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REPORT TO:	**General Purposes and Audit Committee 23 September 2015**
AGENDA ITEM:	**10**
SUBJECT:	**Treasury Annual Review 2014/15**
LEAD OFFICER:	**Assistant Chief Executive** **(Corporate Resources and Section 151 Officer)**
CABINET MEMBER:	**Councillor Simon Hall,** **Cabinet Member for Finance & Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management. This report details the Council's Treasury Management activities during 2014/15 and the Council's compliance with the Prudential Code for Capital Finance.

FINANCIAL SUMMARY: This report details the Treasury Management activities in 2014/15 and demonstrates the Council's compliance with the Prudential Code.

FORWARD PLAN KEY DECISION REFERENCE NO.:

For general release

1. RECOMMENDATIONS

1.1. The Committee are asked to note the contents of this report and to:

(a) Approve the revision of the Council's minimum rating criteria for investment purposes for the reasons and as set out in paragraph 3.3.1 and as detailed in **Appendix A** of this report.

(b) Endorse the Treasury Annual Review 2014/15 and the continued implementation of the Council's Treasury Strategy 2015/16 by the Assistant Chief Executive (Corporate Resources and Section 151 Officer).

2. EXECUTIVE SUMMARY

2.1. The Council's treasury management activities for the previous year are reviewed on an annual basis to take account of changes and updates in treasury practices and to ensure that best practice is incorporated within all areas of treasury management. This report:-

- Reviews the Council's treasury management activities for the year 2014/15;
- Details those areas of activity that formed the basis of the Treasury Strategy Statement & Annual Investment Strategy 2014/15 received by Full Council on **24 February 2014 (Item 7 Minute C20140224)**; and

- Demonstrates the Council's compliance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance and adherence with the Prudential Indicators set.

3. BACKGROUND

3.1. The Council has adopted a Treasury Policy Statement, which sets out the basis on which treasury activities are to be conducted. This document is incorporated as part of the Council's Financial Regulations.

3.1.1. The Treasury Policy Statement sets out the minimum reporting requirements to Members as being the following reports:

- An annual treasury strategy report prior to the commencement of each financial year (a statutory requirement) on treasury strategy for the year ahead.
- A mid-year treasury update report.
- An annual review of the previous year's treasury activities.

3.1.2. The Council's treasury management objectives are to manage the cash flows, borrowing and investment requirements of the Authority with minimum risk and to achieve this by minimising the Council's exposure to adverse movements in interest rates whilst maximising investment yield to enhance the Council's finances.

3.1.3. The Council's treasury management activities are regulated by statute, the CIPFA Code of Practice for Treasury Management and official guidance.

3.1.4. This report presents a review of 2014/15's activities based on the following:-

- The Economy and Interest Rates;
- Lending;
- Performance Targets;
- Borrowing;
- Compliance with Prudential Indicators; and
- Repayment of Debt and Debt Rescheduling.

3.1.5. A glossary of the terms and abbreviations used in this report is attached at **Appendix E.**

3.2. The Economy and Interest Rates

3.2.1. The original market expectation at the beginning of 2014/15 was for the first increase in the Bank Rate to occur in quarter 1 of 2015 as the unemployment rate had fallen much faster than signalled by the Bank of England's initial forward guidance target of 7%. However, in May 2014 the Bank revised its forward guidance as a result of a combination of very weak pay rises and inflation being above the rate of pay rises. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand.

3.2.2. In the second half of 2014, financial markets were caught out by a slump in oil prices and the removal of the peg between the Swiss franc and the euro. Fears also increased that the European Central Bank (ECB) was not doing enough to ward off the threat of deflation and recession in the European Union (EU).

3.2.3. By the end of 2014, it was clear that inflation in the UK was heading towards zero and that it could possibly even turn negative in early 2015. With inflation this low, the Bank of

England's (BOE) Monetary Policy Committee (MPC) would have great difficulty in justifying a rise in the Bank rate in 2015 and so market expectations for the first increase in the Bank rate receded back to around quarter 3 of 2016.

3.2.4. Gilt prices were on a falling trend for most of 2014/15. Increasing fears that Greece could be heading for an exit from the euro after the anti-austerity party won the country's January election and the European Central Bank's (ECB) announcement that it would embark on a major programme of quantitative easing helped put further downward pressure on gilt yields.

