

## BABERGH AND MID SUFFOLK DISTRICT COUNCILS

<b>From: Head of Corporate Resources</b>	<b>Report Number: JAC58</b>
<b>To: Joint Audit and Standards Committee</b>	<b>Date of meeting: 17 August 2015</b>

### JOINT ANNUAL TREASURY MANAGEMENT REPORT - 2014/15

#### 1. Purpose of Report

- 1.1 The report is part of the Council's management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management ("the Code"). It provides Members with a comprehensive assessment of activities for the year.
- 1.2 The report specifically sets out performance of the treasury management function, the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Council's treasury management policy statement and treasury management practices.
- 1.3 The report also includes performance on Prudential Indicators which were set in the 2014/15 Treasury Management Strategy.

#### 2. Recommendation to Council

- 2.1 That the Treasury Management activity for the year 2014/15 be noted. Further, that it be noted that performance was in line with the Prudential Indicators set for 2014/15.

The Committee is asked to make a recommendation to the Full Councils of Babergh and Mid Suffolk on the above matter.

#### 3. Financial Implications

- 3.1 As detailed in the Report.

#### 4. Risk Management

- 4.1 This report is not linked with any of the Councils' Corporate / Significant Business Risks. Key risks, however, are set out below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
Loss of investment	Very Low	Critical	Strict lending criteria for high credit rated institutions.
Poor return on investments	High	Marginal	Focus is on security and liquidity, therefore, careful cashflow management in accordance with the TM Strategy is undertaken throughout the year.

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
Liquidity problems	Unlikely	Marginal	As above.
Higher than expected borrowing costs	Low	Marginal	Benchmark is to borrow from the Public Works Loan Board whose rates are very low and can be on a fixed or variable basis. Research lowest rates available within borrowing boundaries and use other sources of funding and internal surplus funds temporarily.

## **5. Consultations**

- 5.1 None, although it should be noted that Babergh and Mid Suffolk have regular joint strategy meetings with the external treasury advisor, Arlingclose who provide updates and advice on treasury management issues as they arise.

## **6. Equality Analysis**

- 6.1 None.

## **7. Shared Service / Partnership Implications**

- 7.1 None directly related to this report.

## **8. Key Information**

- 8.1 The 2014/15 Treasury Management Strategy for both Councils was approved in February 2014.

- 8.2 The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the year.

- 8.3 The following key points are highlighted:

- Interest rates continued at very low levels
- Economic conditions have improved but no real impact on treasury activities with, for example, investment of surplus funds with banks and other financial institutions still operating in a 'tight' market.
- No new long term external borrowing was taken out by Babergh or Mid Suffolk to finance the 2014/15 capital programme. Mid Suffolk increased its short term borrowing by £1.5m over the year and reduced its long term borrowing by £4.5m (see Appendix B, sections 1.1). All of the existing long term debt relates to the HRA for both Councils.
- Investment activity was undertaken in accordance with the approved counterparty policy (see Appendix B, sections 2.1 to 2.8 for further detailed information on investment activities and returns)

8.4 Some more specific highlights relating to 2014/15 activity are provided below:

Area/Activity	Babergh	Mid Suffolk	Comments
Borrowing – average interest rate	3.27%	3.93%	All HRA and fixed rate
Short Term Investments – average interest rate	0.47%	0.43%	Exceeded 7 day LIBID benchmark
Credit Risk Scores during the year	3.34 - 6.07	5.30 - 5.67	Both within the score for the approved A- credit rating for investment counterparties
Compliance with Prudential Indicators	√	√	See Appendix D

8.5 There were no breaches of the strategy or policy for either Council during the year.

## 9. Appendices

The appendices below set out in detail the treasury management events and activity during the year.

