Appendix A

Economic Background 1 April 2013 to 30 September 2013

Growth: The UK economy showed some improvement, with consumer spending boosting growth. GDP for the first quarter of 2013 was revised up to +0.4% and for the second quarter was +0.7%. Recent data suggests a stronger rate in quarter three. Revisions by the Office of National Statistics to GDP back-data showed the UK avoided a double-dip recession in 2012, but that the downturn in 2008-09 was deeper than previously estimated. Growth is now still over 3% below its peak back in 2007.

Some positive signs for household spending emerged. The deterioration in real earnings growth (i.e. earnings less inflation) slowed, which implied a slower erosion of purchasing power. Consumer confidence improved. Household savings rates remained high, which is unsurprising given the uncertain economic outlook, but appear to be on a downward track, suggesting spending was being driven by borrowing or lower savings. This raises questions about the sustainability of the recovery at these rates of growth.

Inflation: Annual CPI for August (published September) was 2.7%. Inflation fell in line with expectations and is expected to remain close to this level throughout the autumn. Further out, inflation should fall back towards the 2% target as external price pressures fade and a revival in productivity growth curbs domestic cost pressures. The oil price (Brent Crude) climbed above $100/barrel on the back of political unrest in Egypt and the unresolved crisis in Syria.

Monetary Policy: There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The main development for UK monetary policy was the start of Mark Carney's tenure as Governor and the implementation of forward guidance. Within the August Inflation Report, the Bank stated its forward guidance, the main element of which is to defer monetary tightening at least until the ILO Unemployment Rate falls to a threshold of 7% (among a raft of caveats). The Bank projected that the probability of this happening would remain below 50% until 2016. The Governor has had to defend the Bank's guidance in the face of rising financial market expectations of an earlier rate rise on the back of the encouraging economic data.

In his testimony to Congress on 22nd May the US Federal Reserve Chairman Ben Bernanke stated that, if the nascent recovery in the US economy became established, the Fed would reduce its $85bn monthly asset purchase programme (QE). The apparent movement by the Fed towards tapering its open-ended QE programme prompted extreme asset price volatility in bonds and equities, as investors sought to crystallise gains driven by excessive liquidity. As a consequence, government bond yields spiked. There had been a growing expectation that the Federal Reserve would seek to commence 'tapering' in September but they took markets by surprise and maintained asset purchases at the existing level.

Global: Whilst the outlook for the global economy appeared to have improved over the first half of calendar 2013/14, significant economic risks remain, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth, and, despite the time gained by the ECB to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away. The region appears to be dragging itself out of recession and September's German general election passed with little incident but political uncertainties, particularly in Italy, could derail any progress towards a more balanced and stable regional economy. The US recovery appeared to be in train, but a lack of agreement on the federal budget by the end of September caused a partial government shutdown at the start of October, which could have an effect on GDP growth. Political risks also remain regarding the debt ceiling.

Appendix B

Debt Management activities from 1 April 2013 to 30 September 2013

	Balance on 01/04/2013 £m	Debt Maturing £m	New Borrowing £m	Balance on 30/09/2013 £m
Capital Financing Requirement (CFR)	399.4			
Short Term Borrowing[1]	7.6	4.4	0.0	3.2
Temporary Borrowing	0.0	4.9	9.9	5.0
Long Term Borrowing	308.0	0.0	0.0	308.0
TOTAL BORROWING	315.6	9.3	9.9	316.2
Other Long Term Liabilities	17.5	0.0	0.0	17.5
TOTAL EXTERNAL DEBT	333.1	9.3	9.9	333.7

Public Works Loan Board (PWLB) Certainty Rate Update
The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2012. In April the Authority submitted its application to the CLG along with the 2013-14 Capital Estimates Return to access this reduced rate for a further 12 month period from 1st November 2013.