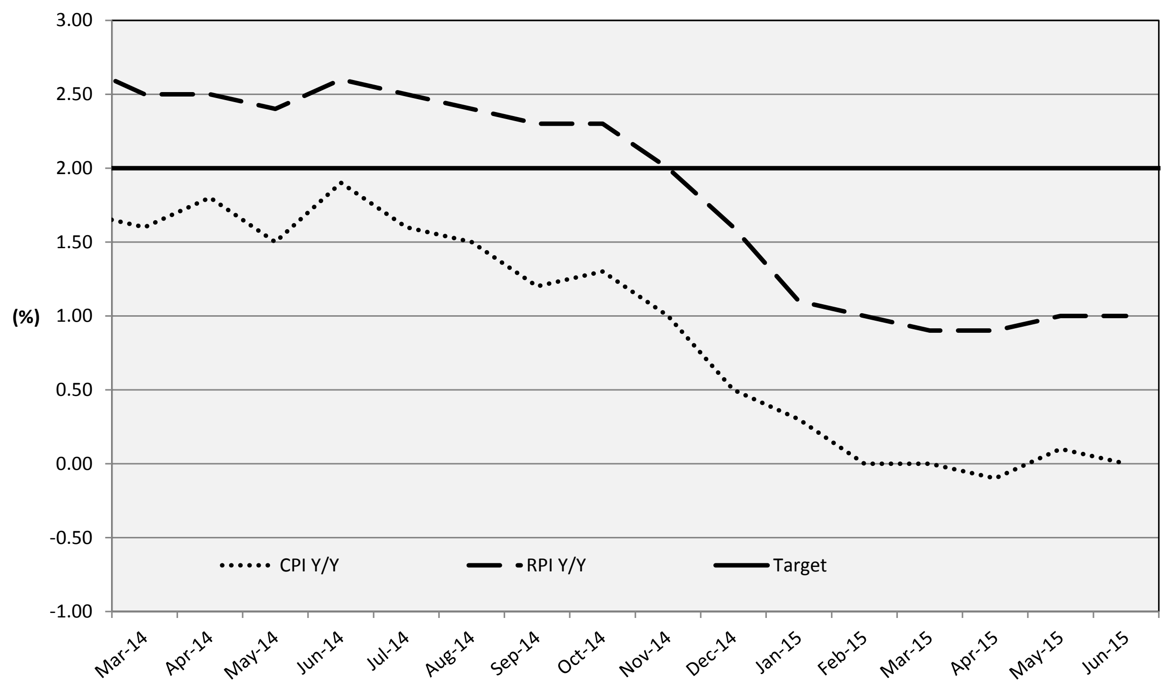
3.2.5. The UK's Coalition Government maintained its tight fiscal policy stance and recent strong economic growth has led to a cumulative reduction in the forecasts for total Government borrowing.

3.2.6. The Government's 'Funding for Lending Scheme', announced in July 2012, resulted in a flood of cheap credit being made available to banks and this has resulted in money market rates falling sharply in the second half of that year and continuing throughout 2014/15.

3.2.7. In the US, strong growth caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015.

3.2.8. Inflation has been a major concern for the BOE's MPC. The Consumer Price Index (CPI) is a key measure of the general level of price changes for consumer goods and services but excludes most owner / occupier housing costs such as council tax, dwelling insurance, rents, depreciation and the like. The Bank of England has set a target for the twelve month increase in the CPI of 2%. In the latter half of 2014, CPI fell from 1.0% in November 2014 to 0.5% in December 2014, the lowest level since 2000, on the back of a slump in oil prices and stable household energy prices. CPI Inflation fell further in early 2015 to 0.3% in January before ending the financial year at zero. A graph depicting UK inflation from March 2014 to June 2015 is detailed below. Retail Price Index (RPI) is a measure of inflation and represents the change in the prices of goods and services bought for the purpose of consumption in the UK.

<u>UK Inflation April 2014 to June 2015</u>



3.2.9 The current Bank Rate of 0.5% has been in force since 5 March 2009 and is the lowest that it has been since the inception of the Bank of England (BOE). With inflation heading towards negative territory in 2014/15, the BOE's Monetary Policy Committee showed a consolidation of support for holding off any increase in the Bank Rate. The UK's quantitative easing (asset purchase) programme remained unchanged at £375bn.

