

EPHING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Finance and Performance Management Cabinet Committee **Date:** Thursday, 15 September 2016

Place: Committee Room 2, Civic Offices, High Street, Epping **Time:** 6.00 - 7.01 pm

Members Present: Councillors G Mohindra (Chairman), R Bassett, A Lion, S Stavrou and C Whitbread

Other Councillors: Councillors A Grigg

Apologies:

Officers Present: R Palmer (Director of Resources), P Maddock (Assistant Director (Accountancy)), D Bailey (Head of Transformation) and R Perrin (Democratic Services Officer)

14. Declarations of Interest

There were no declarations of interest pursuant to the Council's Code of Member Conduct.

15. Minutes

RESOLVED:

That the minutes of the meeting held on 14 July 2016 be taken as read and signed by the Chairman as a correct record.

16. Key Performance Indicators - 2016/17 Quarter 1 Performance

The Director of Resources presented a report on the Key Performance Indicators 2016/17 for Quarter 1 performance.

The Director of Resources advised that the Council was required to make arrangements to secure continuous improvement in the way in which its functions and services were exercised, whilst having regard to a combination of economy, efficiency and effectiveness. As part of the duty to secure continuous improvement, a range of Key Performance Indicators (KPI) relevant to the Council's service priorities and key objectives were adopted each year and performance against all of these KPIs was reviewed on a quarterly basis.

A set of thirty-seven Key Performance Indicators (KPI) were adopted for 2016/17 in March 2016, which had increased by one because of the waste recycled and waste composted being split into two separate indicators, to enable the performance being monitored better.

Progress in respect to all of the KPIs was reviewed by Management Board and Overview and Scrutiny at the conclusion of each quarter, and service directors reviewed KPI performance with the relevant portfolio holders on an on-going basis

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throughout the year. The Select Committees were each responsible for reviewing the quarterly performance against specific KPIs within their areas of responsibility and the position with regard to the achievement of target performance for the KPIs at the end of quarter 1 (30 June 2016), was as follows:

- (a) 25 (68%) indicators had achieved their target;
- (b) 12 (32%) indicators had not achieved their target, although 3 (8%) of the indicators had performed within the agreed tolerance for the indicator; and
- (c) 29 (78%) of indicators were currently anticipated to achieve year-end target and a further 2 (5%) were uncertain that they would achieve year-end target.

The Director of Resources advised that RES006 (Benefit changes)(days) was the only Resources KPI that had not currently achieved the quarter 1 target but that this was normally rectified throughout the year and that RES001 (Sickness absence)(days) should be reported as 'Yes' for achieving the year-end target.

Resolved:

- (1) That the Quarter 1 performance for the Key Performance Indicators adopted for 2016/17 be noted; and
- (2) That there were no Key Performance Indicators for 2016/17 identified that require in-depth scrutiny or further reporting on performance.

Reasons for Decision:

The KPIs provided an opportunity for the Council to focus attention on how specific areas for improvement would be addressed, and how opportunities would be exploited and better outcomes delivered. It was important that relevant performance management processes were in place to review and monitor performance against the key objectives, to ensure their continued achievability and relevance, and to identify proposals for appropriate corrective action in areas of slippage or under performance.

Other Options Considered and Rejected:

No other options were appropriate in this respect. Failure to review and monitor performance could mean that opportunities for improvement were lost and might of had negative implications for judgements made about the progress of the Council.

17. Consultation on Business Rates Retention

The Director of Resources presented a report regarding the consultation on Business Rates Retention, which included the draft responses of the Society of District Council Treasurers, prepared by the consultancy LG Futures.

In July 2016, the Department for Communities and Local Government (DCLG) issued a twelve week consultation entitled "Self-Sufficient Local Government: 100% Business Rates Retention" that would run up until 26 September 2016. With the introduction of business rate retention in 2013/14 and the substantial changes to the system of funding for local authorities, the significance of retained business rates within the funding structure had increased. The Government had been clear with a strong emphasis for local authorities to become self-financing and reducing their reliance on central grant funding with the ultimate aim of Government policy to introduce 100% business rates retention by the end of the parliament. This would require a completely new system of financing to be designed and implemented,

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which had been reflected in a number of the consultation questions. The system was still at the design stage and it was impossible to say if the Council would gain or lose from the system overall or that of the many alternatives contained within it.