Title	Location
(a) Regulatory Framework and Economic Background	Attached
(b) Treasury Management Activity Summary	Attached
(c) Borrowing and Lending – Further Details	Attached
(d) Prudential Indicators	Attached
(e) Glossary of Terms	Attached

## 10. Background Documents

10.1 CIPFA’s Code of Practice on Treasury Management (“the Code”).

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## **Regulatory Framework and Economic Background**

### **1. Regulatory Framework**

The Councils' treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. Scrutiny of treasury policy, strategy and activity is delegated to the Joint Audit and Standards Committee.

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."

Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy.

### **2. Economic Background**

The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Inflation: - Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

Labour Market: - The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

Monetary Policy: - The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament.

On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with 'tapering', i.e. a reduction in asset purchases by \$10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough to weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word "patient" from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

**Treasury Management Activity Summary**

The Councils' Treasury Management and Prudential Indicators for 2014/15 were revised when the 2015/16 Treasury Management Strategies were approved in February 2015.

**1. Borrowing and Debt Management**

1.1 The tables show the borrowing position of each Council as at 31 March 2015.

<b>BABERGH DISTRICT COUNCIL</b>	Balance 31/3/2014 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance 31/3/2015 £m	Avg Rate %
CFR	94.964				95.269	
Short Term Borrowing	0	0	0	0	0	0
Long Term Borrowing	88.297	(0.500)	0	0	87.797	3.27%
<b>TOTAL BORROWING</b>	88.297	(0.500)	0	0	87.797	3.27%
Other Long Term Liabilities -finance leases	0	0	0	0	0	0
<b>TOTAL EXTERNAL DEBT</b>	88.297	(0.500)	0	0	87.797	3.27%
Increase/ (Decrease) in Borrowing					(0.500)	

<b>MID SUFFOLK DISTRICT COUNCIL</b>	Balance 31/3/2014 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance 31/3/2015 £m	Avg Rate %
CFR	101.799				103.494	
Short Term Borrowing	10.500	(53.000)	0	54.500	12.000	0.37%
Long Term Borrowing	80.713	(4.530)	0	0	76.183	3.93%
<b>TOTAL BORROWING</b>	91.213	(57.530)	0	54.500	88.183	3.93%
Other Long Term Liabilities -finance leases	0.000	0	0	0	0	0
<b>TOTAL EXTERNAL DEBT</b>	91.213	(57.530)	0	54.500	88.183	3.35%
Increase/ (Decrease) in Borrowing					(3.030)	

1.3 The chief objectives of both Councils when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Councils' long-term plans change is a secondary objective.

1.4 Affordability and the "cost of carry" remained important influences on the Councils' borrowing strategies 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. However, recent research into other investment opportunities mean the Councils, subject to approval by the Councils at their July meetings, may start borrowing once again as possible investment returns far outstrip the costs of borrowing.

- 1.5 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Councils with this 'cost of carry' and breakeven analysis.
- 1.6 Mid Suffolk District Council holds £4m of Lender's Option Borrower's Option (LOBO) Loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. None of these loans had options during the year.
- 1.7 The premium charge for early repayment of PWLB debt remained relatively expensive for loans in the Councils' portfolios and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.
- 1.8 In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The Councils intend to use the PWLB's replacement as a potential source of borrowing if required.

## 2. Investment Activity

- 2.1 The CLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield. The table below shows the investments made during 2014/15 and the position as at 31 March 2015.

Babergh District Council				31/3/2015		
Investments	Balance 31/3/2014 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance £m	Avg Rate %	Avg Life (days)
Short Term Investments	7.400	89.773	(86.675)	10.498	0.47%	55
Instant Access Call Accounts (net movement)	0.500	1.500	(1.500)	0.500	0.50%	1
<b>TOTAL INVESTMENTS</b>	7.900	91.273	(88.175)	10.998		
Increase/(Decrease) in Investments				3.098		

Mid Suffolk District Council				31/3/2015		
Investments	Balance 31/3/2014 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance £m	Avg Rate %	Avg Life (days)
Short Term Investments	0.139	31.411	(30.550)	1.000	0.43%	1
Instant Access Call Accounts (net movement)	1.888	20.716	(21.854)	0.750	0.50%	1
<b>TOTAL INVESTMENTS</b>	2.027	52.127	(52.404)	1.750		
Increase/(Decrease) in Investments				(0.277)		