3.3. Lending

3.3.1. The Council's investment policy is governed by the Communities and Local Government Office (CLG) guidance which was implemented by the 2014/15 investment strategy approved by Full Council on **24 February 2014 (Item 7 Minute C20140224)**. It had been drawn up to provide maximum security for the Council's funds. As set out in the strategy, the criteria for the investment of the Council's surplus funds are based on formal credit ratings issued by the FITCH International Rating Agency and supplemented by additional market data such as rating outlooks, credit default swaps and bank share prices. The prime aim is to obtain capital security and then to secure the best rate of return. In addition to the FITCH rated institutions, all UK local authorities, and some public bodies comprise the Council's Approved Lending List. The rating criteria for approved counterparties was as follows:

Lending List Criteria

List	Credit Ratings Criteria
A	**FITCH rating in each of the following categories:-** F1+ on Short Term AA or above Long Term aa- or above Viability Rating 1 for Support Rating AA+ or above Sovereign Rating
B	**FITCH Rating in each of the following categories:-** F1+ on Short Term AA- or above on Long Term a+ or above Viability Rating 1 for Support Rating AA+ or above Sovereign Rating
	Approved Organisations that meet the credit ratings set out above. All Non-UK Banks that meet the FITCH ratings set out above All UK Building Societies that meet the FITCH ratings set out above UK Banks that meet the FITCH ratings set out above **Approved Organisations not meeting the above credit ratings** Part Nationalised UK Banks All UK Local Authorities AAA rated Money Market Funds Debt Management Office

The Council's 2015/16 treasury strategy, approved by Full Council on **23 February 2015 (Item8 Minute C20150223)** approved the use of the same set of credit ratings for 2015/16. However, the report also detailed that new regulatory changes were due in early 2015 which could see the implied sovereign support levels being removed by rating agencies and this in turn could impact the other ratings of an institution. These changes have now taken place resulting in the sovereign support ratings being withdrawn by the Standard & Poor's and Moody's rating agencies. The FITCH rating agency, to which the Council and Capita adheres, still assesses the sovereign ratings although the importance of this rating is now diluted. This has resulted in a reduction in the support rating for the majority of the institutions on the Council's authorised lending list. With regards to AAA rated Money Market Funds (MMFs) used by the Council for liquidity purposes, traditionally only MMFs rated AAA by all three ratings agencies were included on the Council's authorised lending list. The trend now is that with the high costs involved in securing and maintaining ratings, most MMFs are choosing to be rated by only 2 rating agencies and this includes some of the MMFs previously used by the Council. The criteria used by AAA rated MMFs for investment purposes and the diversification of the institutions invested in still retains the same stringent analysis for all three rating agencies. It is recommended therefore, that for MMFs, a AAA rating by at least two rating agencies one of whom must be FITCH will serve as the minimum criteria required for inclusion onto the authorised lending list. The Council's revised Lending List Criteria and the authorised list of counterparties as at **30 July 2015,** which incorporates the new ratings, is detailed in **Appendix A.**

3.3.2. The principle of obtaining capital security and then of securing the best rate of return underpins all treasury investment decisions. The market that exists to support local authorities understands this and has evolved to develop products to match these requirements. Without in any way compromising the commitment to these principles the treasury team has begun a process of engagement to explore the merits and associated risks of alternatives to plain time- and call-deposits that match their security characteristics. There is a growing concern that a reducing pool of quality counter-parties, such as banks, is increasing the level of risk for the Authority and one possible response to this might be to develop the number of high-grade deposit takers, to increase diversification of investments and thereby reduce the overall concentration of risk of default.

3.3.3. The financial year 2014/15 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

3.3.4. Investment activity in 2014/15 conformed to the approved strategy and the Council experienced no liquidity issues in the year with an average monthly balance of **£135.695m** being maintained in temporary investments during the year. Part of this sum is made up of core balances such as provisions and reserves set aside and cash balances that can if necessary be invested for longer periods to take advantage of favourable interest rates and to hedge against future rate movements.