The Director of Resources advised that the draft responses provided by Society of District Council Treasurers provided a useful background and context for any response that Members decided were appropriate to make to the consultation. The Director of Resources advised that if Members were in support of the draft responses detailed responses in consultation with the Finance Portfolio Holder would be determined.

The Cabinet Committee were in agreement that a response should be completed and raised concerns about more detailed information being required. Members were in favour of seeing growth within the District rewarded and the Council becoming financially independent.

Resolved:

- (1) That the response to the consultation be based on the Society of District Council Treasurers draft response; and
- (2) That the exact responses to each question be determined by the Director of Resources in consultation with the Finance Portfolio Holder.

Reasons for Decision:

To determine the responses to be made to the consultation.

Other Options Considered and Rejected:

Members could decide to not respond, to respond in part or to respond in full to each of the thirty six questions.

18. Annual Outturn Report on the Treasury Management and Prudential Indicators 2015/16

The Director of Resources presented the Annual Outturn Report on the Treasury Management and Prudential Indicators 2015/16.

The Director of Resources reported that the annual treasury report was a requirement of the Council's reporting procedures and covered the treasury activity for 2015/16 and the actual Prudential Indicators for 2015/16. During the year the Council had financed all of its capital activity through capital receipts, capital grants and revenue contributions. There had been no additional borrowing in the year to add to the £185.456m taken out previously through the Public Works Loan Board (PWLB) to finance the payment in relation to the self-financing of the HRA. The Council achieved its targets for the treasury and prudential indicators, which would be considered by the Audit and Governance Committee on 19 September 2016.

The Director of Resources advised that in constructing the Treasury Management Strategy Statement and Investment Strategy for 2016/17 to 2018/19, some very prudent restrictions had been applied to some classes of investments. It had become evident that these restrictions were too prudent and cause operational difficulty in managing the Council's cash flow and some minor changes had been proposed, that would ease the operational difficulties without adding significantly to the risk profile of the Council's investments. These included the following;

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1. Local Authorities as a group limit was increased from £20m to £25m;
2. Money Market Funds as a group limit increased from £15m to £20m; and
3. NatWest (the Council's banker) increased from £2.5m to £5 m.

The Council's Advisers, Airlingclose had confirmed the proposals were acceptable as long as the money was only left overnight with Natwest.

Resolved:

- (1) That the Treasury Management Outturn Report for 2015/16 be noted;
- (2) That the outturn for Prudential Indicators shown within the appendices (attached) be noted; and

Recommended:

- (3) That the proposed minor changes to the Council's Treasury Management Strategy Statement and Investment Strategy be recommended to Cabinet.

Reasons for Decision:

Any amendment to the Treasury Management Strategy Statement and Investment Strategy required approval from Cabinet and ultimately Council. The report and appendices were presented for noting.

Other Options Considered and Rejected:

Members could decide that either no amendments to the Treasury Management Strategy Statement and Investment Strategy were appropriate or that amendments different to those proposed should be made.

19. Quarterly Financial Monitoring 2016/17

The Assistant Director of Accountancy presented the first quarterly financial monitoring on key areas of income and expenditure for 2016/17, which covered the period from 1 April 2016 to 30 June 2016. The report provided details of the revenue budgets, the Continuing Services Budget and District Development Fund as well as the Capital budgets which included the Major Capital Schemes.

The Cabinet Committee were advised that income was generally up on expectations and expenditure was down. A few points were highlighted as follows, as they were of particular interest;

- The investment interest figure had been lower than budgeted because of the adjustments from the previous year and interest rates had fallen slightly. This had meant that the expected significant capital spend over the next year would have an impact on returns and was unlikely to reach the budgeted level;
- Development Control continued on the upward trend with fees and Charges being £51,000 higher than expected and pre-application charges £1,000 higher;
- Public Hire licence income and other licensing were below expectations;
- The Car Parking income was been erratic and changed monthly with current figures showing that income had exceeding expectations;
- The Bed and Breakfast placements expenditure and income was on the increase, with re-imburement by the Department of Work and Pensions being only around 50% and a similar amount funded through the General Fund, which looked

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unlikely to be sufficient even though some growth had been budgeted for 2016/17; and

- The Council had collected a total of £10,206,011 and had made payments of £8,636,746, which had meant that the Council had benefited from holding £1,569,265 of cash from the effective collection of non-domestic rates.