2.2 **Security:** Security of capital was maintained by following each Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15. Investments made by the Councils during the year included:

- Deposits with the Debt Management Office
- Deposits with other Local Authorities (Babergh only).
- Investments in AAA-rated Constant Net Asset Value Money Market Funds
- Call accounts and deposits with UK Banks and Building Societies which are systemically important to the country's banking system.
- Treasury Bills (Babergh only).

2.3 **Credit Risk:** Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; financial statements, information on potential government support and reports in the quality financial press. The minimum long-term counterparty credit rating determined for the 2014/15 treasury strategy for both Councils was:

- The minimum criterion for UK investments was A- or equivalent (AA- for foreign banks with a sovereign rating of AAA) across all assigned credit rating agencies Fitch, Standard and Poors and Moody's

2.4 An assessment is made in quarterly and annual reports of the Councils' 'credit score' based on the table below:

Long-Term Credit Rating	Score	Long-Term Credit Rating	Score
AAA	1	BBB+	8
AA+	2	BBB	9
AA	3	BBB-	10
AA-	4	Not rated	11
A+	5	BB	12
A	6	CCC	13
A-	7	C	14
		D	15

2.5 Applying this to the actual investments made produces the following overall credit score for investment activity in 2014/15:

Babergh District Council					
Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Number of Days to Maturity
30/06/2014	4.83	A+	5.97	A	64
30/09/2014	4.45	AA-	6.07	A	41
31/12/2014	4.41	AA-	4.20	AA-	29
31/03/2015	3.38	AA	3.34	AA	5



Mid Suffolk District Council					
Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Number of Days to Maturity
30/06/2014	5.67	A	5.67	A	1
30/09/2014	5.67	A	5.67	A	1
31/12/2014	5.67	A	5.67	A	1
31/03/2015	5.30	A+	5.31	A+	1

### Notes

1. The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit.
  2. At 31 March 2015 Babergh's investments included a total of £4m with instant access money market funds and term deposits of £6.498m with a maturity date in early April 2015. This has impacted on the average number of days to maturity.
  3. During the year the short term investments held by Mid Suffolk were mainly in a Barclays Deposit Account with a lower balance in a Money Market Fund. Both of these investments are instant access.
- 2.7 **Liquidity:** In keeping with the CLG's Guidance on Investments, both Councils maintained a sufficient level of liquidity through the use of overnight deposits, money market funds and call accounts.
- 2.8 **Yield:** The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained very low. The low rates of return on the Councils' investments reflect prevailing market conditions and the Councils' objective of optimising returns commensurate with the principles of security and liquidity.
- **Babergh District Council** achieved investment income of £59k against a budget of £46k. The average rate of return achieved on investments during the year was 0.47% compared with the average 7 day LIBID rate for the year (the benchmark rate) of 0.35%. Average cash balances throughout the year (calculated on a daily basis) representing the Council's reserves and working balances were £16,543k.
  - **Mid Suffolk District Council** achieved investment income of £20k against a budget of £12k. The average rate of return achieved on investments during the year was 0.43% compared with the average 7 day LIBID rate for the year (the benchmark rate) of 0.35%. The average cash balances throughout the year (calculated on a daily basis) representing the Council's reserves and working balances were £2,343k.
- 2.9 **Prudential Indicators –** Babergh and Mid Suffolk District Councils can confirm that they have complied with the revised Prudential Indicators for 2014/15, set in February 2014 as part of the Councils' Treasury Management Strategy Statements. Details of the revised Prudential Indicators can be found in Appendix D.

