

**Wiltshire Council**

**Cabinet**

**15 March 2016**

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**Subject: Report on Treasury Management Strategy 2015-16 – Third Quarter ended 31 December 2015**

**Cabinet member: Councillor Richard Tonge - Finance**

**Key Decision: No**

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### **Executive Summary**

The Council adopted a Treasury Management Strategy and an Annual Investment Strategy (AIS) for 2015-16 at its meeting on 24 February 2015. This can be found in the Council agenda reports pack at the following [Link](#), Item 9, Pages 167 to 190.

In addition to an Annual Report, the policy requires quarterly reports reviewing the Treasury Management Strategy (TMS). This is the third quarterly report of 2015-16 and covers the period from 1 April 2015 to 31 December 2015.

### **Proposals**

The Cabinet is asked to note that the contents of this report are in line with the Treasury Management Strategy.

### **Reasons for Proposals**

To give members an opportunity to consider the performance of the Council in the period to the end of the quarter against the parameters set out in the approved Treasury Management Strategy for 2015-16.

**Michael Hudson Associate Director, Finance**

## Cabinet

15 March 2016

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**Subject:** Report on Treasury Management Strategy 2015-16 – Third Quarter ended 31 December 2015

**Cabinet member:** Councillor Richard Tonge - Finance

**Key Decision:** No

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### 1. Background & Purpose of Report

- 1.1 The Council adopted a Treasury Management Strategy for 2015-16 at its meeting on 24 February 2015, incorporating Prudential Indicators (PrIs), Treasury Management Indicators (TrIs) and an Annual Investment Strategy, in accordance with the Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The Strategy report can be found in the Council 24 February 2015 agenda reports pack, Item 9, Pages 167 to 190 at the following [Link](#).
- 1.2 The Strategy states that, in addition to an Annual Treasury Report reviewing the year as a whole, quarterly reports would be submitted to Cabinet reviewing the Treasury Management Strategy. This report covers the third quarter of 2015-16, ended 31 December 2015.

### 2. Main Considerations for the Cabinet

- 2.1 This report reviews management actions in relation to:
  - a) the PrIs, TrIs originally set for the year and the position at the 31 December 2015;
  - b) other treasury management actions during the period; and
  - c) the approved Annual Investment Strategy.

### Review of Prudential and Treasury Indicators and Treasury Management Strategy for 2015-16

- 2.2 The following is a review of the position on the key prudential and treasury indicators for the nine months to 31 December 2015.
- 2.3 A full detailed listing of the indicators required by the CIPFA Prudential Code, Treasury Management Code and Treasury Management Guidance Notes is given in Appendix 1.

## Key Prudential Indicators

### Prl 2 – Ratio of Financing Costs to Net Revenue Stream

	<b>2014-15 Actual Outturn</b>	<b>2015-16 Original Estimate</b>	<b>2015-16 Revised Estimate</b>
General Fund	6.3%	7.3%	7.1%
Housing Revenue Account	14.8%	14.6%	14.7%

- 2.4 In Prl 2 above the General Fund revised estimate for 2015-16 is higher than the year end 2014-15 figure mainly due to the decrease in the net budget requirement. At the same time expected financing costs have increased very slightly, mainly principal charges.

### Prl 4 – Gross Borrowing compared to Capital Financing Requirement (CFR)

	<b>2014-15 Actual Outturn £ million</b>	<b>2015-16 Original Estimate £ million</b>	<b>2015-16 Revised Estimate £ million</b>
CFR – General Fund	369.1	416.2	413.8
CFR – HRA	122.6	122.6	122.6
Gross Borrowing – General Fund	233.1	289.1	280.1
Gross Borrowing – HRA	118.8	118.8	118.8
<b>CFR not funded by gross borrowing – General Fund</b>	<b>136.0</b>	<b>127.1</b>	<b>133.7</b>
<b>CFR not funded by gross borrowing – HRA</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>

- 2.5 Prl 4 measures the so called “Golden Rule” which ensures that over the medium term net borrowing is only for capital purposes.
- 2.6 There is no significant change in the 2015-16 revised estimate compared to the original estimate.
- 2.7 The revised estimate for General Fund CFR and gross borrowing is based on the 2015-16 Capital Programme, which includes all of the 2014-15 slippage. The Capital Programme is being reviewed by CLT and will include a review of 2014-15 slippage. The borrowing position may, therefore, be subject to change.

## Key Treasury Management Indicators within the Prudential Code

- 2.8 The Operational Boundary and Authorised Limit, as approved by Council in February as part of the Treasury Management Strategy, detailed below, are control limits and do not compare with actual borrowing figures as capital funding requirements are not automatically taken as loans and may be funded from cash balances.

### Trl 1 – Authorised Limit for External Debt

<b>Authorised Limit</b>	<b>2015-16 £ million</b>	<b>2016-17 £ million</b>	<b>2017-18 £ million</b>
Borrowing – General Fund	448.2	488.7	492.5
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
<b>TOTAL</b>	<b>571.6</b>	<b>612.1</b>	<b>615.9</b>

2.9 The External Debt Limit includes a margin above the Operational Boundary to allow for any unusual or unpredicted cash movements. The limit has not been exceeded in the reporting period.

### Trl 2 – Operational Boundary for External Debt

<b>Operational Boundary</b>	<b>2015-16 £ million</b>	<b>2016-17 £ million</b>	<b>2017-18 £ million</b>
Borrowing – General Fund	437.2	476.7	480.5
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
<b>TOTAL</b>	<b>560.6</b>	<b>600.1</b>	<b>603.9</b>

2.10 The Operational Boundary is set at a limit that facilitates the funding of the Council's entire financing requirement through loans, if this was the most cost effective approach. The limit was set to anticipate expected expenditure and has not been exceeded during the reporting period (maximum borrowing during the period was £352.1 million).