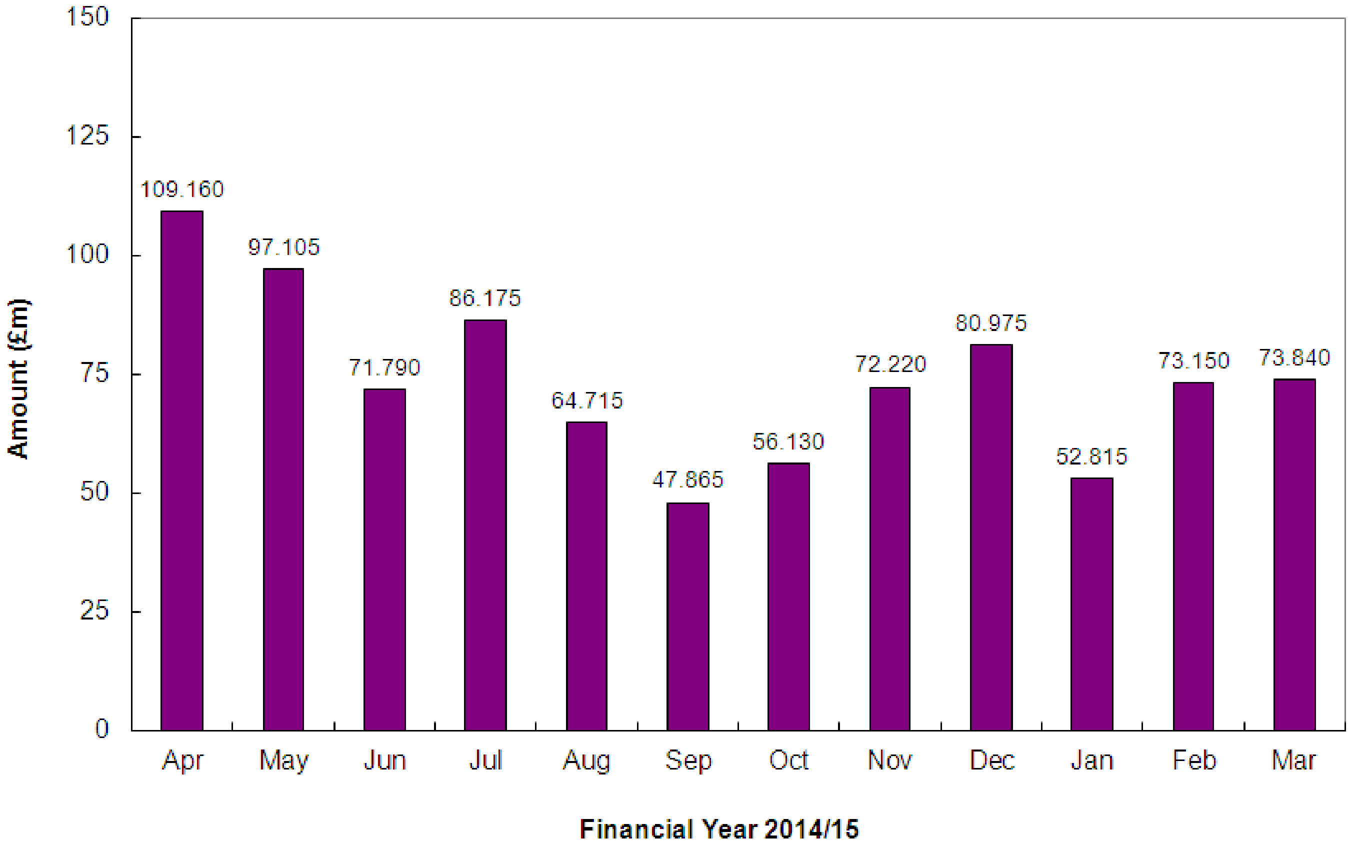
3.3.5. Available funds were invested for differing periods, to match anticipated movements in the Council's daily cash flows commensurate with achieving best value and based on forecasts of interest rate trends. The primary aim is to ensure the capital security of the Council's investments and then to secure the best rate of return.

3.3.6. Investment of the Council's cash balances is governed by the Guidance on Local Government Investments which has been issued by the Communities and Local Government Office.

