

---

## **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2015/16**

To: **Cabinet – 19 January 2016**

Main Portfolio Area: **Financial Services and Estates**

By: **Portfolio Holder for Financial Services and Estates**

Classification: **Unrestricted**

---

**Summary:** **This report summarises treasury management activity and prudential/treasury indicators for the first half of 2015/16.**

### **For Decision**

---

#### **1 Background**

- 1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 Accordingly treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

#### **2 Introduction**

- 2.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 24 April 2014.
- 2.2 The primary requirements of the Code are as follows:
-

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement (including the Annual Investment Strategy and Minimum Revenue Provision Policy) for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

2.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2015/16 financial year to 30 September 2015;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2015/16;
- A review of the Council's borrowing strategy for 2015/16;
- A review of any debt rescheduling undertaken during 2015/16;
- A review of compliance with Treasury and Prudential Limits for 2015/16.

2.4 There have not been any key changes to the Treasury and Capital Strategies during the first half of 2015/16. On 23 April 2015 Council resolved that the Lowest Common Denominator assessment no longer be included in its Treasury Management Strategy Statement, which was amended accordingly. This was in line with advice from the Council's external treasury management advisor, Capita Asset Services (Capita).

## 2.5 **Changes in credit rating methodology**

2.5.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

---

- 2.5.2 In keeping with the agencies' new methodologies, the credit element of Capita's own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to Capita's process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.
- 2.5.3 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, Capita clients typically assigned the highest sovereign rating to their criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it has continued to specify a minimum sovereign rating of AAA for non-UK deposit counterparties. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.
- 2.5.4 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

### **3.1 Capita's Economic update (issued by Capita on 6 October 2015)**

#### **3.1.1 UK**

- 3.1.1.1 UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any Group of 7 (G7) country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May
-

Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that Consumer Price Index (CPI) inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

3.1.1.2 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

3.1.1.3 There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

### **3.1.2 USA**

3.1.2.1 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Federal Reserve (Fed.) could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

### **3.1.3 Eurozone**

3.1.3.1 In the Eurozone, in January 2015 the European Central Bank (ECB) unleashed a massive €1.1 trillion programme of quantitative easing (QE) to buy up high credit quality government and other debt of selected Eurozone (EZ) countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat

Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

### 3.2 Capita's Interest rate forecasts (issued by Capita on 6 October 2015)

3.2.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

- 3.2.2 Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused Public Works Loan Board (PWLB) rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.
- 3.2.3 Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.
- 3.2.4 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.
- 3.2.5 The disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get

back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

3.2.6 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than Capita currently anticipates.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens.

3.2.7 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- Uncertainty around the risk of a UK exit from the EU.
- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

#### **4 Treasury Management Strategy Statement and Annual Investment Strategy Update**

4.1 The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 5 February 2015 and amendments were approved by the Council on 23 April 2015.

4.2 The Section 151 Officer can confirm that the approved limits within the Annual Investment Strategy were not breached during the six months ended 30<sup>th</sup>

---

September 2015 apart from the money limit with the Lloyds Banking Group (Lloyds) for the 11 day period from 15 May 2015 to 26 May 2015.

- 4.3 With effect from 15 May 2015 Capita changed its view on Lloyds, no longer regarding it as part nationalised. Given the credit rating of Lloyds, this meant that the Council's money limit with Lloyds reduced from £7m to £5m. The Council was able to reduce its deposits with Lloyds to under £5m on 26 May 2015, upon maturity of a £2m fixed term deposit with Lloyds.
- 4.4 The Council is also reducing the maximum duration of its deposits with Lloyds from 370 days to 6 months, in line with Capita's revised recommendation of 15 May 2015. The Council's pre-existing fixed term deposits with Lloyds will all have less than 6 months to run by the end of October 2015 and will all have matured by the end of April 2016.

## 5 The Council's Capital Position (Prudential Indicators)

- 5.1 This part of the report is structured to update:
- The Council's capital expenditure plans;
  - How these plans are being financed;
  - The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
  - Compliance with the limits in place for borrowing activity.