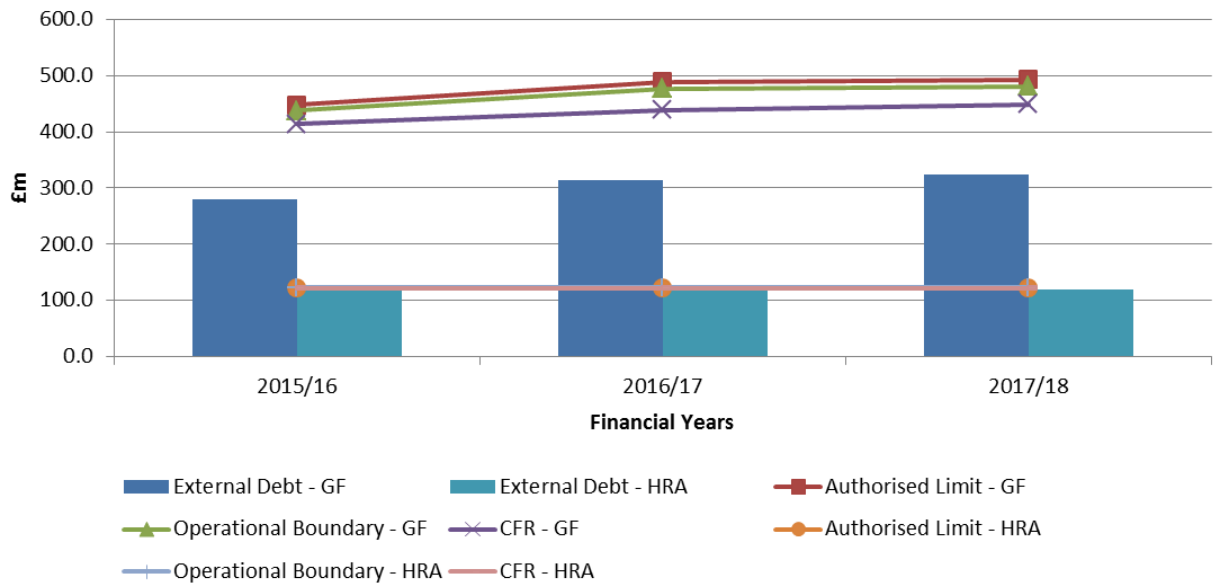
### Trl 3 – External Debt

	<b>31/03/15 Actual £ million</b>	<b>31/12/15 Actual £ million</b>	<b>31/03/16 Expected £ million</b>
Borrowing – General Fund	233.1	231.1	280.1
Borrowing – HRA	118.8	118.8	118.8
<b>Total Borrowing</b>	<b>351.9</b>	<b>349.9</b>	<b>398.9</b>
Other Long Term Liabilities	0.2	0.2	0.2
<b>TOTAL</b>	<b>352.1</b>	<b>350.1</b>	<b>399.1</b>

2.11 Trl 3 shows the gross External Debt outstanding, both long-term loans and temporary borrowing. A £2 million General Fund PWLB loan was repaid, on maturity, in June 2015. This has resulted in a reduction in actual borrowing, the repayment being contained within the Councils cash flow, through a reduction in investments rather than refinancing. The figure for actual borrowing at 31 March 2015 is stated at the amount that reflects actual outstanding external borrowing at the end of 2014-15 (i.e. excluding accounting adjustments, such as accrued interest and effective interest rate adjustments).

2.12 The above Trls 1-3, together with the Capital Financing Requirement (see Prl 4 in paragraph 2.5 above), are represented in the following graph:

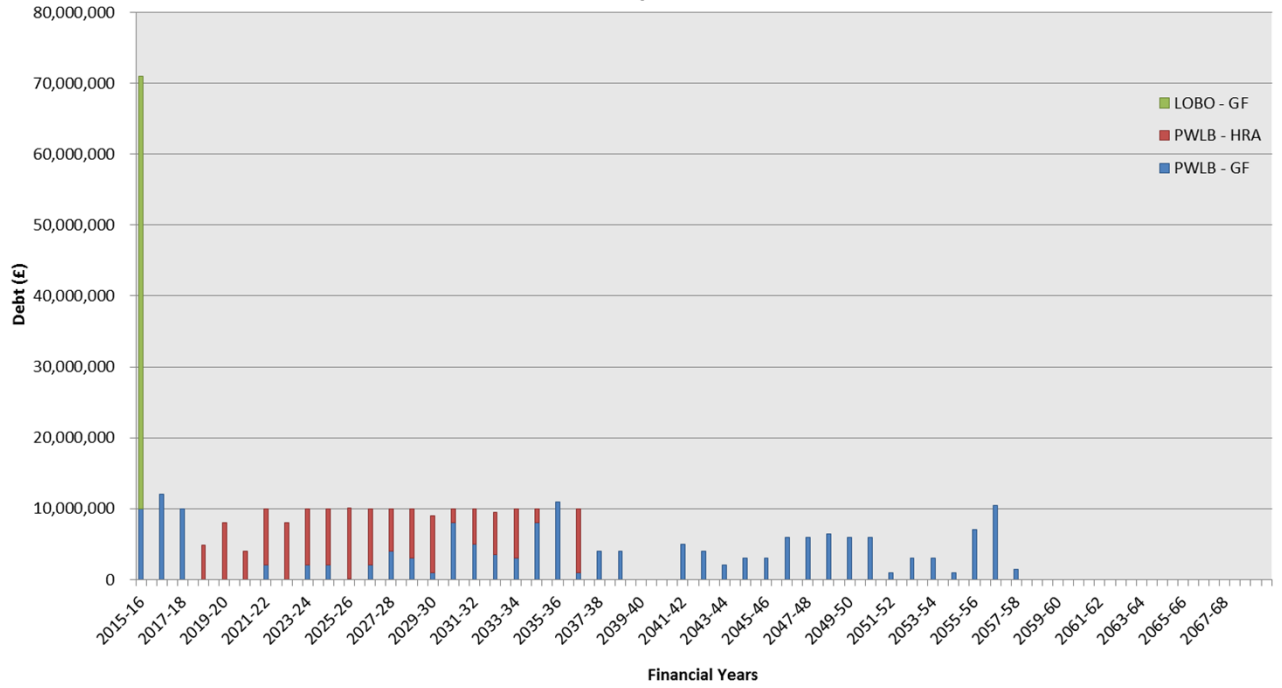
## Quarterly Report on Treasury Management Strategy - Third Quarter 2015-16 - Key Treasury (Prudential) Indicators