3.3.7. The guidance requires certain investment policy parameters to be set within the annual Treasury Management Investment Strategy approved by Council. Investment activity during the year conformed to this approved strategy and sufficient liquidity was maintained for the Council's cash flow requirements.

3.3.8. For the year April 2014 to March 2015, deposits totalling £885.940m were invested at an average investment rate of 0.45% compared to the benchmark rate of 0.36% for the year. During the year the Council maintained an average monthly balance of £135.695m and the investments outstanding at 31st March 2015 were £101.065m. These were invested as follows: UK banks £85.0m; UK local authorities £10.0m and AAA rated Money Market Funds £6.065m.

Investments made in 2014/15



3.3.9. In placing these deposits, the treasury team will speak to a number of money brokers and institutions to secure the best deals. The bulk of these deals were made directly with the deposit taking bank or Debt Management Office (DMO) or placed with one of the AAA rated Money Market Funds.

3.3.10. In 2014/15, the Council invested £20m in the Real Lettings Property Fund Limited Partnership. This property fund, which has a 7-year life, offers investors the opportunity to invest in a diversified portfolio of London residential property and aims to deliver a minimum return of 5% per annum based on the letting of the properties on 5-year lease terms. For Croydon, this investment will also provide added benefit in that the properties purchased would offer affordable accommodation for former homeless people or those at risk of homelessness, who cannot access social housing. Returns generated by the investment will serve to boost the Council's overall income in the future.