In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary report of the treasury management activity during 2014/15. None of the revised Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

**Borrowing and Lending – Further Details**

**Babergh District Council  
Long-term borrowing at 31 March 2015 (all HRA)**

Start Date	Interest rate%	Value of loan	Borrowed from	Repayment date	Fixed or variable	Type
26/01/2006	3.70%	1,100,000	PWLB	26/01/2056	Fixed	Maturity
24/08/2010	2.01%	1,100,000	PWLB	25/08/2020	Fixed	EIP
14/07/2011	2.88%	1,950,000	PWLB	14/07/2021	Fixed	EIP
28/03/2012	2.92%	6,000,000	PWLB	28/03/2026	Fixed	Maturity
28/03/2012	3.42%	46,647,000	PWLB	28/03/2036	Fixed	Maturity
28/03/2012	2.82%	6,000,000	PWLB	28/03/2025	Fixed	Maturity
28/03/2012	3.26%	25,000,000	PWLB	28/03/2031	Fixed	Maturity
	<b>Total</b>	<b>87,797,000</b>				

**Short term lending**

Start date	Interest rate	Value of loan £	Borrowed from	Repayment date	Length of Investment (days)
07/04/2014	0.25%	1,000,000	Debt Management Office	09/04/2014	2
09/04/2014	0.25%	1,000,000	Debt Management Office	15/04/2014	6
15/04/2014	0.25%	1,000,000	Debt Management Office	16/04/2014	1
01/05/2014	0.25%	1,500,000	Debt Management Office	19/05/2014	18
10/03/2014	0.40%	1,000,000	Leeds Building Society	10/06/2014	92
02/06/2014	0.25%	2,000,000	Debt Management Office	19/06/2014	17
10/06/2014	0.25%	1,000,000	Debt Management Office	01/07/2014	21
01/07/2014	0.25%	3,000,000	Debt Management Office	21/07/2014	20
21/07/2014	0.25%	2,000,000	Debt Management Office	01/08/2014	11
01/08/2014	0.25%	3,000,000	Debt Management Office	19/08/2014	18
19/08/2014	0.25%	1,000,000	Debt Management Office	01/09/2014	13
15/09/2014	0.25%	2,500,000	Debt Management Office	22/09/2014	7
01/09/2014	0.25%	3,000,000	Debt Management Office	01/10/2014	30
01/10/2014	0.25%	2,000,000	Debt Management Office	08/10/2014	7
08/10/2014	0.25%	3,000,000	Debt Management Office	15/10/2014	7
15/10/2014	0.25%	2,000,000	Debt Management Office	16/10/2014	1
01/08/2014	0.41%	1,000,000	Leeds Building Society	03/11/2014	94
03/11/2014	0.25%	2,000,000	Debt Management Office	01/12/2014	28
10/11/2014	0.25%	1,000,000	Debt Management Office	01/12/2014	21
01/12/2014	0.25%	3,000,000	Debt Management Office	08/12/2014	7
08/12/2014	0.25%	3,000,000	Debt Management Office	22/12/2014	14
08/12/2014	0.37%	996,716	Treasury Bills	05/01/2015	28
02/01/2015	0.25%	1,000,000	Debt Management Office	05/01/2015	3
07/01/2015	0.25%	1,500,000	Debt Management Office	19/01/2015	12
31/01/2014	0.80%	2,000,000	Nationwide Building Society	30/01/2015	364
06/02/2015	0.25%	1,000,000	Debt Management Office	16/02/2015	10
11/03/2014	0.84%	1,500,000	Barclays Bank	10/03/2015	364
30/01/2015	0.46%	1,000,000	Nationwide Building Society	30/03/2015	59
21/12/2014	0.45%	1,000,000	Mid Suffolk District Council	01/04/2015	98
10/03/2015	0.25%	1,500,000	Debt Management Office	01/04/2015	22
05/01/2015	0.39%	1,998,036	Treasury Bills	07/04/2015	92
16/10/2014	0.40%	2,000,000	HSBC	16/04/2015	182

