Appendix A

Economic Background 1st April 2015 to 30th September 2015

The UK economy has remained resilient over the last six months. Growth in the UK continues at a relatively healthy year-on-year rate of 2.4% (as at the end of June 2015). Gross Domestic Product (GDP) growth has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual Consumer Price Index (CPI) measure of inflation turned negative at -0.1% as at the end of September 2015, which is well below the Bank of England's Monetary Policy Committee (MPC) target of 2% p.a. However, the Bank of England's projections for inflation continue to expect a gradual increase to around 2% over the next 18 months and then remain there in the near future. Further improvements in the labour market saw the unemployment rate for the three months to 31st August 2015 fall to 5.4%, a seven-year low.

The movement in rates at which local authorities can borrow from the Public Works Loan Board (PWLB) is set out in the table below.

Period	1 April 2015	30 September 2015
1 year	1.1%	1.2%
3 year	1.5%	1.6%
5 year	1.9%	2.0%
10 year	2.5%	2.6%

* These borrowing rates are at the 'Certainty Rate' (0.20% below the PWLB standard rate).

The outlook for the 6-month period ending 31st March 2016 continues to remain muted as nothing is really driving interest rate expectations higher. The lack of inflationary pressure is expected to allow policymakers to hold off monetary tightening for longer than the market currently expects. In particular, longer dated yields are expected to be held down by strong demand.

The Council's treasury advisers, Arlingclose Ltd, do not expect the Bank of England to raise its Base Rate until June 2016 and the short term return on cash investments will continue to remain at very low levels.

The focus is now on the rate of increase in the Base Rate and its medium-term peak, with expectations that rates will rise slowly and to a lower level than in the past.

Appendix B

Debt Management Activities from 1st April 2015 to 30th September 2015

	Balance on 01/04/2015 £m	Debt Maturing £m	New Borrowing £m	Balance on 30/09/2015 £m
Capital Financing Requirement (CFR)	**446.9**			
Short Term Borrowing[1]	30.4	45.5	34.5	19.4
Long Term Borrowing	282.2	0.0	0.0	282.2
TOTAL BORROWING	**312.6**	**45.5**	**34.5**	**301.6**
Other Long Term Liabilities	16.3	0.0	0.0	16.3
TOTAL EXTERNAL DEBT	**328.9**	**45.5**	**34.5**	**317.9**

At 30th September 2015, the Council had in place £317.9m of external borrowing to finance its previous years' capital programmes. With short term interest rates being much lower than long term rates, it continues to be more cost effective in the short term to use a combination of internal resources and short term borrowing, rather than undertake further long term borrowing. By doing so, the Council is able to minimise net borrowing costs and reduce overall treasury risk.

No debt rescheduling has been undertaken during the financial year as present discount rates make the costs involved unattractive.

Budgeted Expenditure and Outturn

There is a forecast underspend of £0.5m on the Council's £5.9m Interest Payable expenditure budget for the year. This mainly reflects interest rates remaining lower than originally estimated.

[1] Loans with maturities less than 1 year.

Appendix C

Investment Activities from 1st April 2015 to 30th September 2015

The Council gives priority to security and liquidity and aims is to achieve a yield commensurate with these principles.

	Balance on 01/04/2015 £m	Investments Made / Capital Appreciation £m	Investments Repaid / Capital Depreciation £m	Balance on 30/09/2015 £m
Short Term Investments	8.3	64.2	68.9	3.6
UK Government – DMADF	0.0	6.0	6.0	0.0
Money Market Funds	5.5	127.3	129.9	2.9
Investments in Pooled Funds (Lime Fund)	5.0	0.1	0.0	5.1
TOTAL INVESTMENTS	**18.8**	**197.6**	**204.8**	**11.6**

Security of capital has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16. New investments were made with the following classes of institutions:

- BBB+ rated banks and building societies;
- AAA rated Money Market Funds.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating of BBB+ or equivalent across rating agencies Fitch, Standard & Poors and Moody's), share prices, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

The average cash balance the Council held was £22.7m over the 6-month period to 30th September 2015. Currently, the Council has money market deposits placed on varying interest rates ranging between 0.4% and 0.8%.