The Assistant Director of Accountancy advised that the car parking income had been received irregularly and this had been down to the telephone payments being delayed and received later than expected.

The Cabinet Committee commented that the income of the Fleet Operations would need to be monitored closely and that the Local Land Charge income was likely to be suffering from the competition of other providers, as this was a statutory service for the Council.

Resolved:

- (1) That the revenue and capital financial monitoring report for the first quarter of 2016/17 be noted.

Reasons for Decision:

To note the first quarter financial monitoring report for 2016/17.

Other Options Considered and Rejected:

No other options available.

20. Risk Management - Corporate Risk Register

The Director of Resources presented a report regarding the Council's Corporate Risk Register.

The Corporate Risk Register had been considered by both the Risk Management Group on 25 August 2016 and Management Board on 31 August 2016. These reviews identified the following amendments;

(a) Risk 1 - Local Plan

The existing control and effectiveness had been updated to advise of the revision of the Local Development Scheme, which had been adopted by Cabinet on 21 July 2016. A key date of 18 October 2016 had been added for Council approval of the draft plan.

(b) Risk 2 - Strategic Sites

The Effectiveness of controls/actions had been amended to advise the updated position for the key sites. Work continued to progress well at the Winston Churchill site. The purchase price for St. Johns had been agreed with Essex County Council and approval from the Secretary of State had been achieved. The contract for the Langston Road site had been awarded with work expected to commence in early September 2016. The Pyrles Lane Nursery had been added to the list of strategic sites following District Development Management Control granting consent for the redevelopment of the site and the associated required action advised that there was a need to produce a marketing strategy for the site.

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(c) Risk 5 - Economic Development

The existing control had been amended to reflect the Economic Development and Employment Policies being drafted for inclusion in the Local Plan. Amendment and update had been added as a required further management action, following consultation on the Local Plan.

(d) Risk 6 - Data/Information

An additional required further management action had been added to advise of the need to update the FOI publication scheme and guide to information.

(e) Risk 7 - Business Continuity

Following the updating of the Corporate Business Continuity Plan and a re-evaluation, it had been felt that the likelihood of disruption had reduced. To reflect this, the risk score had been amended from C2 (Medium Likelihood/Moderate Impact) to D2 (Low/Very Low Likelihood/Moderate Impact).

(f) Risk 10 - Housing Capital Finance

There was little likelihood of now having to hand back one-for-one receipts due to the effectiveness of management action, including the purchase of street properties. The risk score had therefore been reduced from B2 (High Likelihood/Moderate Impact) to C2 (Medium Likelihood/Moderate Impact).

RESOLVED:

- (1) That the Existing control, Effectiveness of control and Key Date within the Action Plan for Risk 1 be updated;
- (2) That the Effectiveness of controls/actions and Required further management action for Risk 2 be updated;
- (3) That the Existing Control and the Required further management action for Risk 5 be updated;
- (4) That an additional Required further management action for Risk 6 be added;
- (5) That the Risk Score for Risk 7 be amended;
- (6) That the Risk Score for Risk 10 be amended;

RECOMMENDED:

- (7) That the amended Corporate Risk Register be recommended to Cabinet for approval.

Reasons for Decisions:

It was essential that the Corporate Risk Register was regularly reviewed and kept up to date.

Other Options Considered and Rejected:

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Members could suggest new risks for inclusion or changes to the scoring of existing risks.

21. Annual Governance Report

The Director of Resources presented a report regarding the Annual Governance Report. The International Standard on Auditing 260 required the External Auditor to report to those charged with governance on certain matters before giving an opinion on the Statutory Statement of Accounts. The audit of the Council's Statutory Statement of Accounts for 2015/16 would be presented to the Audit and Governance Committee on 19 September 2016.