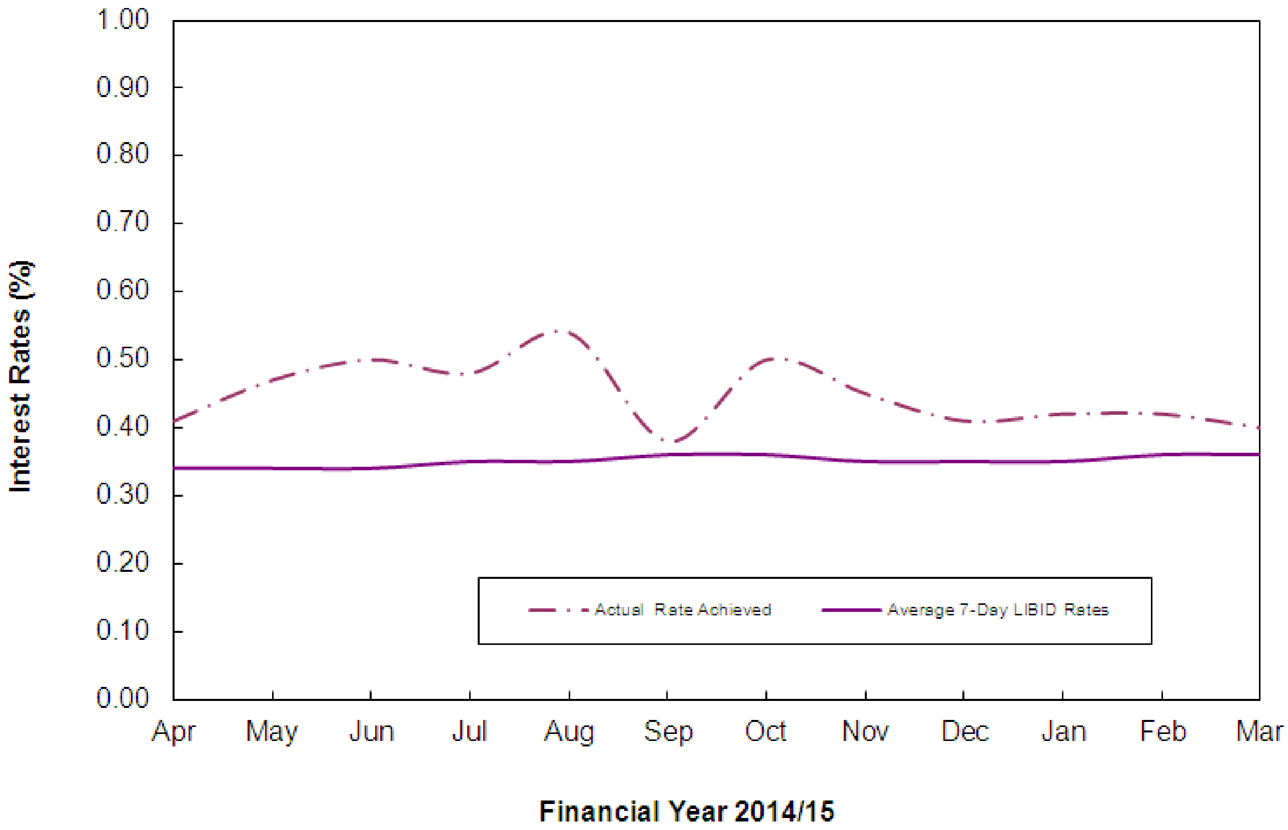
3.4 Performance Targets

3.4.1 The gross investment income earned by the Council for the financial year 2014/15 was £1.0m. This sum included interest accrued on investments made in 2013/14 that matured in 2014/15, representing an overall return of 0.67% for the financial year. This higher investment return was achieved as a result of higher deposit rates being paid by the part-nationalised banks on investments fixed in 2013/14. Of the investment income generated, £0.145m related to interest accrued on monies invested on behalf of the Housing Revenue Account (HRA) and other miscellaneous funds. The balance of £0.855m was credited to the General Fund.

3.4.2 The average 7-day London Interbank Bid (LIBID) can be used as a benchmark against which investment returns can be measured. This is generally accepted as a reasonable proxy for cash. Investments were restricted to the duration limits recommended by the Council's Treasury Advisers, Capita Asset Services and only made with institutions on the Council's authorised lending list.

3.4.3 The graph below details the rate of investment returns achieved on investments made each month in 2014/15 compared to the benchmark average 7-day LIBID rate for the month.

Actual investment rates achieved compared to the average 7-Day LIBID rates 2014/15