The Council continues to adhere to its long-standing strategy of holding low cash balances to reduce investment counterparty risk and contain its borrowing costs by utilising cash balances in lieu of borrowing externally.

The Council may invest its surplus funds with any of the counterparties in the table below:

Approved Investment Counterparties

Counterparty	
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA
	AA+
	AA
	AA-
	A+
	A
	A-
	BBB+
UK Central Government (irrespective of credit rating)	
UK Local Authorities (irrespective of credit rating)	
Money market funds and other pooled funds	

In addition, the Council may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from its treasury management advisers, Arlingclose Ltd.

Counterparty Investment Limits

The cash limit for any single organisation or any group of organisations under the same ownership is outlined in the following table.

	Cash limit
Any single organisation, except the UK Central Government	£7m each
UK Central Government	unlimited
UK Local Authorities	unlimited
Any group of organisations under the same ownership	£7m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£10m per country
Registered Providers	£10m in total
Unsecured investments with Building Societies	£10m in total
Loans to small businesses	£10m in total
Money Market Funds	70% in total

Budgeted Income and Outturn

The investment interest receivable in the year is forecast to be in line with the budget at -£0.3m.

Appendix D

Compliance with Prudential Indicators

The Council has complied with its prudential indicators from 1st April – 30th September 2015, set in February 2015 as part of the Council's Treasury Management Strategy Statement.

Borrowing in Comparison to the Capital Financing Requirement

Estimates of the Council's cumulative maximum external borrowing requirement for 2015/16 to 2017/18 are shown in the table below.

	31/03/2015 Actual £m	**31/03/2016 Estimate £m**	**31/03/2017 Estimate £m**	**31/03/2018 Estimate £m**
Gross CFR	446.9	495.9	537.4	564.1
Less: PFI liabilities	(16.3)	(15.7)	(15.3)	(14.6)
Borrowing CFR	**430.6**	**480.2**	**522.1**	**549.5**
Less: Existing profile of long term borrowing	(312.6)	(282.2)	(275.6)	(274.6)
Gross Borrowing Requirement/Internal Borrowing	**118.0**	**198.0**	**246.5**	**274.9**

These forecast borrowing figures are based on the full Capital Programme being achieved.

(a) Estimates of Capital Expenditure

This indicator is set to ensure that the level of capital expenditure remains within sustainable limits. The Council's planned capital expenditure and financing, as approved by Council in February 2015, can be summarised as follows.

Capital Expenditure and Financing	**2014/15 Actual £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
General Fund	91.1	113.8	117.2	85.0
HRA	13.4	16.9	24.9	20.5
Total Expenditure	**104.5**	**130.7**	**142.1**	**105.5**
Capital receipts	(1.6)	(16.7)	(15.2)	(14.1)
Government Grants	(52.4)	(58.6)	(57.0)	(38.3)
Major Repairs Reserve (HRA)	(3.6)	-	-	-
Revenue contributions	(10.9)	(13.3)	(19.9)	(16.0)
Borrowing	(36.0)	(42.1)	(50.0)	(37.1)
Total Financing	**(104.5)**	**(130.7)**	**(142.1)**	**(105.5)**

(b) Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31/03/2015 Actual £m**	**31/03/2016 Estimate £m**	**31/03/2017 Estimate £m**	**31/03/2018 Estimate £m**
General Fund	281.9	330.9	372.4	400.1
HRA	165.0	165.0	165.0	164.0
Total CFR	**446.9**	**495.9**	**537.4**	**564.1**

The CFR is forecast to rise by £117.2m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

(c) Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

The Council has had no difficulty meeting this requirement nor are any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

	31/03/2015 Actual £m	31/03/2016 Estimate £m	31/03/2017 Estimate £m	31/03/2018 Estimate £m
CFR	**446.9**	**495.9**	**537.4**	**564.1**
Borrowing	312.6	363.7	413.7	449.8
PFI liabilities	16.3	15.7	15.3	14.6
Gross Debt	**328.9**	**379.4**	**429.0**	**464.4**
Difference	118.0	116.5	108.4	99.7
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**	**No**

(d) 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, referred to as the Authorised Limit. It is the maximum amount of debt that the Council can legally owe. 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 for unusual cash movements.

