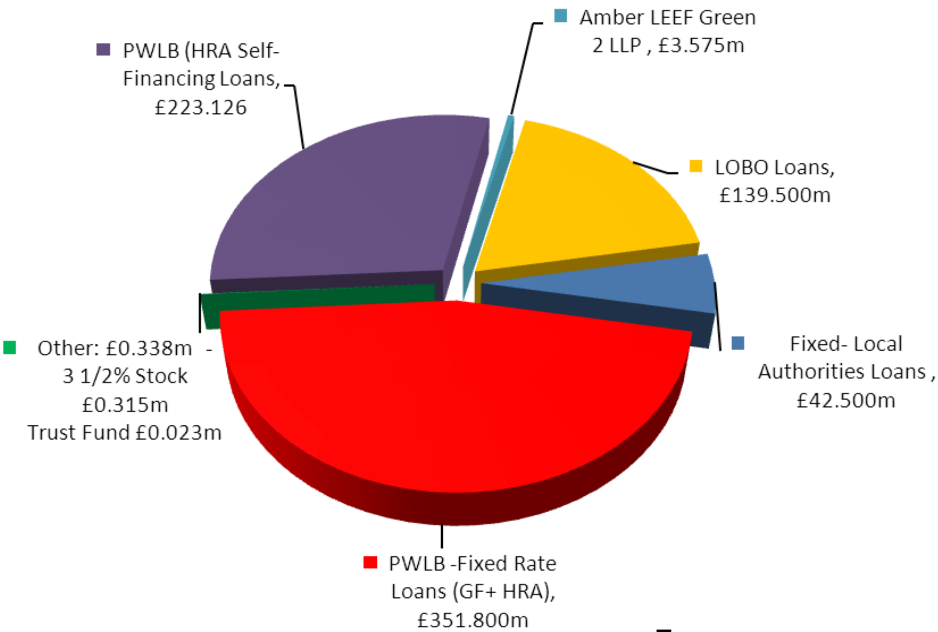
3.5.2 The chart below shows the actual debt in 2015/16 in comparison to the above borrowing limits.

Actual Debt in 2015/16 in comparison to the Operational, Affordable and Authorised Borrowing Limits for the year

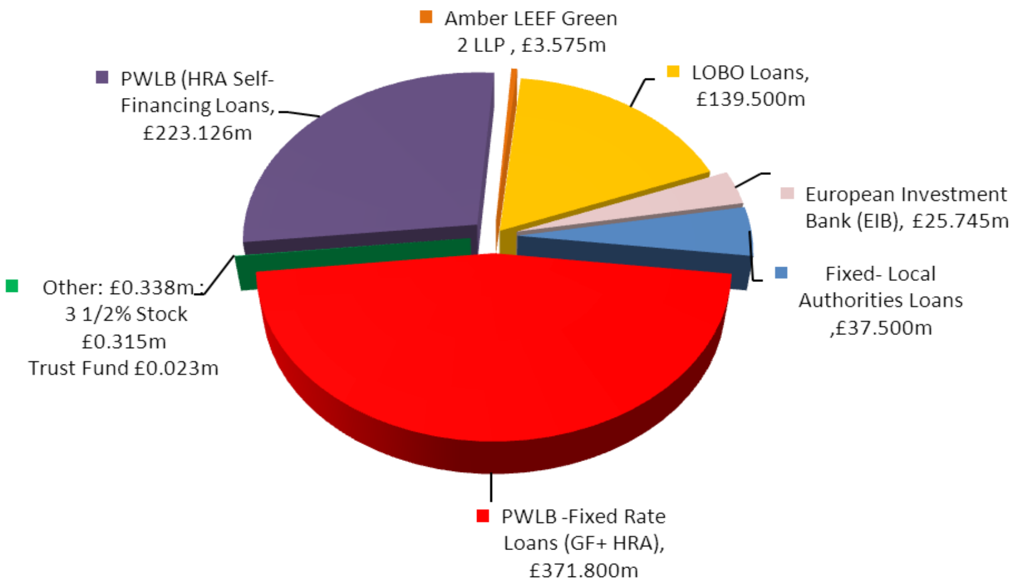
3.5.3 The Authorised Limit sets the maximum amount that the Council can borrow for capital and revenue purposes. This ceiling was not exceeded and the Council's overall borrowing as at 31 March 2016 stood at £801.584m. The Operational Limit was also observed.