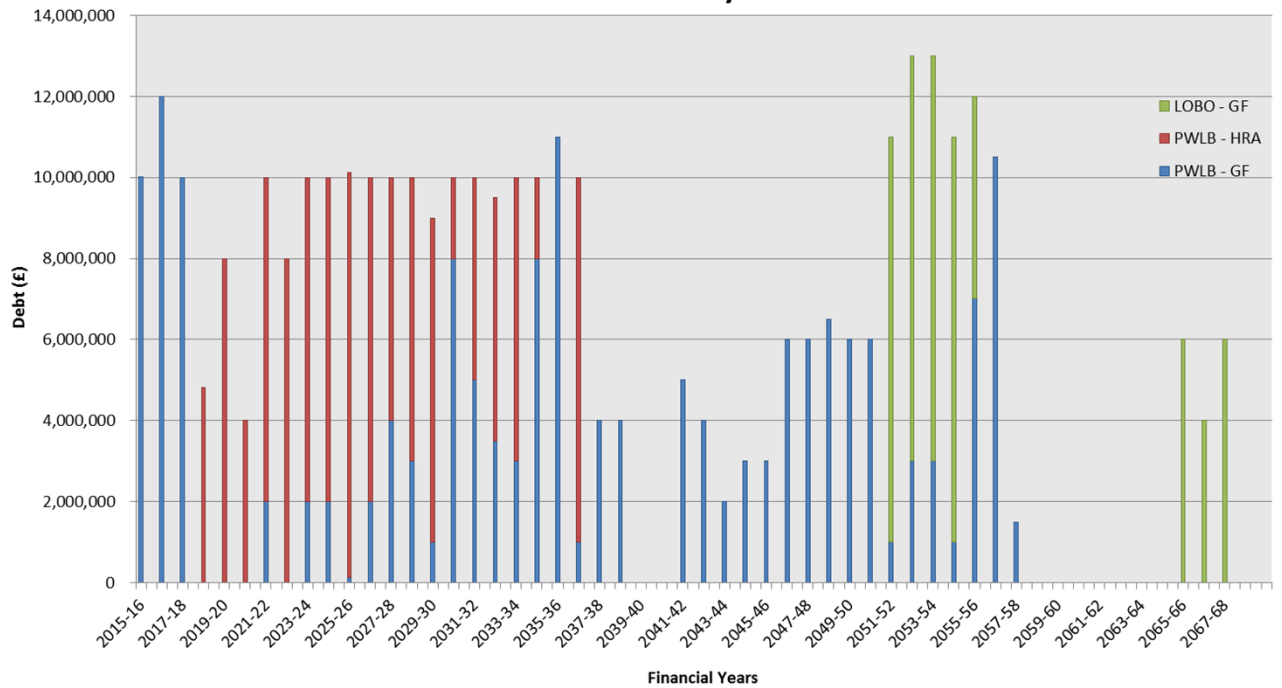
2.13 The total cost of borrowing to fund capital expenditure (General Fund and HRA) 2015-16 is currently £26.054 million per annum, made up of interest costs (£13.338) and principal charges (minimum revenue provision) (£12.716 million).

2.14 The following graphs show the period over which the current external debt matures, based on: a) the earliest repayment date (next option call date) in the case of LOBO loans (see also Appendix 2), and b) LOBO loans at their contracted maturity dates. CIPFAs Guidance Notes on Treasury Management in the Public Services recommend that the Treasury Management Strategy Reports include LOBO (Lender Option Borrower Option) loans at the earliest date on which the lender can require payment, deemed to be the next 'call date'. At that date the lender may choose to increase the interest rate and the borrower (the Council) may accept the new rate or repay the loan (under the current approved Treasury Management Strategy, the Council would repay the loan). Whether or not the lender chooses to exercise their right to alter the interest rate will depend on market conditions (interest rates). Current market conditions, where interest rates are predicted to remain low for some time, indicate that it is highly unlikely that lenders will call the loans in the immediate future. (The alternative method of determining the maturity profile of LOBO loans, based on contracted maturity dates, is used in the 2014-15 year end outturn).