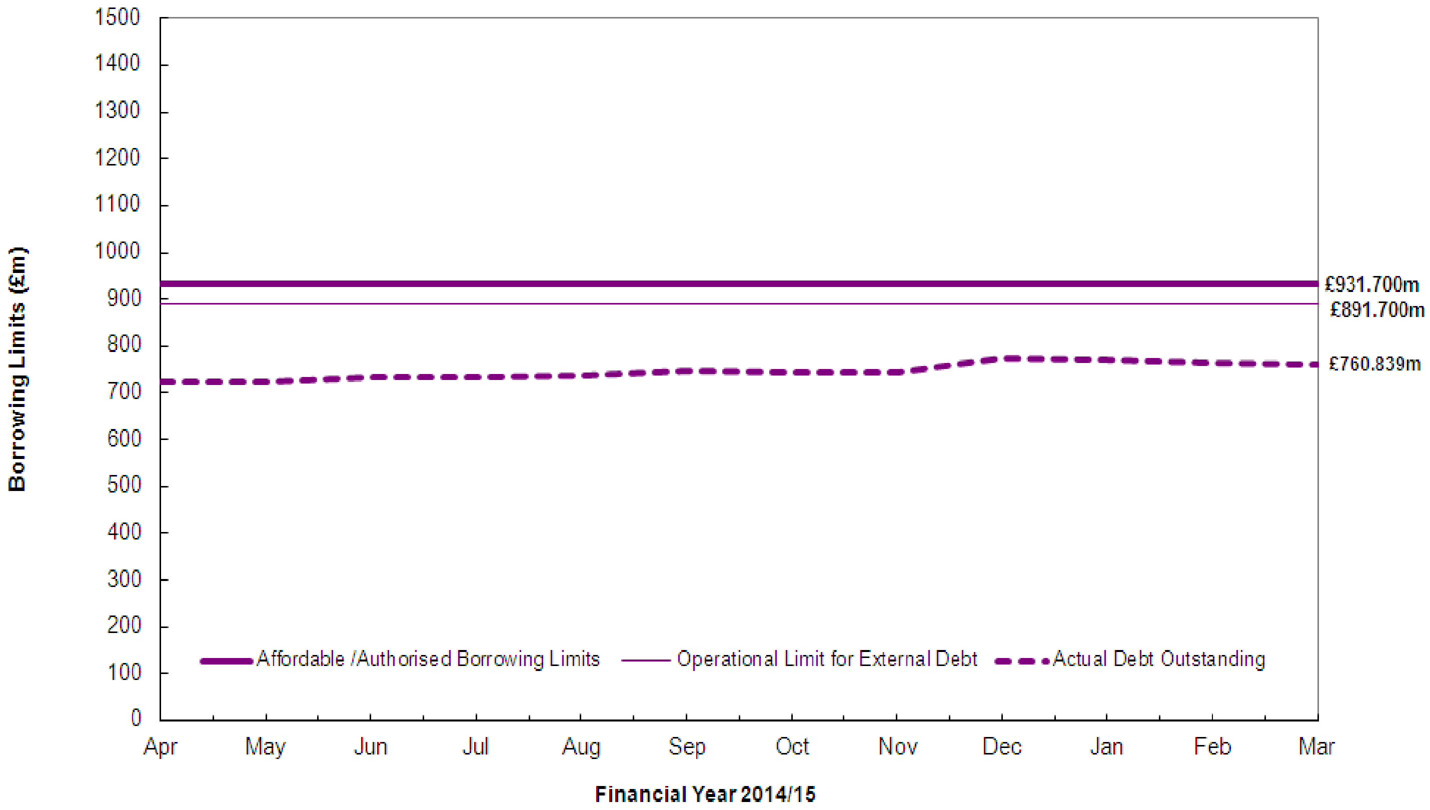
3.5 Borrowing

3.5.1 The Council set borrowing limits that were approved by Full Council on 24 February 2014 for the year 2014/15 as part of the legislative constraints specified in Section 3 of the Local Government Act 2003 which requires the Council to determine and keep under review how much it can afford to borrow. These sums were:

Operational Limit for External Debt	£891.7m
Affordable Borrowing Limit	£931.7m
Authorised Borrowing Limit	£931.7m

3.5.2 The chart below shows the actual debt in 2014/15 in comparison to the above borrowing limits.

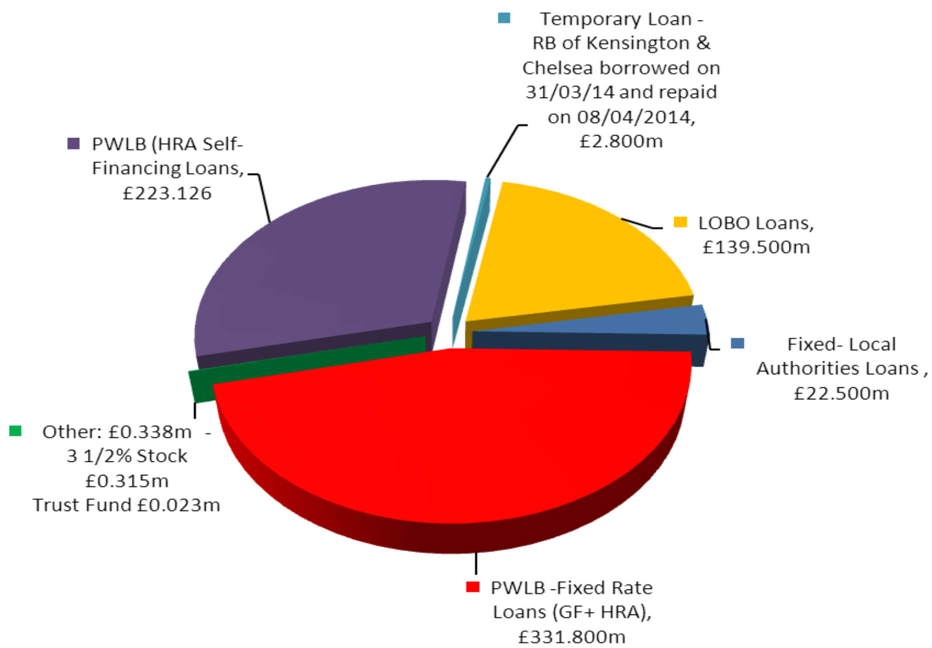
Actual Debt in 2014/15 in comparison to the Operational, Affordable and Authorised Borrowing Limits for the year