### Money market fund balances:

Deposited with	31/03/2014	30/06/2014	30/09/2014	31/12/2014	31/03/2015
Ignis	1,000,000	2,000,000	1,000,000	2,000,000	1,000,000
Federated	400,000	1,000,000	1,000,000	1,000,000	1,000,000
BlackRock	-	1,000,000	1,000,000	1,000,000	1,000,000
Insight	-	1,000,000	-	1,000,000	-
Goldman Sachs	-	1,000,000	1,000,000	2,000,000	1,000,000
<b>Total</b>	<b>1,400,000</b>	<b>6,000,000</b>	<b>4,000,000</b>	<b>7,000,000</b>	<b>4,000,000</b>

£10.498m of Short term investment outstanding at 31 March 2015 (Appendix B paragraph 2.1 refers).

### Mid Suffolk District Council Long-term borrowing at 31 March 2015 (all HRA)

Start date	Interest rate %	Value of loan £	Borrowed from	Repayment date	Fixed or variable	Type
26-May-87	9.125%	500,000.00	PWLB	27-Jan-17	Fixed	Maturity
30-May-90	11.500%	57,707.28	PWLB	27-Jul-15	Fixed	Annuity
18-Jan-91	11.250%	138,062.73	PWLB	27-Jan-16	Fixed	Annuity
09-May-92	10.250%	500,000.00	PWLB	27-Jul-17	Fixed	Maturity
21-Sep-93	7.875%	1,000,000.00	PWLB	27-Jul-53	Fixed	Maturity
26-Apr-07	4.600%	3,500,000.00	PWLB	27-Jul-47	Fixed	Maturity
26-Apr-07	4.550%	3,500,000.00	PWLB	27-Jul-52	Fixed	Maturity
01-May-07	4.600%	3,831,140.00	PWLB	27-Jul-53	Fixed	Maturity
09-Sep-11	2.430%	1,950,000.00	PWLB	09-Sep-21	Fixed	EIP
28-Mar-12	3.010%	15,000,000.00	PWLB	28-Mar-27	Fixed	Maturity
28-Mar-12	3.300%	15,000,000.00	PWLB	28-Mar-32	Fixed	Maturity
28-Mar-12	3.440%	15,000,000.00	PWLB	28-Mar-37	Fixed	Maturity
28-Mar-12	3.500%	12,206,000.00	PWLB	28-Mar-42	Fixed	Maturity
22-Aug-08	4.200%	2,000,000.00	LOBO	22-Aug-78	Fixed	Maturity
22-Aug-08	4.220%	2,000,000.00	LOBO	22-Aug-78	Fixed	Maturity
	<b>Total</b>	<b>76,182,910.01</b>				