### Wiltshire Council Maturity Profile of Debt at 31 December 2015 - LOBO at Next Call Option Dates



### Wiltshire Council Maturity Profile of Debt at 31 December 2015 - LOBO at Contracted Maturity Dates



## **Key Treasury Management Indicators within the Treasury Management Code**

### Trl 6 – Principal Sums invested for periods of longer than 364 days

- 2.15 This Trl is now covered by the Annual Investment Strategy for 2015-16, which set a limit of £30 million. During the first nine months of 2015-16 no cost effective investments have been identified. The Authority however holds a number of money market funds and a 35 day notice deposit account, which offer relatively attractive interest rates and, in the case of money market funds, instant access for flexibility of cash management.

### Trl 7 - Local Prudential Indicator

- 2.16 In addition to the main maturity indicators it was agreed as part of the Treasury Management Strategy, approved by Council in February, that no more than 15% of long term loans should fall due for repayment within any one financial year. Applying the CIPFA recommendation, the actual maximum in any one year is currently 20.3% (£71 million) in 2015-16. This remains temporarily above the 15% and in excess of the upper limit on the maturity structure of borrowing, also, currently, 15%. However, this is not the case if the alternative (contracted maturity date) is applied. £61 million (86%) of the £71 million shown as maturing in 2015-16, by the recommended method, relates to LOBO loans. Through call options, the lender has the right to change the interest rate at various points, in which case the Council will repay the loans and consider whether it needs to refinance them. In the current interest rate climate (where interest rates are expected to remain low for some time – Capita are currently forecasting that the Bank Rate will rise in quarter 4 2016 and the Bank of England has stated that it expects to raise rates slowly) they are extremely unlikely to be called. With CPI inflation now likely to be at or near zero into early 2016, it is currently very difficult for the MPC to make a start increasing Bank Rate. A summary maturity profile is shown in Appendix 2.

## **Other Debt Management Issues**

### Debt Rescheduling

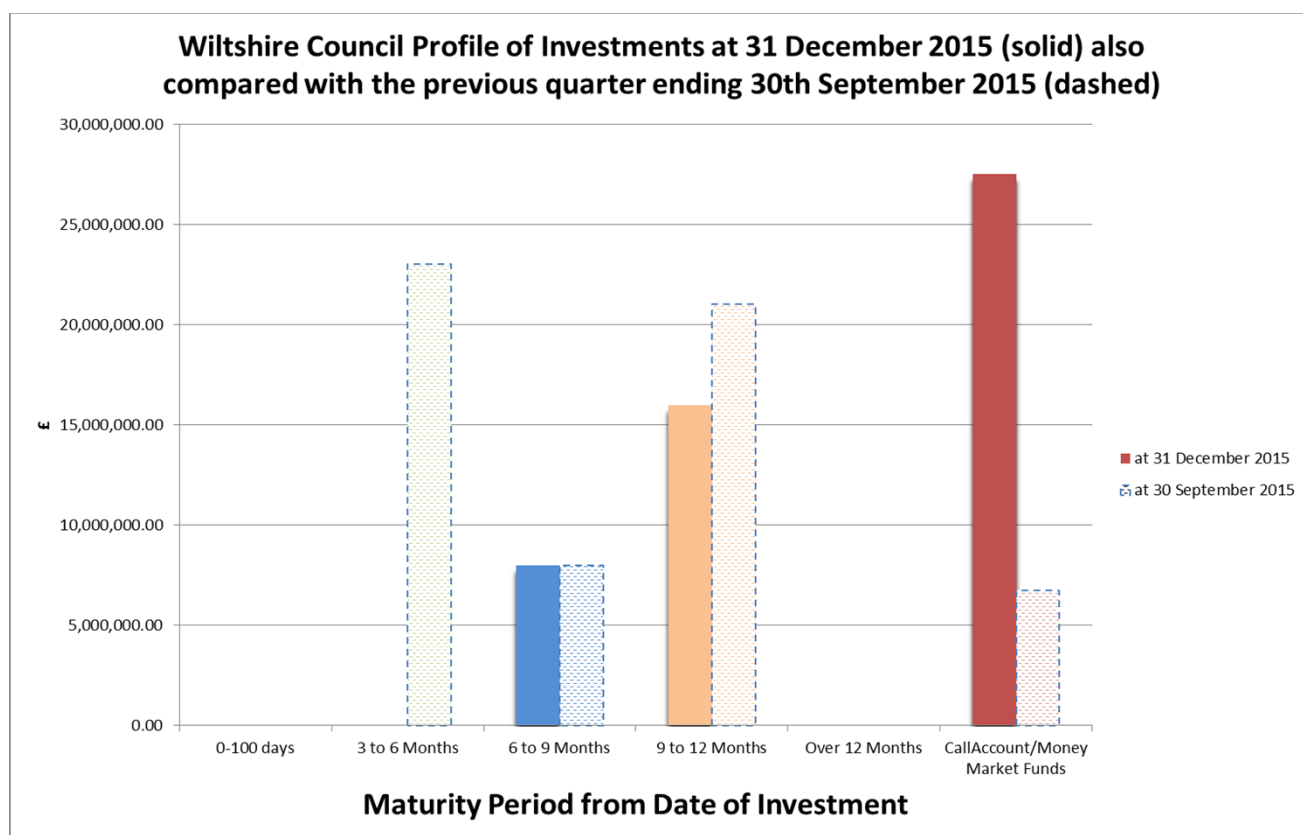
- 2.17 No opportunities to reschedule PWLB debt have been identified during the period, mainly because of the high level of premiums payable for early repayment of debt. This is continually monitored and any opportunities to reschedule cost effectively will be considered, should they arise. This is unlikely, unless the PWLB change policy regarding early repayment.