The audit report highlighted the key findings of the financial statements of the Council for the year ending 31 March 2016, and the Director of Resources advised the Cabinet Sub-Committee of the following key findings:

(a) Following a review of infrastructure and community assets, officers identified a number of assets for which the Council was no longer responsible. The assets had been written out of accounts and although officers had engaged with the auditors, they had found that no working papers had been prepared to support the initial treatment applied. The management amended the financial statements to reflect the correct treatment. The Director of Resources advised that this had been down to how it had appeared on the balance sheet and had been corrected;

(b) The related parties identified in the draft financial statements had not met the definition of such transactions as defined by accounting standards. The External Auditors identified that no formal assessment of the relationships disclosed had taken place and management had removed the incorrect disclosures from the financial statements;

(c) A tested sample of assets from the asset register revealed that the Council was unable to confirm the location of some works relating to off-street parking associated with the Council dwellings due to the time elapsed since the expenditure had incurred. The Director of Resources advised that to find the records which related to this, would be unfeasible and labour intensive and that they may not even still hold the records;

(d) There were no matters to report in relation to the annual governance statement;

(e) That they were satisfied that the Council had adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and the anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2016; and

(f) The Council was below the audit threshold for a full assurance review of the Whole of Government Accounts (WGA) and there was no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

Resolved:

(1) That the External Auditor's Annual Governance Report be noted.

Reasons for Decisions:

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To ensure that Members were informed of any significant issues arising from the audit of the Statutory Statement of Accounts.

Other Options Considered and Rejected:

The report was for noting, no specific actions were proposed.

22. Any Other Business

It was noted that there was no other urgent business for consideration by the Cabinet Sub-Committee.

23. Exclusion of Public and Press

The Cabinet Sub-Committee noted that there were no items of business on the agenda that necessitated the exclusion of the public and press from the meeting.

CHAIRMAN

Annual Treasury Outturn Report 2015/16

1. Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

The Council's Treasury Management Strategy for 2015/16 was approved by full Council on 17th February 2015 which can be accessed on :-

<http://rds.eppingforestdc.gov.uk/documents/s60735/Treasury%20Management%20Statement.pdf>

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2. External Context

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly in economies with a large trade dependency on China and also prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

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Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in significant volatility in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Local Context

At 31/03/2016 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £185m, while usable reserves and working capital which are the underlying resources supporting investments were £93m.

At 31/03/2016, the Council had £185m of borrowing and £52m of investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of £10m.

The Council has an increasing CFR over the forthcoming years due to the capital programme, but minimal investments and will therefore be required to borrow up to £16m over the forecast period. Probably from other Local Authorities.

Borrowing Strategy

At 31/03/2016 the Council held £185m of loans, as part of its strategy for funding Housing Self-Financing.

The Council's chief objective 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, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the

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proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Council determined it was more cost effective in the short-term to use internal resources instead.

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 Council with this 'cost of carry' and breakeven analysis.

Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, also remained affordable and attractive. Although the use of internal resources has meant that it has not yet been necessary to use this source of finance.

Borrowing Activity in 2015/16

	Balance on 01/04/2015 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2016 £m	Avg Rate % and Avg Life (yrs)
Capital Financing Requirement (CFR)	184.7				184.7	
Short Term Borrowing ¹	0	0	0	0	0	
Long Term Borrowing - Maturity loans - EIP loans - Annuity Loans	185.5	0	0	0	185.5	3% - 21.5 years
TOTAL BORROWING	185.5	0	0	0	185.5	
Other Long Term Liabilities	0	0	0	0	2.9 ²	
TOTAL EXTERNAL DEBT	185.5	0	0	0	188.4	
Increase/ (Decrease) in Borrowing £m					2.9	

Debt Rescheduling:

The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charged for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

¹ Loans with maturities less than 1 year.

² Notional Finance Lease associated with Loan to Waste Contractor. Accounting standards require the Council to show the substance over form of certain transactions. An asset for the Biffa Vehicles is set up in the Council's balance sheet. This entry is the corresponding liability.

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Investment Activity

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Council's investment balances have ranged between £54.4 and £72.1 million.

The Department for Communities and Local Governments Investment Guidance gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2016 £m	Avg Rate/Yield (%) and Avg Life years)
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher - Local Authorities - Unrated banks building societies	47.4	110.5	117.8	40.1	0.57% 143 days
Long term Investments - Banks and Building Societies with ratings of A+ or higher - Local Authorities	5	0	5	0	1.3% 365 days
UK Government: - DMADF - Treasury Bills - Gilts	0	0	0	0	
Money Market Funds	15	38	41.5	11.5	0.46%
TOTAL INVESTMENTS	67.4	148.5	164.3	51.6	
Increase/ (Decrease) in Investments £m				(15.8)	

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

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The Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2015	A+	5.10	AA-	3.98
30/06/2015	A+	4.53	AA-	4.09
30/09/2015	A+	5.34	AA-	4.44
31/12/2015	A+	5.19	AA-	4.34
31/03/2016	AA-	4.33	AA-	3.80

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security. NB AA- is better than A+.

Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result of this the Council made the decision to suspend Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole

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to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

National Australia Bank (NAB) announced its plans to divest Clydesdale Bank, its UK subsidiary. NAB listed Clydesdale on the London Stock Exchange and transferred ownership to NAB's shareholders. Following the demerger, Fitch and Moody's downgraded the long and short-term ratings of the bank.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In September, Volkswagen was found to have been cheating emissions tests over several years in many of their diesel vehicles. The council's treasury advisor, Arlingclose Ltd, recommended suspending VW (as a non-financial corporate bond counterparty) for new investments. As issues surrounding the scandal continued, there were credit rating downgrades across the Volkswagen group by all of the ratings agencies. Volkswagen AG is now (as at 11/04/16) rated A3, BBB+ and BBB+ by Moody's, Fitch and S&P respectively. Volkswagen International Finance N.V is rated A3 and BBB+ by Moody's and Fitch respectively and Volkswagen Financial Services N.V. is now rated A1 by Moody's. Arlingclose continues to monitor the situation.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. As part of this, Bank Nederlandse Gemeeten was moved to the list of bond issuers from the unsecured bank lending list and assigned an increased recommended duration limit of 5 years.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Council therefore increasingly favoured secured investment options or diversified alternatives such as non-bank investments and pooled funds over unsecured bank and building society deposits.

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Budgeted Income and Outturn

The average balance for investment was £59.6m during the year. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). New deposits were made at an average rate of 0.70%. Investments in Money Market Funds generated an average rate of 0.46%.

The Council's budgeted investment income for the year was £528k. The Council's investment outturn for the year was £551k.

Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2015/16, which were approved on 17th February 2015.

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount or the proportion of net principal borrowed or interest payable will be:

D = Debt I=Investment	2015/16 %	2016/17 %	2017/18 %
Upper limit on fixed interest rate exposure	100 D/100 I	100 D/100 I	100 D/100 I
Actual	83 D / 71 I		
Upper limit on variable interest rate exposure	25 D/75 I	25 D/75 I	25 D/75 I
Actual	17 D / 29 I		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

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Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual
Under 12 months	100%	0%	0%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	17%
10 years and within 20 years	100%	0%	0%
20 years and within 30 years	100%	0%	83%
30 years and within 40 years	100%	0%	0%
40 years and within 50 years	100%	0%	0%
50 years and above	100%	0%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£30m	£30m	£30m
Actual	£0m		

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit score	A-	A+

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 3 months	£20m	£38m

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Investment Training Undertaken

King and Shaxson training on new investment methods and the custody account they offer, October 2015 - one Officer.

Members Treasury Training 14th January 2016.

Changes to Treasury Management Strategy Statement and Investment Strategy for 2016/17 to 2018/19

Since the approval of the Strategy above by the Council on the 18th February 2016.

The following counter party limits require amendment.

These were prudently changed in accordance with the recommendations of Arlingclose, the Council's Treasury Advisers. But experience has shown that they are too prudent and cause operational difficulties in managing the Council's cashflow.

NatWest Limit increase from £2.5m to £5m.

Local Authorities as a Group Limit increase from £20m to £25m

Money Market Funds as a Group increase from £15m to £20m

Arlingclose have been consulted on these proposals and have confirmed that in their view the changes are acceptable as long as money is only left with NatWest on an overnight basis.

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Appendix 1

Prudential Indicators 2015/16

The Local Government Act 2003 requires the Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m
General Fund	23.488	2.071	1.151
HRA	13.811	22.003	20.176
Total Expenditure	37.299	24.074	21.327
Capital Receipts	19.046	4.537	3.212
Government Grants	3.725	0.390	0.355
Reserves	6.477	0	0
Revenue	8.051	7.912	10.305
Borrowing	0	0	0
MRA	0	11.235	7.455
Total Financing	37.299	24.074	21.327

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

Capital Financing Requirement	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	29.6	59.6	59.6
HRA	155.1	155.1	155.1
Total CFR	184.7	214.7	214.7

The CFR is forecast to rise by £30m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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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 Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Borrowing	185.456	190	200
Finance leases	0	0	0
Total Debt	185.456	190	200

Total debt is expected to fall below the CFR during the forecast period. The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	219	219	219
Total Debt	219	219	219

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	230	230	230
Total Debt	230	230	230

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
General Fund	0.51	-0.83	-1.22
HRA	16.64	15.03	14.47

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Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
General Fund - increase in annual Band D Council Tax	-0.28	0.15	-0.06
HRA - increase in average weekly rents	0.02	0.01	-16.8

Adoption of the CIPFA Treasury Management Code: The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice*, on the 22nd April 2002.