The Council's external debt profiles at 1st April 2015 and 31st March 2016 are detailed graphically as follows:

External Debt as at 1 April 2015 (£760.839m)



External Debt as at 31 March 2016 (£801.584m)



3.5.4 In 2015/16, the Council took up £45.745m of new borrowing at an overall average interest rate of 2.603%. These interest rate levels are very low and unprecedented, representing real savings in the Authority's cost of borrowing. Of the £45.745m borrowed, £25.745m was taken up as a maturity loan from the European Investment Bank (EIB) to fund Education schemes within the Capital Programme. This loan is for 15 years at 2.292%% - the comparable Public Works Loan Board (PWLB) interest rate on the day that this loan was agreed was 3.17%. The loan taken from the EIB is the first drawn down under the loan facility of £102m negotiated between the Council and the EIB in July 2015. This facility will offer cheaper alternative sources of long term funding generating substantial savings of interest payable on the Authority's overall debt in the future.

3.5.5 In 2012, the Government 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 and the Authority took up two new £10m maturity loans from the PWLB at this lower rate in March 2016; the first over 18 years at 2.98% and the second over 19 years at 3.03%. The 'certainty rate' facility remains in place for future borrowing.

3.5.6 The Council's treasury strategy for 2015/16 was approved by Full Council on 23 February 2015 **(Item 6 Minute C20150223)**. Within the report were detailed the different borrowing strategies available, of which temporary borrowing and borrowing from other local authorities were options. 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 0.50%. 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 has in 2015/16 utilised a combination of temporary borrowing, PWLB borrowing for longer periods and the loan facilities provided by the EIB as detailed in 3.5.4 as well as internal cash balances whenever possible.

3.5.7 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. To provide some context if the Council's long term cost of debt was at the London average an additional £5m would need to be found each year. Inevitably interest rates will increase. A quarter of a percent increase would cost approximately £100,000 per annum although it must be noted that interest earned would also increase marginally.

Interest rate payable on long term fixed rate external debt

	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016
	%	%	%	%	%	%	%	%	%	%
Croydon	4.64	4.77	4.60	4.42	4.32	4.36	4.06	3.97	3.84	3.80
London Boroughs (Average)	5.66	5.90	5.82	5.65	5.11	4.39	4.55	4.53	4.51	not yet published

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

3.6 **Compliance with Prudential Indicators**

3.6.1 The Prudential Code for Capital Finance in Local Authorities 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 2015/16 and the actual outturn figures are detailed in **Appendix C.**

3.7 **Repayment of Debt and Debt Rescheduling**

3.7.1 In 2015/16, 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 2015/16 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.

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.

The effect of the decision

5.2 Approval of this report will endorse the continued implementation of the Council's Treasury Management Strategy by the Assistant Chief Executive (Corporate Resources and Section 151 Officer).

Risks

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

Options

5.4 These are fully dealt with in this report

Savings/ future efficiencies

5.5 This report sets out the treasury activities in 2015/16 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 2015/16 report presented to Members on **23 February 2015 (Item 6 Minute C20150223)**.

Approved by: Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer)

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Council Solicitor comments that there are no additional legal considerations arising from this report.

Approved by: Jacqueline Harris-Baker, Head of Social Care & Education Law on behalf of the Council Solicitor and Monitoring Officer.

7. HUMAN RESOURCES IMPACT

7.1 There are no immediate HR considerations that arise from the recommendations of this report for LBC staff or workers.