### Cash Surpluses and Deficits

#### *Short Term Surpluses and Deficits*

- 2.18 Any short term cash surpluses or deficits have been managed through temporary deposits or loans, respectively. Temporary deposits outstanding at 31 December 2015 amounted to £51.538 million, as detailed in Appendix 3. The graph below shows the maturity profile of the Council's investments at 31 December 2015 and (for comparison) at 30 September 2015. It can be seen from the graph that the investment maturity profile has changed between quarters. This reflects movements in cash flow requirements, including the reversing of timing differences relating to the receipt and payment of cash during the financial year, particularly from 'front loaded' funding received, such

as Business Rates Retention. As the financial year progresses and investments mature (i.e. become repayable), cash is required to meet the Council's payment commitments. The cash position is monitored day by day to ensure an appropriate level of cash is maintained and the increase in the funds placed in (instant access) money market funds reflects the requirement for liquidity to meet upcoming obligations.



### *Icelandic Banks*

2.19 Based on current indications, once legal proceedings have been concluded in respect of the LBI loan relating to Heritable Bank (indications are that this will take around 12 months to be concluded), the Council should receive the remainder of the accepted claim outstanding.

### *Longer Term Cash Balances*

2.20 Interest rate movements in the period have not provided many opportunities for an increased return by longer term investment of the more permanent cash surpluses, such as reserves and balances. However, the availability of any appropriate longer term investment opportunities is continually monitored, such as "special tranche rates" that are offered by 'Government backed' banks. The rates available from these types of investments will now be reduced as Lloyds are and RBS will no longer be partially Government owned, as the Government's programme of the sale of shares in the banks progresses. This has already led to a change in the credit rating level of Lloyds and, consequently, the recommended duration for deposits, thus affecting the interest rate available to the Council.

2.21 Rates remain low and no rise in Bank Rate is expected (Capita forecast) until the fourth quarter of 2016, which is, therefore, reflected in rates available,



including the “special tranche rate” investments. Details of investments outstanding are shown in Appendix 3.

### **Review of Investment Strategy**

2.22 The Treasury Management Strategy Statement (TMSS) for 2015-16, which includes the Annual Investment Strategy, was approved by the Council on 24 February 2015. It sets out the Council’s investment priorities as being:

- a) Security of capital;
- b) Liquidity; and
- c) Yield.

2.23 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs but also to seek out value available in higher rates in periods up to 12 months with highly credit rated financial institutions, using Capita Treasury Solution’s suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita.

2.24 All investments have been conducted within the agreed Annual Investment Strategy and made only to authorised lenders within the Council’s high credit quality policy.

2.25 Credit ratings are incorporated within the approved Investment Strategy as detailed within the Treasury Management Strategy 2015-16 and the current ratings have been shown against the deposits outstanding in Appendix 3.

### **3. Safeguarding Implications**

3.1 None have been identified as arising directly from this report.

### **4. Public Health Implications**

4.1 None have been identified as arising directly from this report.

### **5. Corporate Procurement Implications**

5.1 None have been identified as arising directly from this report.

### **6. Equalities Impact of the Proposal**

6.1 None have been identified as arising directly from this report.

### **7. Environmental and Climate Change Considerations**

7.1 None have been identified as arising directly from this report.

### **8. Risks Assessment and Financial Implications**

- 8.1 All investment has been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.827%, which compares favourably with similar rates of other UK local authorities
- 8.2 The primary treasury management risks to which the Council is exposed are adverse movements in interest rates and the credit risk of counterparties.
- 8.3 Investment counterparty<sup>1</sup> risk is controlled by assessing and monitoring the credit risk of borrowers as authorised by the Annual Investment Strategy.

## **9. Legal Implications**

- 9.1 None have been identified as arising directly from this report.

## **10. Options Considered**

- 10.1 The availability of any longer term investment opportunities, such as those offered by "special tranche rates", is continually monitored.
- 10.2 Also any options available to provide savings from rescheduling long term borrowing are continually assessed in liaison with our treasury advisers.

## **11. Conclusion**

- 11.1 Cabinet is asked to note the report.

Michael Hudson  
Associate Director, Finance, Revenues & Benefits and Pensions

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## **Background Papers**

The following unpublished documents have been relied on in the preparation of this Report: NONE

## **Appendices**

- Appendix 1 Prudential and Treasury Indicators for 2015-16, 2016-17 & 2017-18  
Appendix 2 Summary of Long Term Borrowing 1 April 2015 – 31 December 2015  
Appendix 3 Summary of Temporary Loans and Deposits 1 April 2015 – 31 December 2015

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<sup>1</sup> A Counterparty is a term most commonly used in the financial services industry to describe a legal entity, unincorporated entity or collection of entities (e.g. lender/borrower) to which an exposure to financial risk might exist.

**Prudential and Treasury Indicators for 2015-16, 2016-17 & 2017-18****Prudential Indicators****Prl 1 – Capital Expenditure**

1. The table below shows the revised figures for capital expenditure based on the current capital approved budget.

	<b>2014-15 Actual Outturn</b>	<b>2015-16 Original Estimate</b>	<b>2015-16 Revised Estimate</b>	<b>2015-16 Actual To date 31/12/15</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
General Fund	89.8	131.7	110.5	56.0
HRA	8.8	15.3	12.2	7.7

2. The (revised) estimate and actual to date for 2015-16 has been amended to reflect the most up to date capital budget and expenditure position.
3. The Capital Programme is monitored closely throughout the year and progress on the programme is reported to the Cabinet Capital Asset Committee (CCAC). The Month 9 2015-2016 report (as at 31 December 2015) was taken to Cabinet on 9<sup>th</sup> February.