### Short term borrowing

Start date	Interest rate	Value of loan £	Borrowed from	Repayment date
29/04/2014	0.38%	2,000,000.00	London Borough of Ealing	29/05/2014
02/05/2014	0.27%	2,000,000.00	Manchester City Council	02/06/2014
27/05/2014	0.27%	1,000,000.00	Greater Manchester Combined Authority	27/06/2014
29/05/2014	0.28%	2,000,000.00	Manchester City Council	30/06/2014
02/06/2014	0.27%	1,000,000.00	Manchester City Council	02/07/2014
25/06/2014	0.31%	1,000,000.00	Cambridge City Council	25/07/2014
27/06/2014	0.29%	1,000,000.00	Blackburn & Darwin	28/07/2014
30/06/2014	0.28%	2,000,000.00	Manchester City Council	31/07/2014
25/07/2014	0.27%	1,000,000.00	Greater Manchester Fire Authority	26/08/2014
28/07/2014	0.32%	2,000,000.00	Derbyshire	28/08/2014
31/07/2014	0.27%	2,000,000.00	Manchester City Council	29/08/2014
26/08/2014	0.27%	1,000,000.00	Greater Manchester Fire Authority	26/09/2014
29/08/2014	0.28%	2,000,000.00	Manchester City Council	30/09/2014
28/08/2014	0.30%	2,000,000.00	Derbyshire	30/09/2014
26/09/2014	0.27%	1,000,000.00	Greater Manchester Fire Authority	27/10/2014
29/09/2014	0.45%	1,000,000.00	Wigan MBC	29/10/2014
30/09/2014	0.30%	2,000,000.00	Greater Manchester Combined Authority	31/10/2014
30/09/2014	0.30%	2,000,000.00	Manchester City Council	31/10/2014
31/10/2014	0.35%	2,000,000.00	Greater Manchester Combined Authority	28/11/2014
31/10/2014	0.46%	2,000,000.00	Oxfordshire Council	16/12/2014
28/11/2014	0.48%	2,000,000.00	Suffolk County Council	02/01/2015
27/01/2015	0.45%	5,000,000.00	Leciester City Council	26/02/2015
16/12/2014	0.45%	1,000,000.00	Wealden Council	13/03/2015
16/02/2015	0.35%	2,500,000.00	Ceredigion	16/03/2015
24/12/2014	0.45%	1,000,000.00	Babergh District Council	01/04/2015
26/02/2015	0.42%	4,000,000.00	Leicester City Council	13/04/2015
13/03/2015	0.37%	1,000,000.00	Ceredigion	13/04/2015
16/03/2015	0.40%	3,000,000.00	Crawley Borough Council	13/04/2015
16/03/2015	0.45%	2,000,000.00	Manchester City Council	13/04/2015
30/03/2015	0.40%	1,000,000.00	Bridgend County Borough Council	30/04/2015

£12m Short term borrowing at 31 March 2015 (Appendix B paragraph 1.1 refers).

### Short term lending

Start date	Interest rate	Value of loan £	Borrowed from	Repayment date
02/04/2014	0.25%	1,700,000.00	Debt Management Office	09/04/2014
14/04/2014	0.25%	2,000,000.00	Debt Management Office	17/04/2014
15/09/2014	0.25%	1,000,000.00	Debt Management Office	16/09/2014

### Money market fund balances:

Deposited with	31/03/2014	30/06/2014	30/09/2014	31/12/2014	31/03/2015
Federated	139,000	-	-	-	1,000,000
BlackRock	-	-	-	-	-
<b>Total</b>	<b>139,000</b>	-	-	-	<b>1,000,000</b>

£1m Short term investment at 31 March 2015 (Appendix B paragraph 2.1 refers).

**Prudential Indicators****1. Capital Financing Requirement**

Estimates of the Councils' revised cumulative maximum external borrowing requirement for 2014/15 is shown in the table below:

<b>Babergh District Council</b>	<b>31/3/2015 Estimate £m</b>	<b>31/3/2015 Actual £m</b>
Capital Financing Requirement	97.923	95.269
<b>Less:</b> Existing Profile of Borrowing	(87.797)	(87.797)
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>10.126</b>	<b>7.472</b>

<b>Mid Suffolk District Council</b>	<b>31/3/2015 Estimate £m</b>	<b>31/3/2015 Actual £m</b>
Capital Financing Requirement	107.782	103.494
<b>Less:</b> Existing Profile of Borrowing	(75.987)	(88.183)
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>31.795</b>	<b>15.311</b>

**2. Prudential Indicator Compliance****(a) Authorised Limit and Operational Boundary for External Debt**

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit (Authorised Limit), irrespective of their indebted status. This is a statutory limit which should not be breached. It is based on the estimated borrowing to finance the capital programme plus an allowance to cover any cash flow shortfalls that might arise during the year.
- 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 Section 151 Officer for Babergh and Mid Suffolk District Councils confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year by either council. Borrowing at its peak was £88.297m Babergh District Council, £100.213m for Mid Suffolk District Council.