Public Works Loan Board (PWLB) Borrowing
The PWLB remained an attractive source of borrowing for the Authority as it offers flexibility and control. As concerns mounted over the timing of the removal or 'tapering' of Quantitative Easing (QE) by the US Federal Reserve, gilts sold off and yields rose in May and June. The sharp rise in gilt yields led to a corresponding rise in PWLB rates, with the most pronounced increase was for 10 year loans where rates as at 30th September were 0.83% higher than 1st April. Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

For the Authority the use of internal resources in lieu of borrowing has, therefore, continued to be the most cost effective means of funding capital expenditure. This

[1] Loans with maturities less than 1 year.

has lowered overall treasury risk by reducing both external debt and temporary investments. However, the Authority acknowledges that this position will not be sustainable over the medium term and the Authority expects it will need to borrow for capital purposes from 2014/15. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Authority's treasury advisor.

Appendix C

Investment Activities from 1 April 2013 to 30 September 2013

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investments

Investments	Balance on 01/04/2013 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2013 £m
Short Term Investments	36.7	281.3	261.4	56.6
Long Term Investments	0.0	0.0	0.0	0.0
Investments in Pooled Funds	4.7	0.0	0.0	4.7
TOTAL INVESTMENTS	41.4	281.3	261.4	61.3

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14. New investments can be made with the following institutions:

- Other Local Authorities;
- AAA-rated Money Market Funds;
- Call Accounts, Certificates of Deposit (CDs) and Term Deposits with select UK and non-UK Banks and Building Societies.
- Pooled funds (collective investment schemes);

Counterparty credit quality is assessed and monitored with reference to: Credit Ratings (the Authority's minimum long-term counterparty rating of A- or equivalent across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

Credit Risk

Counterparty Update

In April Fitch downgraded the UK's long-term sovereign rating by one notch from AAA to AA+, the second of the rating agencies to do so (Moody's had downgraded the UK's ratings in February to Aa1). Where assigned, local authorities' ratings, which benefit from an uplift due to their close and direct links to central government, were also downgraded.

The proposed sale of 632 Lloyds' branches to the Co-op Bank – referred to as Project Verde – fell through in April. These branches were transferred in September to TSB Bank, a new bank which will be sold thorough a listing on the stock market in 2014.

In May Moody's downgraded the long-term rating of Co-op Bank by six notches from A3 to Ba3 which is sub-investment grade. The downgrade reflected the agency's opinion that the bank faced the risk of further substantial losses in its non-core portfolio. In June the Co-op announced it had a £1.5bn regulatory capital shortfall requiring a recapitalisation via burden-sharing with junior creditors and asset disposals of its parent's insurance businesses. Moody's downgraded the bank's long-term rating a further four notches to Caa1 whilst Fitch downgraded the long-term from BBB- to BB-.

In the Chancellor's Mansion House speech on 19th June he signalled his intention to sell the government's stake in the Lloyds Banking Group reasonably soon and a 6% stake was indeed sold to institutional investors on 17th September at a price of 75p. In a positive move, Fitch upgraded Lloyds' viability rating to bbb+. The situation was more complicated with RBS since its problems were greater and reflected in its share price. It appeared that a 'good bank' and 'bad bank' split for RBS was being favoured by the Chancellor and sat behind the announcement concerning the departure of RBS Chief Executive, Stephen Hester, who disagreed with that route.

Moody's placed the RBS's long-term of A3 and standalone financial strength rating of D+ on review for downgrade on 5th July 2013, amid concerns about the impact of any potential breakup of the bank on creditors. Although the probability of losses remains low there is a possibility of capital impairment especially as the government has clearly indicated that it will not put up any further taxable funds.

Budgeted Income and Outturn

The Authority's budgeted investment income for the year has been estimated at £0.7m and short term investments at 30 September 2013 were £56.6m.

The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2016/2017. Consequently short-term money market rates have remained at very low levels throughout the period.

Appendix D

Compliance with Prudential Indicators

The Authority can confirm that it has complied with its Prudential Indicators for 2013/14, approved by Council on 24th January 2013 as part of the Authority's Treasury Management Strategy Statement.