Approved by: Michael Pichamuthu, HRBP on behalf of Heather Daley, Director of HR.

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 2015/16 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

LONDON BOROUGH OF CROYDON

Authorised Lending List Criteria as at 31 July 2016 (Criteria as per FITCH)

Lending List Criteria

<table>
<tr><th>List</th><th>Credit Ratings Criteria</th></tr>
<tr><td>A

B</td><td>FITCH rating in each of the following categories:-
F1+ on Short Term
AA or above Long Term
aa- or above Viability Rating
2 or lower for Support Rating
AA or above Sovereign Rating

FITCH Rating in each of the following categories:-
F1+ on Short Term
AA- or above on Long Term
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2 or lower for Support Rating
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<tr><td colspan="2">Approved Organisations that meet the credit ratings set out 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 – as rated by FITCH & one other rating agency.
Debt Management Office</td></tr>
</table>

LONDON BOROUGH OF CROYDON

Authorised Lending List as at 31 July 2016 (Criteria as per FITCH)

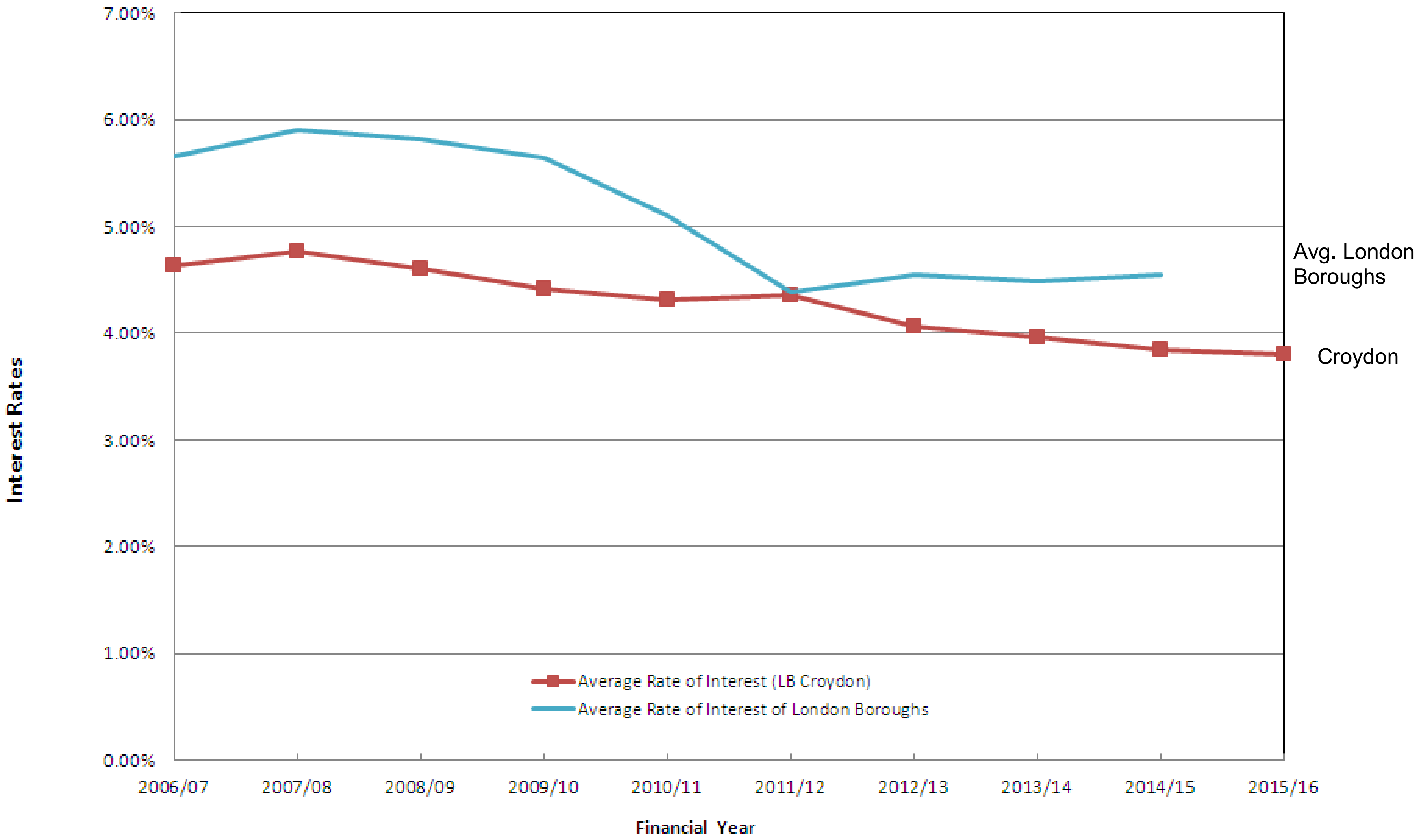
LIST A

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	2	AAA
Svenska Handelsbanken AB **(Sweden)**	20,000,000	AA	F1+	aa	2	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				
Insight Money Market Fund	15,000,000	AAA				
Deutsche Money Market Fund	15,000,000	AAA				
Royal Bank of Scotland Plc **(Part Nationalised) (UK)**	25,000,000	BB+	F2	bbb+	5	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-	2	AAA
Bank Of Nova Scotia **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Canadian Imperial Bank Of Commerce **(Canada)**	10,000,000	AA-	F1+	aa-	2	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
Toronto-Dominion Bank **(Canada)**	10,000,000	AA-	F1+	aa-	2	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					

London Borough of Croydon - Average Rate of Long Term Fixed Rate Debt 2005/06 – Present



Appendix B

Appendix C

PRUDENTIAL INDICATORS FOR 2015/16

		2015/16	2015/16	Notes
	PRUDENTIAL INDICATORS	**Revised Budget** **£'000**	**Actual** **£'000**	1
1.	**Prudential Indicators for Capital Expenditure**			