<b>Babergh District Council</b>	<b>Operational Boundary (Approved) as at 31/03/2015 £m</b>	<b>Authorised Limit (Approved) as at 31/03/2015 £m</b>	<b>Actual External Debt as at 31/03/2015 £m</b>
Borrowing	98	101	87.797
<b>Total</b>	<b>98</b>	<b>101</b>	<b>87.797</b>

<b>Mid Suffolk District Council</b>	<b>Operational Boundary (Approved) as at 31/03/2015 £m</b>	<b>Authorised Limit (Approved) as at 31/03/2015 £m</b>	<b>Actual External Debt as at 31/03/2015 £m</b>
Borrowing	109	112	88.183
<b>Total</b>	<b>109</b>	<b>112</b>	<b>88.183</b>

**(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

- These indicators allow the Council 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.

<b>Babergh District Council</b>	<b>Limits for 2014/15 %</b>	<b>Maximum during 2014/15 %</b>
<b>Upper Limit for Fixed Rate Exposure</b>	100%	100%
Compliance with Limits:	-	Yes
<b>Upper Limit for Variable Rate Exposure</b>	30%	0%
Compliance with Limits:	-	Yes

<b>Mid Suffolk District Council</b>	<b>Limits for 2014/15 %</b>	<b>Maximum during 2014/15 %</b>
<b>Upper Limit for Fixed Rate Exposure</b>	100%	100%
Compliance with Limits:	-	Yes
<b>Upper Limit for Variable Rate Exposure</b>	30%	0%
Compliance with Limits:	-	Yes

(c) 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.

Babergh District Council Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/03/2015	% Fixed Rate Borrowing as at 31/03/2015	Compliance with Set Limits?
under 12 months	50%	0%	£0.5m	0.57%	Yes
12 months and within 24 months	50%	0%	£0.5m	0.57%	Yes
24 months and within 5 years	50%	0%	£1.5m	1.71%	Yes
5 years and within 10 years	100%	0%	£0.55m	0.63%	Yes
10 years and within 20 years	100%	0%	£37m	42.14%	Yes
20 years and within 30 years	100%	0%	£46.647m	53.13%	Yes
30 years and above	100%	0%	£1.1m	1.25%	Yes

Mid Suffolk District Council Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/03/2015	% Fixed Rate Borrowing as at 31/03/2014	Compliance with Set Limits?
under 12 months	30%	0%	£12.496m	14.17%	Yes
12 months and within 24 months	40%	0%	£1.1	1.25%	Yes
24 months and within 5 years	60%	0%	£1.4m	1.59%	Yes
5 years and within 10 years	60%	0%	£0.15m	0.17%	Yes
10 years and above	100%	0%	£73.037m	82.82%	Yes

(d) Capital Expenditure

- The capital expenditure of the two Councils and the financing is summarised below.

Babergh District Council Capital Expenditure	2014/15 Approved £m	2014/15 Actual £m
Non-HRA	5.250	2.193
HRA	7.800	3.735
<b>Total</b>	<b>13.050</b>	<b>6.648</b>



Capital expenditure has been and will be financed or funded as follows:

Babergh District Council Capital Financing	2014/15 Approved £m	2014/15 Actual £m
Capital receipts	0.970	0.661
Government Grants	0.472	0.246
External Contributions	0.000	0.138
Major Repairs Allowance	2.431	0.245
Revenue contributions	4.809	3.211
<b>Total Funding</b>	<b>8.682</b>	<b>4.501</b>
Borrowing	4.368	2.147
<b>Total Financing and Funding</b>	<b>13.050</b>	<b>6.648</b>

Mid Suffolk District Council Capital Expenditure	2014/15 Approved £m	2014/15 Actual £m
Non-HRA	7.392	3.447
HRA	7.189	5.042
<b>Total</b>	<b>14.581</b>	<b>8.489</b>

Capital expenditure has been and will be financed or funded as follows:

Mid Suffolk District Council Capital Financing	2014/15 Approved £m	2014/15 Actual £m
Capital receipts	1.729	1.745
Government Grants	0.216	0.297
Major Repairs Allowance	3.018	2.625
Revenue contributions	2.827	1.318
<b>Total Funding</b>	<b>7.790</b>	<b>5.985</b>
Borrowing	6.791	2.504
<b>Total Financing and Funding</b>	<b>14.581</b>	<b>8.489</b>

These tables show that the capital expenditure plans for both Councils could not be funded entirely from sources other than external borrowing.