**Prl 2 – Ratio of Financing Costs to Net Revenue Stream**

	<b>2014-15 Actual Outturn</b>	<b>2015-16 Original Estimate</b>	<b>2015-16 Revised Estimate</b>
General Fund	6.3%	7.3%	7.1%
Housing Revenue Account	14.8%	14.6%	14.7%

The General Fund revised estimate for 2015-16 is higher than the year end 2014-15 figure mainly due to the decrease in the net budget requirement. At the same time expected financing costs have increased very slightly, mainly principal charges.

**Prl 3 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax**

4. This indicator is only relevant at budget setting time and for 2015-16 was calculated as being £-17.98.

**Prudential and Treasury Indicators for 2015-16, 2016-17 & 2017-18**

Prl 4 – Gross Borrowing compared to Capital Financing Requirement (CFR)

	<b>2014-15 Actual Outturn £ million</b>	<b>2015-16 Original Estimate £ million</b>	<b>2015-16 Revised Estimate £ million</b>
CFR – General Fund	369.1	416.2	413.8
CFR – HRA	122.6	122.6	122.6
Gross Borrowing – General Fund	233.1	289.1	280.1
Gross Borrowing – HRA	118.8	118.8	118.8
<b>CFR not funded by gross borrowing – General Fund</b>	<b>136.0</b>	<b>127.1</b>	<b>133.7</b>
<b>CFR not funded by gross borrowing – HRA</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>

5. Prl 4 measures the so called “Golden Rule” which ensures that over the medium term net borrowing is only for capital purposes.
6. CFR not funded by gross borrowing represents capital expenditure met by internal borrowing, i.e. funded from the Council’s own funds, such as reserves and balances and working capital (an accounting term for the difference, at a point in time, between what the Council owes and what is owed to it).
7. Internal borrowing is cheaper than external borrowing, however, the ability to borrow internally will depend upon the sufficiency of reserves, balances and working capital. The sufficiency needs to be monitored and projections carried out to indicate where any adverse movements are expected, that could jeopardise the Council’s cash flow position, making it necessary to replace internal borrowing with external borrowing.
8. There is no significant change in the 2015-16 revised estimate compared to the original estimate.
9. The revised estimate for General Fund CFR and gross borrowing is based on the 2015-16 Capital Programme, which includes all of the 2014-15 slippage. The Capital Programme is being reviewed by CLT and will include a review of 2014-15 slippage. The borrowing position may, therefore, be subject to change.

Prl 5 – Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services

10. All actions have been compliant with the CIPFA Code of Practice.

**Prudential and Treasury Indicators for 2015-16, 2016-17 & 2017-18**

**Treasury Management Indicators within the Prudential Code**

11. The Operational Boundary and Authorised Limit, as approved by Council in February as part of the Treasury Management Strategy, detailed below, are control limits and do not compare with actual borrowing figures as capital funding requirements are not automatically taken as loans and may be funded from cash balances.

Trl 1 – Authorised Limit for External Debt

<b>Authorised Limit</b>	<b>2015-16 £ million</b>	<b>2016-17 £ million</b>	<b>2017-18 £ million</b>
Borrowing – General Fund	448.2	488.7	492.5
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
<b>TOTAL</b>	<b>571.6</b>	<b>612.1</b>	<b>615.9</b>

12. The External Debt Limit includes a margin above the Operational Boundary to allow for any unusual or unpredicted cash movements. The limit has not been exceeded in the reporting period.

Trl 2 – Operational Boundary for External Debt

<b>Operational Boundary</b>	<b>2015-16 £ million</b>	<b>2016-17 £ million</b>	<b>2017-18 £ million</b>
Borrowing – General Fund	437.2	476.7	480.5
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
<b>TOTAL</b>	<b>560.6</b>	<b>600.1</b>	<b>603.9</b>

13. The Operational Boundary is set at a limit that facilitates the funding of the Council's entire financing requirement through loans, if this was the most cost effective approach. The limit was set to anticipate expected expenditure and has not been exceeded during the reporting period (maximum borrowing during the period was £352.1 million).

Trl 3 – External Debt

	<b>31/03/15 Actual £ million</b>	<b>31/12/15 Actual £ million</b>	<b>31/03/16 Expected £ million</b>
Borrowing – General Fund	233.1	231.1	280.1
Borrowing – HRA	118.8	118.8	118.8
<b>Total Borrowing</b>	<b>351.9</b>	<b>349.9</b>	<b>398.9</b>
Other Long Term Liabilities	0.2	0.2	0.2
<b>TOTAL</b>	<b>352.1</b>	<b>350.1</b>	<b>399.1</b>

**Prudential and Treasury Indicators for 2015-16, 2016-17 & 2017-18**

14. Trl 3 shows the gross External Debt outstanding, both long-term loans and temporary borrowing. A £2 million General Fund PWLB loan was repaid, on maturity, in June 2015. This has resulted in a reduction in actual borrowing, the repayment being contained within the Councils cash flow, through a reduction in investments rather than refinancing. The figure for actual borrowing at 31 March 2015 is stated at the amount that reflects actual outstanding external borrowing at the end of 2014-15 (i.e. excluding accounting adjustments, such as accrued interest and effective interest rate adjustments).