HRA Limit on Indebtedness: The Authority's HRA CFR should not exceed the limit imposed by the Department for Communities and Local Government at the time of implementation of self-financing. The Authority complied with this requirement.

HRA CFR Limit:	£185.457m		
	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m
HRA CFR	155.1	155.1	155.1
Difference	30.357	30.357	30.357

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Appendix 2

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below. Please note that the PWLB rates below are Standard Rates.

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015	0.50	0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015	0.50	0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015	0.50	0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015	0.50	0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015	0.50	0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015	0.50	0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015	0.50	0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015	0.50	0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015	0.50	0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015	0.50	0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016	0.50	0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016	0.50	0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016	0.50	0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
Average	0.50	0.38	0.45	0.43	0.54	0.76	0.99	0.96	1.14	1.43
Maximum	0.50	0.48	0.58	0.57	0.66	0.92	1.02	1.17	1.44	1.81
Minimum	0.50	0.17	0.35	0.43	0.51	0.55	0.84	0.68	0.73	0.85
Spread	--	0.31	0.23	0.14	0.15	0.37	0.18	0.49	0.71	0.96

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12
	Low	1.21	1.67	2.30	3.06	3.17	3.05	3.01
	Average	1.41	2.20	2.85	3.46	3.54	3.45	3.42
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

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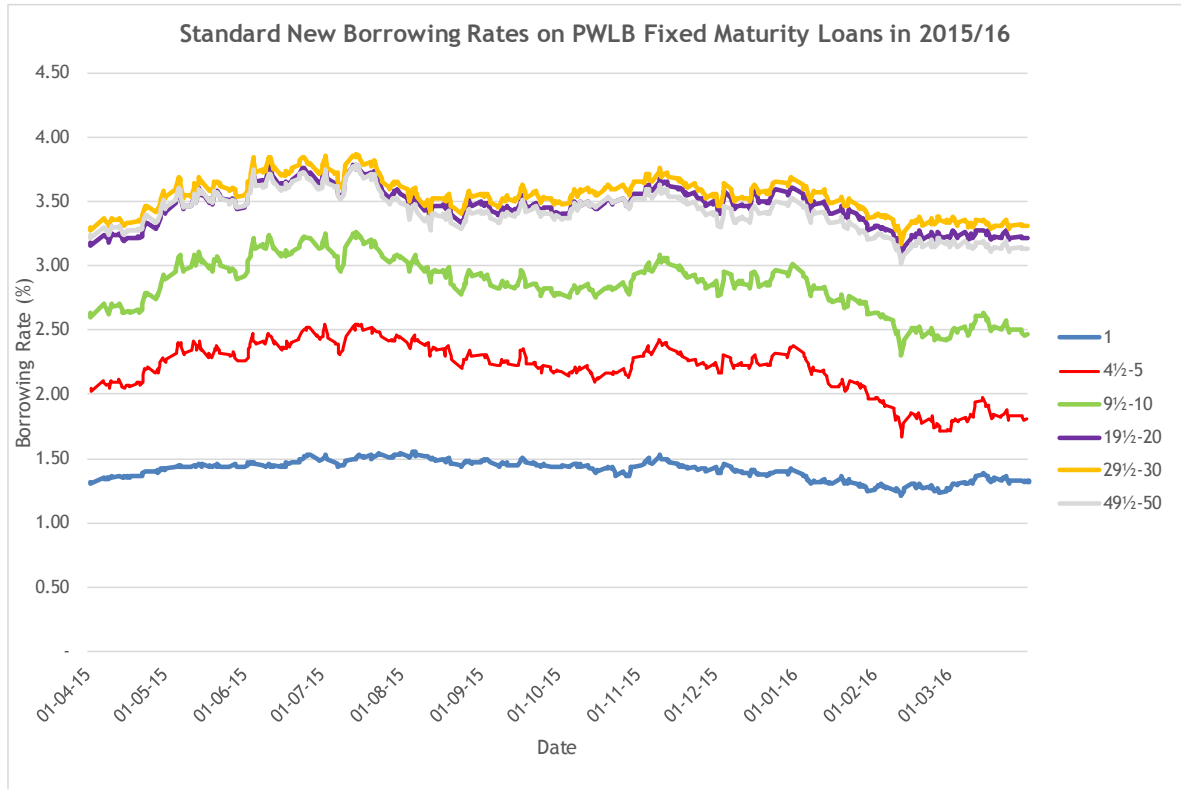


Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	Low	1.36	1.70	2.33	2.78	3.07	3.18
	Average	1.76	2.25	2.88	3.24	3.47	3.55
	High	1.99	2.60	3.28	3.61	3.79	3.87

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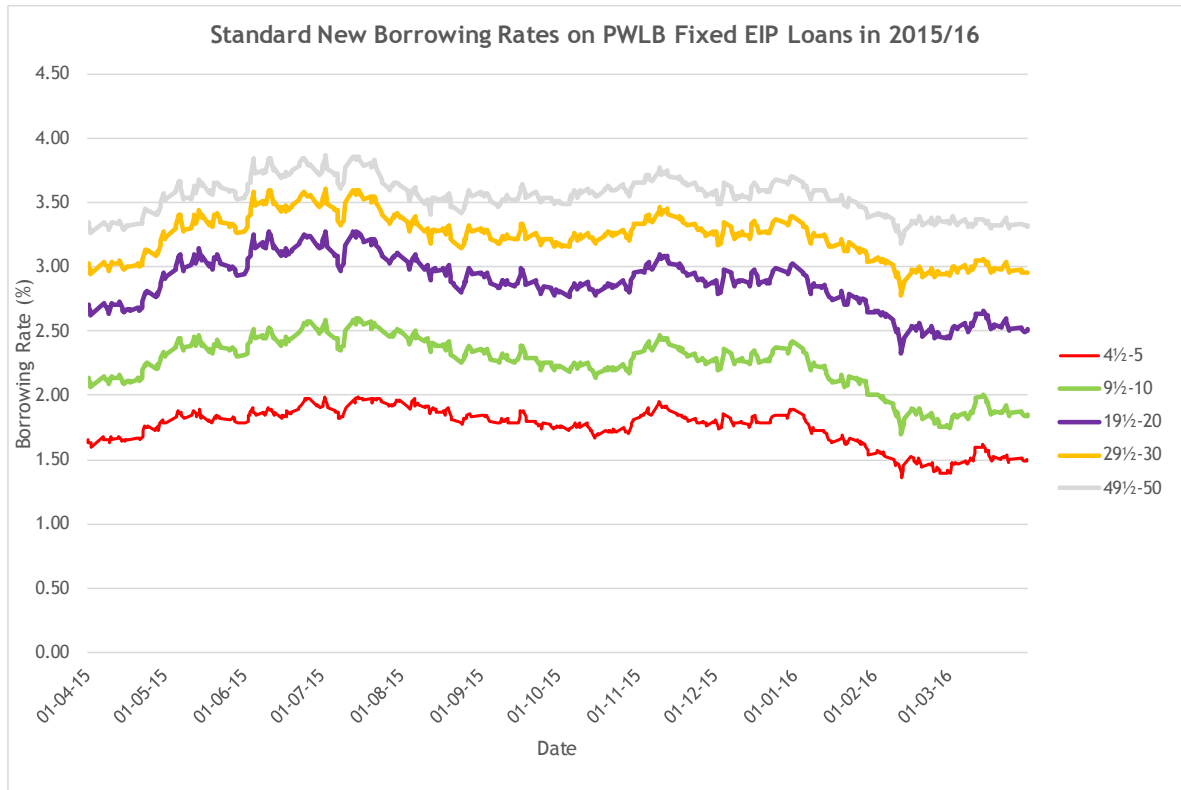


Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015	0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015	0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015	0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016	0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016	0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016	0.61	0.65	0.67	1.51	1.55	1.57
Low	0.61	0.61	0.66	1.51	1.51	1.56
Average	0.63	0.66	0.71	1.53	1.56	1.61
High	0.67	0.69	0.78	1.57	1.59	1.68

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