Borrowing in Comparison to the Capital Financing Requirement

Estimates of the Authority's cumulative maximum external borrowing requirement for 2013/14 to 2015/16 are shown in the table below:

	31/03/2013 Actual £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m	31/03/2016 Estimate £m
Gross CFR	399.4	429.1	451.6	490.9
Less: Other Long Term Liabilities	17.5	17.1	16.3	15.7
Borrowing CFR	**381.9**	**412.0**	**435.3**	**475.2**
Less: Existing Profile of Borrowing	315.5	308.0	291.6	282.2
Gross Borrowing Requirement/Internal Borrowing	**66.4**	**104.0**	**143.7**	**193.0**

Usable Reserves

Estimates of the Authority's level of Usable Reserves for 2013/14 to 2015/16 are as follows:

	31/03/2013 Actual £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m	31/03/2016 Estimate £m
Usable General Reserves	14.2	14.2	14.2	14.2

(a) 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 local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

The Authority 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.

	31/03/2013 Actual £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m	31/03/2016 Estimate £m
CFR	399.4	429.1	451.6	490.9
Gross Debt	333.0	325.1	307.9	297.9
Difference	**66.4**	**104.0**	**143.7**	**193.0**
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**	**No**

(b) Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits.

Capital Expenditure	**2013/14 Approved £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Non-HRA	80.2	60.5	76.5
HRA	11.0	14.8	10.9
Total	**91.2**	**75.3**	**87.4**

Capital expenditure will be financed or funded as follows:

Capital Financing	2013/14 Approved £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital receipts	1.7	**6.5**	12.1
Government Grants	43.8	**24.1**	16.9
Revenue contributions	10.8	**14.6**	10.7
Borrowing	35.0	**30.1**	47.7
Total Financing and Funding	**91.2**	**75.3**	**87.4**

(c) 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 definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Approved %	2014/15 Estimate %	2015/16 Estimate %
Non-HRA	7.2	8.5	10.6
HRA	14.4	13.9	13.3
Total	**8.1**	**9.3**	**11.1**

(d) Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	2013/14 Approved £m	2014/15 Estimate £m	2015/16 Estimate £m
Non-HRA	264.1	**286.6**	325.9
HRA	165.0	**165.0**	165.0
Total CFR	**429.1**	**451.6**	**490.9**

(e) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Authority 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.

The Authority confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2013/14; borrowing at its peak was £316.1m.

	Authorised Limit (Approved) as at 31/03/2014 £m	Operational Boundary (Approved) as at 31/03/2014 £m	**Actual External Debt** as at 30/09/2013 £m
Borrowing	446.0	436.0	316.1
Other Long-term Liabilities	24.6	22.1	17.5
Total	**470.6**	**458.1**	**333.6**

(f) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority has 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 Full Council meeting on 29th November 2012

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

(g) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Authority 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 2013/14 %	Maximum during 2013/14 %
Upper Limit for Fixed Rate Exposure	100	74.5
Compliance with Limits:		Yes
Upper Limit for Variable Rate Exposure	40	25.5
Compliance with Limits:		Yes

(h) 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 30/9/2013 £m	% Fixed Rate Borrowing as at 30/9/2013	Compliance with Set Limits?
<12 months	20	0	13.5	5.9	Yes
12 months - 24 months	20	0	0	0.0	Yes
24 months - 5 years	60	0	0	0.0	Yes
5 years - 10 years	100	0	1.6	0.7	Yes
10 years - 20 years	100	0	133.1	57.7	Yes
20 years - 30 years	100	0	20.0	8.7	Yes
30 years - 40 years	100	0	25.2	10.9	Yes
40 years - 50 years	100	0	37.2	16.1	Yes
50 years and above	100	0	0	0.0	Yes

(i) Upper Limit for Total principal sums invested for periods longer than 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	2013/14 Approved £000s	30/9/2013 Actual £000s	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
	25	**0**	**25**	**25**

(j) HRA Limit on Indebtedness

This indicator reports on the level of the limit imposed by the CLG at the time of the self-financing settlement (or subsequently amended) to which the HRA Capital Financing Requirement is compared.

	2013/14 Approved £000s	31/03/2014 Estimate £000s	31/03/15 Estimate £000s	31/03/16 Estimate £000s
HRA Debt Cap	**165.0**	**165.0**	**165.0**	**165.0**
HRA CFR	**163.9**	**165.0**	**165.0**	**165.0**
Difference	**1.1**	**0.0**	**0.0**	**0.0**
HRA Debt (Actual)	**165.0**	**165.0**	**165.0**	**165.0**