**Treasury Management Indicators within the Treasury Management Code**

Trl 4a – Upper Limit on Fixed Interest Rate Exposures

**The Council's upper limit for fixed interest rate exposure for the period 2015-16 to 2017-18 is 100% of net outstanding principal sums.**

Trl 4b – Upper Limit on Variable Interest Rate Exposures

**The Council's upper limit for variable interest rate exposure is 47% for 2015-16, 52% for 2016-17 and 54% for 2017-18 of net outstanding principal sums.**

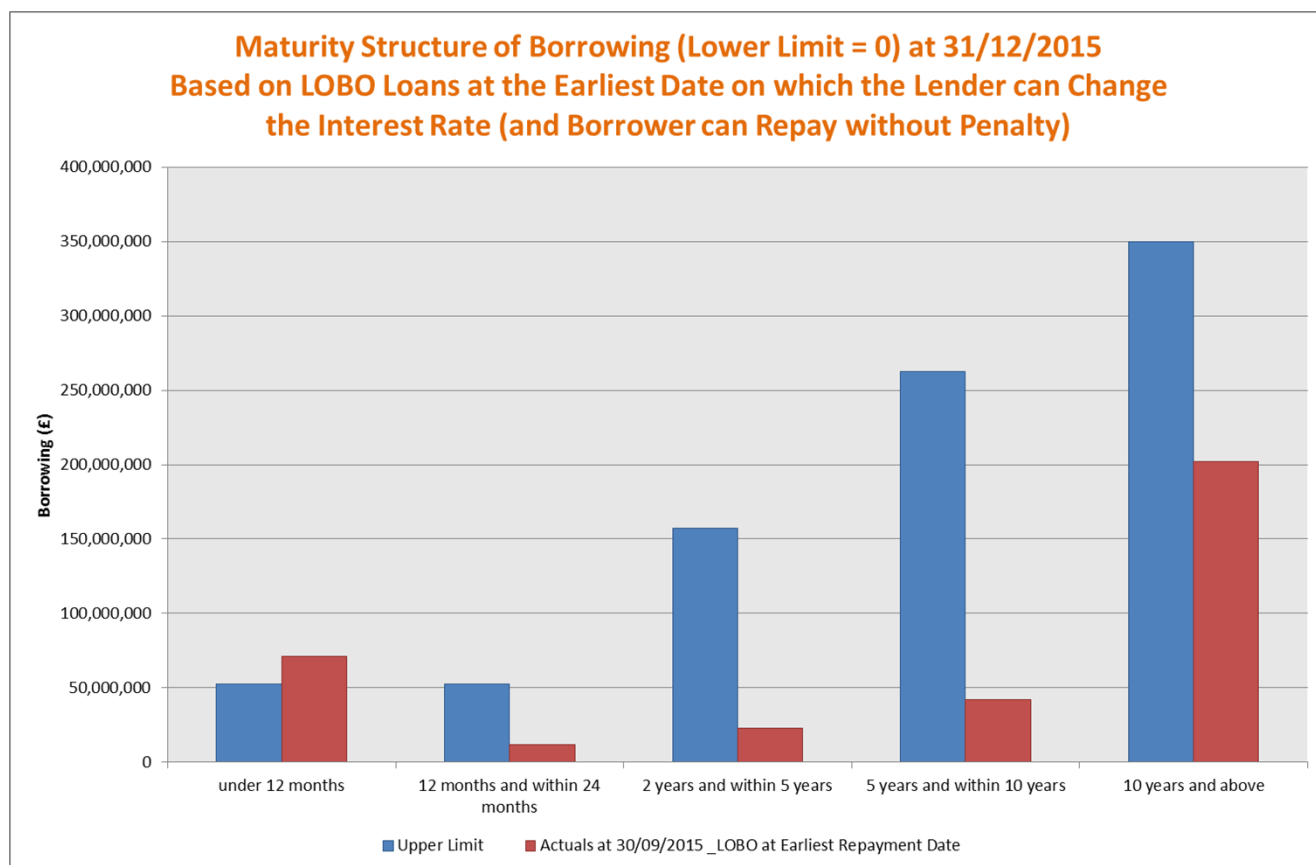
15. Options for borrowing during the period were considered, however, (mainly) due to the premium that would be incurred on the early repayment of debt and the desire to maintain the Council's relatively low average borrowing rate, no new borrowing was taken.

Trl 5 – Upper & Lower Limits on the Maturity Structure of Borrowing

<b>Limits on the Maturity Structure of Borrowing</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Position at 31/12/15</b>
Maturing Period:			
- under 12 months	15%	0%	20%
- 12 months and within 24 months	15%	0%	3%
- 2 years and within 5 years	45%	0%	7%
- 5 years and within 10 years	75%	0%	12%
- 10 years and above	100%	0%	58%

16. The table above and the following graph show that the actual maturity structure is within the agreed limits, except for the under 12 months category where the position at 31 December 2015 remains temporarily above the upper limit. This is mainly due to the effect of the required treatment of LOBO loans (please refer to Trl 7 below – paragraph 19).

**Prudential and Treasury Indicators for 2015-16, 2016-17 & 2017-18**



17. No long term borrowing has been taken during the period. If interest rates are favourable and an opportunity exists to take further borrowing this year we will look to match borrowing with this maturity structure.

Trl 6 – Principal Sums invested for periods of longer than 364 days

18. This Prl is now covered by the Annual Investment Strategy for 2015-16, which set a limit of £30 million, as approved by Council in February as part of the Treasury Management Strategy. During the first nine months of 2015-16 no cost effective investments have been identified. The Authority however holds a number of money market funds and a 35 day notice deposit account, which offer competitive interest rates and, in the case of money market funds, instant access for flexibility of cash management.