### 5.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2015/16 Original Estimate £m	Current Position – Actual at 30/09/15 £m	2015/16 Revised Estimate £m
General Fund	4.229	8.174	21.701
HRA	10.449	1.351	16.672
<b>Total</b>	<b>14.678</b>	<b>9.525</b>	<b>38.373</b>

The revised estimate includes carry-forward from the previous year of £13.184m General Fund and £4.759m HRA.

### 5.3 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2015/16 Original Estimate £m	Current Position – Actual at 30/9/15 £m	2015/16 Revised Estimate £m
Unsupported	14.678	9.525	38.373
<b>Total spend</b>	<b>14.678</b>	<b>9.525</b>	<b>38.373</b>
Financed by:			
Capital receipts	1.067		4.103
Capital grants	2.930		13.651
Capital reserves	4.889		7.948
Revenue	1.126		2.346
<b>Total financing</b>	<b>10.012</b>		<b>28.048</b>
<b>Borrowing need</b>	<b>4.666</b>		<b>10.325</b>

The revised estimate includes carry-forward from the previous year of £13.184m General Fund and £4.759m HRA.

#### 5.4 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

##### Prudential Indicator – Capital Financing Requirement

We are on target to achieve the forecast Capital Financing Requirement.

##### Prudential Indicator – the Operational Boundary for external debt

	2015/16 Original Estimate £m	Current Position – Actual at 30/9/15 £m	2015/16 Revised Estimate £m
<b>Prudential Indicator – Capital Financing Requirement</b>			
CFR – non housing	26.470		28.306
CFR – housing	23.607		23.607
Total CFR	50.077		51.913
<b>Net movement in CFR</b>	<b>6.813</b>		<b>8.649</b>
<b>Prudential Indicator – the Operational Boundary for external debt</b>			
Borrowing	42.000	29.459	42.000
Other long term liabilities*	12.000	4.089	12.000
<b>Total debt</b>	<b>54.000</b>	<b>33.548</b>	<b>54.000</b>

\* On balance sheet PFI schemes and finance leases etc (including the leisure centre deferred credit). Excludes the amount owed to KCC for the Westwood spine road construction as classified as a current liability.

## 5.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, borrowing will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2015/16 Original Estimate £m	Current Position – Actual at 30/09/15 £m	2015/16 Revised Estimate £m
Gross borrowing	33.814	29.459	35.709
Plus other long term liabilities*	3.220	4.089	3.919
Total gross borrowing	37.034	33.548	39.628
CFR (year end position)	50.077		51.913

\* On balance sheet PFI schemes and finance leases etc (including the leisure centre deferred credit). Excludes the amount owed to KCC for the Westwood spine road construction as classified as a current liability.

The Section 151 Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2015/16 Original Indicator £m	Current Position – Actual at 30/09/15 £m	2015/16 Revised Indicator £m
Borrowing	48.000	29.459	48.000
Other long term liabilities*	14.000	4.089	14.000
Total	62.000	33.548	62.000

\* On balance sheet PFI schemes and finance leases etc (including the leisure centre deferred credit). Excludes the amount owed to KCC for the Westwood spine road construction as classified as a current liability.

## 6 Investment Portfolio 2015/16

- 6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.
- 6.2 The Council held £41.442m of investments as at 30 September 2015 (£30.566m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.55% against a benchmark (average 7-day LIBID rate) of 0.36%. The constituent investments are:

Sector	Country	Up to 1 year £m	1 year – 370 days £m	Total £m
<b>Banks</b>	UK	13.392	1.500	14.892
<b>Banks</b>	Sweden	3.956	0.000	3.956
<b>Money Market Funds</b>	UK	22.594	0.000	22.594
<b>Total</b>		<b>39.942</b>	<b>1.500</b>	<b>41.442</b>

- 6.3 The Section 151 Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16, apart from as described in section 4 of this report.
- 6.4 The Council's budgeted investment return for 2015/16 is £0.150m and performance for the first half of the financial year is above budget at £0.106m.