1.1	Capital Expenditure General Fund HRA	 127,893 42,957	 109,519 33,618	
	Total	170,850	143,137	
1.2	In year Capital Financing Requirement General Fund HRA	 42,932 6,000	 42,330 0	
	Total	48,932	42,330	2
1.3	Capital Financing Requirement as at 31 March 2016 – **balance sheet figures** General Fund (net of Minimum Revenue Provision (MRP) costs) HRA	 565,000 333,905	 558,217 322,496	
	Total	898,905	880,713	3
2	**Prudential Indicators for Affordability**			
2.1	Ratio of financing costs to net revenue stream General Fund HRA	 10.00% 16.50%	 7.91% 15.90%	 4 5
2.2	General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum). - In year increase	 £10.00	 £1.82	 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 External Debt brought forward 1 April External Debt carried forward 31 March	 760,839 887,354	 760,839 801,584	 7
	Additional borrowing requirement/undertaken	126,515	40,745	

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	927,354	621,584	
4.2	Borrowing limits - upper limit for variable rate exposure expressed as:-			
	Net principal re variable rate borrowing / investments	20%	8.65%	
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 2015/16 which are yet to be audited.

2. Long term funding of £42.330m was used to finance capital expenditure in the year all of which was for the General Fund (GF).

3. The Capital Financing Requirement (CFR) reflects the local authority's underlying need to borrow for a capital purpose. The CFR as 31 March 2016 included the further £10m investment in the Real Lettings Property Fund as detailed in 3.3.10 above.

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. The external debt brought forward as at 1 April 2016 includes the £223.126m that the Council's HRA borrowed on 28/3/2012 to exit the national HRA Subsidy system. This amount, known as the HRA Self Financing settlement sum, was paid over by the Council to the Government.

Appendix D

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 (Minute A31/13).
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.

Appendix D

FITCH	An internationally recognised rating agency which is used and approved by the Council's Treasury Advisers, Capita Asset Services. Standard & Poor's 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.