Trl 7 - Local Prudential Indicator

19. In addition to the main maturity indicators it was agreed in the approved Treasury Management Strategy that no more than 15% of long term loans should fall due for repayment within any one financial year. Applying the CIPFA recommendation, for the treasury report, the actual maximum in any one year is currently 20.3% (£71 million) in 2015-16. This remains temporarily above the 15% and in excess of the upper limit on the maturity structure of borrowing. However, this is not the case if the alternative (contracted maturity date) is applied. £61 million (86%) of the £71 million shown as maturing in

**Prudential and Treasury Indicators for 2015-16, 2016-17 & 2017-18**

2015-16, by the recommended method, relates to LOBO loans. Through call options, the lender has the right to change the interest rate at various points, in which case the Council will repay the loans and consider whether it needs to refinance them. In the current interest rate climate (where interest rates are expected to remain low for some time – Capita are currently forecasting that the Bank Rate will rise in quarter 4 2016 and the Bank of England has stated that it expects to raise rates slowly) they are extremely unlikely to be called. With CPI inflation now likely to be at or near zero into early 2016, it is currently very difficult for the MPC to make a start increasing Bank Rate. A summary maturity profile is shown in Appendix 2.



**SUMMARY OF LONG TERM BORROWING 1 APRIL 2015 – 31 DECEMBER 2015**

**Loans Raised During the Period**

Date Raised	Lender	Amount (£m)	Type	Interest rate (%)	Maturity date	No. of years
No Loans were raised during the period						
	<b>Total</b>	0.000				

Average period to maturity (years) 0.00

Average interest rate (%) 0.00

\* Loans taken to restructure \*\* Loans taken for purchases instead of leasing

**Maturity Profile at 31 December 2015**

Year	PWLB	Amount (£m)				% age		Average rate (%)	
		Market Loans (LOBO)		Total		Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity
		Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity				
(A)	(B)	(C)	(A)+(B)	(A)+(C)					
1 to 5 years	44.816	61.000	-	105.816	44.816	30.2	12.8	3.873	3.194
6 to 15 years	91.123	-	-	91.123	91.123	26.0	26.0	3.139	3.139
16 to 25 years	78.500	-	-	78.500	78.500	22.4	22.4	3.928	3.928
26 to 50 years	74.500	-	45.000	74.500	119.500	21.3	34.1	4.497	4.460
Over 50 years	-	-	16.000	-	16.000	-	4.6	-	4.298
<b>Totals</b>	288.939	61.000	61.000	349.939	349.939	100.0	100.0	3.827	3.827

Average period to maturity (years) 15.21 22.40

**Market (LOBO) Loans:** The table above includes the maturity profiles using both the earliest date on which the lender can require payment and the contracted maturity dates. Please refer to paragraph 2.14 of the main report for the current guidance on determining the maturity profile of LOBO loans.

**SUMMARY OF TEMPORARY LOANS AND DEPOSITS 1 APRIL 2015 – 31 DECEMBER 2015**

Deposits Outstanding at 31 December 2015

Borrower	Amount £m	Terms	Interest Rate	Capita Credit Rating at 31/12/2015
National Bank of Abu Dhabi	8.000	Fixed to 31-Mar-16	0.80	Orange - 12 Months
Landesbank Baden Wuerttbg	8.000	Fixed to 12-Apr-16	0.80	Red - 6 Months
DBS Bank Ltd.	8.000	Fixed to 05-Feb-16	0.65	Orange - 12 Months
Svenska Handelsbanken	0.017	No fixed maturity date	0.50	Orange - 12 Months
BlackRock Money Market Fund	8.601	No fixed maturity date	0.45	AAA
J P Morgan Money Market Fund	0.002	No fixed maturity date	0.42	AAA
Prime Rate Money Market Fund	14.909	No fixed maturity date	0.48	AAA
Goldman Sachs	0.000	No fixed maturity date	0.44	AAA
Standard Life Investments Liquid	3.986	No fixed maturity date	0.49	AAA
Landsbanki (Escrow Account)	0.024	Est Recoverable Amount	4.60	N/A
<b>Total</b>	<b>51.538</b>			

The credit rating of Landesbank Baden Wuerttemberg (LBW) has changed since the date of the investment. This has resulted in the reduction of the suggested duration in respect of the counterparty. When the deposit was placed the suggested duration was 12 months. The deposit with LBW, using the Capita credit list, still has a suggested duration of 6 months, however, the counterparty has been removed from the Council's credit list as the Fitch short term rating has been reduced from F1+ to F1 and is now below the additional criteria for foreign counterparties required by the current Treasury Strategy (i.e. at least F1+). No further funds will be deposited with LBW while the minimum requirements remain below those within the Treasury Strategy.

Investments held have decreased by £7.229 million between the end of September 2015, as reported in the previous quarterly report, and the end of December 2015. This is because of movements in cash flows, including (reversing) timing differences in the receipt and payment of cash (e.g. decreased receipts/increased payments, particularly those associated with the funding arrangements for Business Rates Retention). The cash position is constantly reviewed to ensure that the Council maintains an appropriate level for cash flow purposes. The timing differences will be reduced as the financial year progresses.

	Year Ended 31/03/2015 £m	Quarter Ended 30/06/2015 £m	Change from Year End £m	Quarter Ended 30/09/2015 £m	Change from Quarter Ended 30/06/2015 £m	Quarter Ended 31/12/2015 £m	Change from Quarter Ended 30/09/2015 £m
<b>Total Deposits Outstanding</b>	<b>42.870</b>	<b>71.050</b>	<b>28.180</b>	<b>58.767</b>	<b>-12.283</b>	<b>51.538</b>	<b>-7.229</b>