### 6.5 Investment Risk Benchmarking

Investment risk benchmarks were set in the 2015/16 Treasury Management Strategy Statement (TMSS) for security, liquidity and yield. The mid-year position against these benchmarks is given below.

#### 6.5.1 Security

The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio.

The security benchmark for each individual period is:

	370 days	2 years	3 years	4 years	5 years
<b>Maximum</b>	<b>0.05%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

The Section 151 Officer can report that the investment portfolio was maintained within this overall benchmark for the first half of this financial year.

### 6.5.2 Liquidity

In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 1.0 year.

The Section 151 Officer can report that liquidity arrangements were adequate for the first half of this financial year.

This authority does not currently place investments for more than 370 days due to the credit, security and counterparty risks of placing such investments.

### 6.5.3 Yield

Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

The Section 151 Officer can report that the yield on deposits for the first half of the financial year is 0.55% against a benchmark (average 7-day LIBID rate) of 0.36%.

### 6.6 Investment Counterparty criteria

The current investment counterparty criteria selection approved in the revised TMSS is meeting the requirement of the treasury management function.

## 7 Borrowing

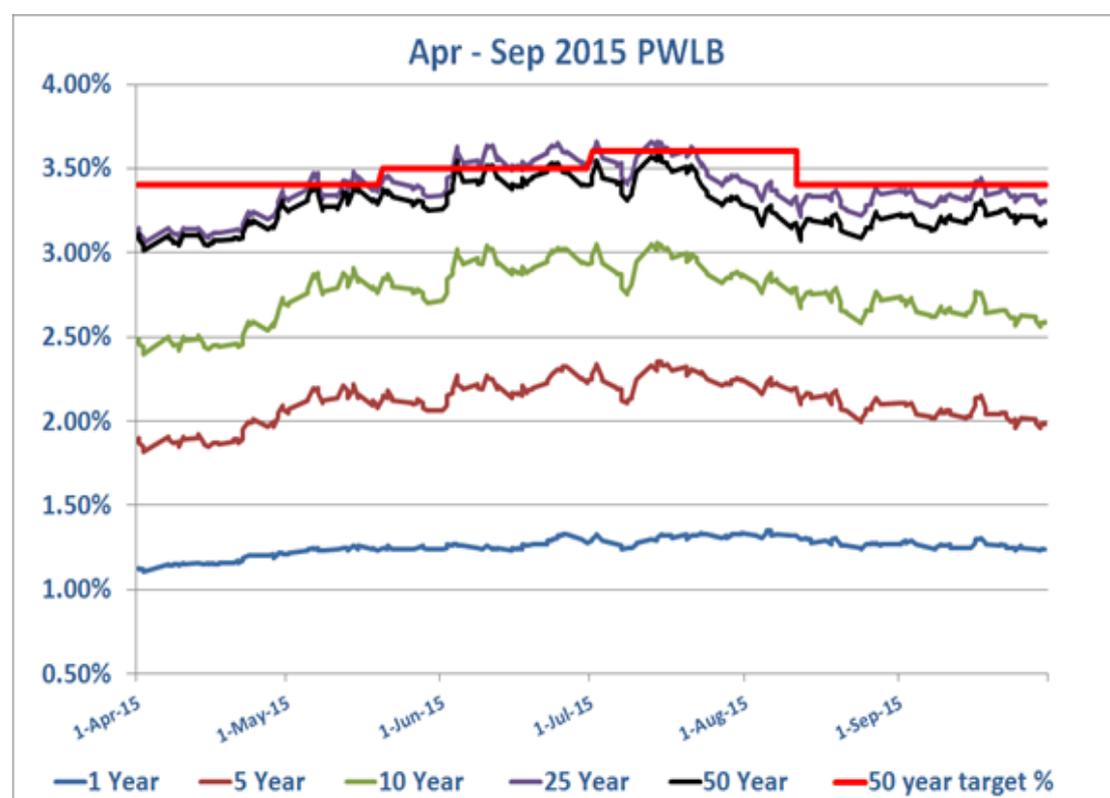
7.1 The Council's capital financing requirement (CFR) original estimate for 2015/16 is £50.077m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £29.459m (table 5.5) and has utilised an estimated £20.618m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

7.2 No new external borrowing was undertaken from the PWLB during the first half of this financial year.

- 7.3 As outlined below, the general trend has been an increase in interest rates during the first quarter but then a fall during the second quarter.
- 7.4 Borrowing may be undertaken during the second half of this financial year and options will be reviewed in due course in line with market conditions.
- 7.5 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to 30 September 2015.