#### (e) Capital Financing Requirement

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

Babergh District Council	2014/15 Approved £m	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m
General Fund	10.536	9.801	*40.484	41.133
HRA	87.387	85.468	86.441	85.497
<b>Total CFR</b>	<b>97.923</b>	<b>95.269</b>	<b>126.925</b>	<b>126.630</b>

\* Includes £25m re investment opportunities and delivery plan projects

Mid Suffolk District Council	2014/15 Approved £m	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m
General Fund	21.023	16.735	*48.527	49.126
HRA	86.759	86.759	86.759	90.548
<b>Total CFR</b>	<b>107.782</b>	<b>103.494</b>	<b>135.286</b>	<b>139.674</b>

\* Includes £25m re investment opportunities and delivery plan projects

#### (f) Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Councils 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 year and the next two financial years. This is a key indicator of prudence.

Babergh District Council	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Borrowing	87.797	118.435	121.364
<b>Total Debt</b>	<b>87.797</b>	<b>118.435</b>	<b>121.364</b>

Mid Suffolk District Council	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Borrowing	88.183	132.130	137.138
<b>Total Debt</b>	<b>88.183</b>	<b>132.130</b>	<b>137.138</b>

Total debt is expected to remain below the CFR in the forecast period.

#### (g) 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 ratio is based on costs net of investment income

##### Babergh District Council

Ratio of Financing Costs to Net Revenue Stream	2014/15 Approved %	2014/15 Actual %
Non-HRA	4.97%	3.08%
HRA	18.19%	17.64%

**Mid Suffolk District Council**

Ratio of Financing Costs to Net Revenue Stream	2014/15 Approved %	2014/15 Actual %
Non-HRA	10.21%	6.35%
HRA	23.88%	20.84%

**(h) Total principal sums invested for periods longer than 364 days**

- This indicator allows Councils to manage the risk inherent in investments longer than 364 days.
- The policy of both Babergh and Mid Suffolk District Councils during 2014/15 was not to make investments for a period longer than 364 days. No investments were made for a period greater than 364 days during the year to 31 March 2015.

**(i) Adoption of the CIPFA Treasury Management Code**

This indicator demonstrates that the Authority adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Councils approved the adoption of the CIPFA Treasury Management Code at their meetings on 9 <sup>th</sup> February 2012 (Babergh District Council) and on 23 <sup>rd</sup> February 2012 (Mid Suffolk District Council).

**(j) Incremental impact of capital investment decisions**

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and on average rent levels.

Babergh District Council	2014/15 Estimate £	2014/15 Actual £
Incremental impact of capital investment decisions on the Band D council tax	£5.65	£(0.32)
Incremental impact of capital investment decisions on housing rent levels (per week)	£(6.18)	£(3.10)

Mid Suffolk District Council	2014/15 Estimate £	2014/15 Actual £
Incremental impact of capital investment decisions on the Band D council tax	£19.38	£0.76
Incremental impact of capital investment decisions on housing rent levels (per week)	£16.22	£(12.83)

The lower impact on council tax and rents is accounted for by slippage on the capital programmes.

**Glossary of Terms**

CFR	Capital Financing Requirement. The underlying need to borrow to finance capital expenditure.
CIPFA	The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services.
CLG	Department for Communities and Local Government. This is a ministerial department.
CPI	Consumer Price Index. This measures changes in the price level of consumer goods and services purchased by households.
DMADF	Debt Management Account Deposit Facility.
GDP	Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time.
HRA	Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
MPC	Monetary Policy Committee. A committee of the Bank of England which decides the Bank of England's Base Rate and other aspects of the Government's Monetary Policy.
LOBO	Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan.
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
QE	Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply.
T Bills	Treasury Bill. A short term Government Bond.