The Council confirms that there were no breaches in either the Authorised Limit or the Operational Boundary during the first six months of 2015/16, where the maximum extent of external borrowing was £328.9m (as at 1st April 2015).

	Authorised Limit for 2015/16 £m	**Operational Boundary for 2015/16 £m**	**Actual External Debt as at 30/09/2015 £m**
Borrowing	512.2	502.2	301.6
Other long-term liabilities	21.2	18.7	16.3
Total	**533.4**	**520.9**	**317.9**

(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, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2014/15 Actual %**	**2015/16 Estimate %**	**2016/17 Estimate %**	**2017/18 Estimate %**
General Fund	6.4	7.1	8.2	9.1
HRA	12.5	12.2	11.8	11.4

(f) Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the incremental impact of new capital investment decisions included in the current approved capital programme on Council Tax and housing rent levels.

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
General Fund – increase in annual band D Council Tax	15.78	18.76	14.85
HRA – increase in average weekly rents	0.25	0.32	0.49

(g) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Treasury Management Code
The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* at its Full Council meeting on 29th November 2012.

(h) Housing Revenue Account (HRA) Debt

The purpose of this limit is to report the level of debt imposed on the Council at the time of the implementation of self-financing by the Department for Communities and Local Government (CLG).

	31/03/2015 Actual £m	31/03/2016 Estimate £m	31/03/2017 Estimate £m	31/03/2018 Estimate £m
HRA Debt Cap (as prescribed by the DCLG)	165.0	165.0	165.0	165.0
HRA CFR	165.0	165.0	165.0	164.0
Difference	**0.0**	**0.0**	**0.0**	**1.0**

(i) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed, are outlined in the table below.

The Council confirms that there were no breaches to either of the upper limits during the first six months of 2015/16.

	2015/16 %	**2016/17 %**	**2017/18 %**
Upper limit on fixed rate exposure	100	100	100
Actual exposure as at 30/09/2015	**80**		
Upper limit for variable rate exposure	40	40	40
Actual exposure as at 30/09/2015	**20**		

(j) 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 30/9/2015 %**	**Compliance with Set Limits?**
Under 12 months	30	0	10	Yes
12 months - 24 months	20	0	0	Yes
24 months - 5 years	60	0	0	Yes
5 years - 10 years	100	0	12	Yes
10 years - 20 years	100	0	52	Yes
20 years - 30 years	100	0	0	Yes
30 years - 40 years	100	0	17	Yes
40 years - 50 years	100	0	9	Yes
50 years and above	100	0	0	Yes

(The 2011 revision to the CIPFA Treasury Management Code requires the Prudential Indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e., the next call date).

(k) Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end are outlined in the table below.

The Council confirms that there was no breach in the £10m limit during the first six months of 2015/16, given that no investments for a period of longer than 364 days were entered into.

	2015/16 £m	**2016/17 £m**	**2017/18 £m**
Upper limit for total principal sums invested over 364 days	10	10	10
Actual as at 30th September 2015	0		

*

* The Council holds an investment in Aviva Investors' Lime Property Fund Unit Trust (valued at £5.1m as at 30 September 2015). This investment has delivered a reasonably stable income return of around 5% p.a. over recent years and the Council intends to retain this investment for the long term. However, it does not feature in the above Actual column on the basis that it does not have a specified maturity date and could be liquidated within an estimated 3-month timescale if necessary.