#### 7.6 PWLB certainty rates, half year ended 30th September 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.26%	2.12%	2.76%	3.39%	3.29%



- 7.7 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates, and following the increase in the

margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the first six months of the year, no debt rescheduling was undertaken. The Council is currently under-borrowed to address investment counterparty risk and the differential between borrowing and investment interest rates. This position is carefully monitored.

- 7.8 The Council's budgeted debt interest payable for 2015/16 is £1.343m and performance for the first half of the financial year is below budget at £0.560m.

## 8 Treasury Management Indicators

### 8.1 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2015/16 Original Indicator	2015/16 Revised Indicator
Non-HRA	8.0%	6.6%
HRA	6.5%	6.9%

- 8.2 **Upper Limits on Variable Rate Exposure** – This identifies a maximum limit for variable interest rates based upon the debt position net of investments.

**Upper Limits on Fixed Rate Exposure** – Similar to the previous indicator, this covers a maximum limit on fixed interest rates.

Both of these are shown in the below table:

	2015/16 Original Indicator £m	Current Position – Actual at 30/09/15 £m	2015/16 Revised Indicator £m
<b>Upper limits on fixed interest rates</b>			
Debt only	62.000	29.459	62.000
Investments only	45.000	10.762	45.000
<b>Upper limits on variable interest rates</b>			
Debt only	62.000	0.000	62.000
Investments only	45.000	30.680	45.000

### 8.3 Maturity Structures of Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

	<b>2015/16 Original Upper Limit</b>	<b>Current Position – Actual at 30/09/15</b>	<b>2015/16 Revised Upper Limit</b>
<b>Maturity structure of fixed rate borrowing</b>			
Under 12 months	50%	17%	50%
1 year to under 2 years	50%	2%	50%
2 years to under 5 years	50%	21%	50%
5 years to under 10 years	55%	24%	55%
10 years to under 20 years	50%	10%	50%
20 years to under 30 years	50%	16%	50%
30 years to under 40 years	50%	7%	50%
40 years to under 50 years	50%	3%	50%
50 years and above	50%	0%	50%

The current position shows the actual percentage of fixed rate debt the authority has within each maturity span. None of the upper limits have been breached.

## **9 Options**

- 9.1 That Members approve this report and agree the prudential and treasury indicators that are shown.

## **10 Corporate Implications**

### **10.1 Financial and VAT**

- 10.1.1 There are no financial or VAT implications arising directly from this report.

### **10.2 Legal**

- 10.2.1 This report is required to be brought before the Governance and Audit Committee, Cabinet and Council for approval, under the CIPFA Treasury Management Code of Practice.

### **10.3 Corporate**

- 10.3.1 This report evidences that the Council continues to carefully manage the risk associated with its treasury management activities.

### **10.4 Equity and Equalities**

- 10.4.1 There are no equity or equality issues arising from this report.

## **11 Recommendations**

- 11.1 That Cabinet:
- Approves this report and the prudential and treasury indicators that are shown.
  - Recommends this report to Council.

## 12 Decision Making Process

- 12.1 This report is to go to Council for approval. The next Council meeting is on 4 February 2016.

## 13 Disclaimer

- 13.1 This report is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

Contact Officer:	Tim Willis, Section 151 Officer, extn 7617
Reporting to:	Madeline Homer, Chief Executive

### Corporate Consultation Undertaken

Finance	Nicola Walker, Interim Head of Finance
Legal	Tim Howes, Director of Corporate Governance

**Annex List** – there are no annexes to this report.

---