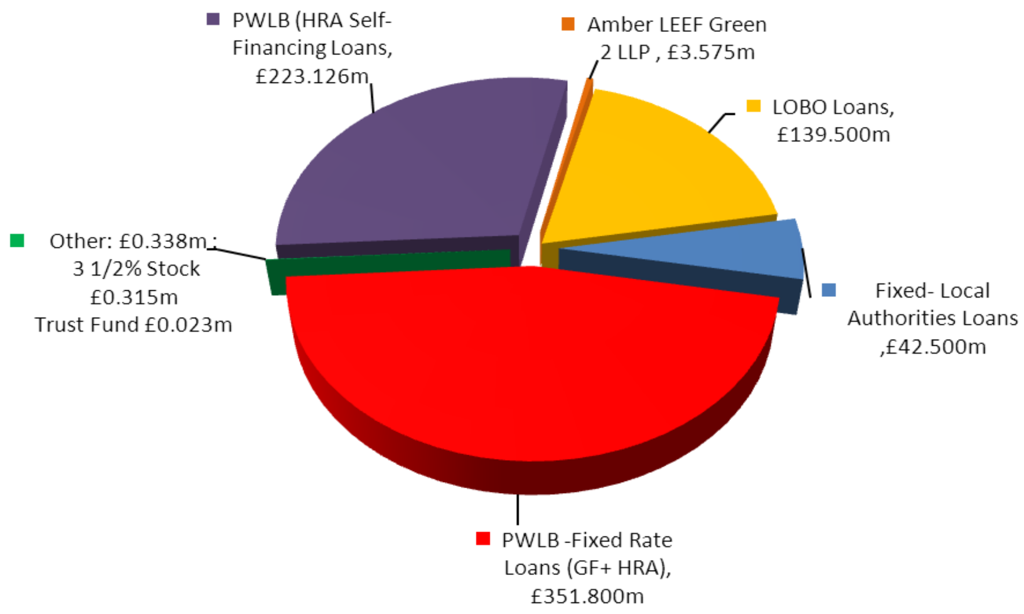
3.5.3 The Authorised Limit sets the maximum amount that the Council can borrow for capital and revenue purposes. This ceiling was not exceeded and the Council's overall borrowing as at 31 March 2015 stood at £760.839m. The Operational Limit was also observed.

The Council's external debt profiles at 31st March 2014 and 31st March 2015 are detailed graphically as follows:

External Debt as at 1 April 2014 (£720.064m)



External Debt as at 31 March 2015 (£760.839m)



3.5.4 In 2014/15, the Council took up £43.574m of new borrowing at an overall average interest rate of 2.14%. These interest rate levels are very low and unprecedented, representing real savings in the Authority's cost of borrowing. Of the £43.574m borrowed, £3.574m was taken up as a maturity loan from Amber Green LEEF 2 LLP to fund energy efficiency and carbon reduction schemes within the Capital Programme. This loan is for 9 years at 1.80% - the comparable Public Works Loan Board (PWLB) loan interest rate on the day that this loan was first agreed was 3.55%. In April 2014 the Council negotiated a £5.0m loan with Cornwall Council at an interest rate of 2.0%, the loan was for 4 ½ years maturing on 24 October 2018; a further £10m was also taken up from London Borough of Bromley at an interest rate of 1.50% over three years with a further £5m being borrowed from the London Borough of Merton over 2 years at the rate of 1.09%.

3.5.5 The Government's 2012 budget introduced a 20 basis points discount on loans from the PWLB for those authorities providing improved information and transparency on their locally determined long-term borrowing and associated capital spending plans. This special rate was termed the 'certainty rate'. The Council applied to HM Treasury to be eligible for this rate to finance its prudential borrowing and also to refinance maturing long term debt over the next three financial years. The application was successful and the Authority took up two new £10m maturity loans from the PWLB at this lower rate in 2014/15; the first over 10 ½ years at 2.77% and the second over 11 ½ years at 2.85%. The 'certainty rate' facility remains in place for future borrowing.

3.5.6 **Appendix B** displays the movements in the PWLB interest rates for the 10-year, 25-year and 50-year loan periods during 2014/15.

3.5.7 In a separate development, as was previously disclosed to Members in past treasury reports, the European Investment Bank (EIB) contacted the Council directly to arrange a £102m loan facility to fund aspects of the Council's Education Capital Strategy over the next few years. Negotiations have now concluded and the contract between both parties was signed on 22 July 2015. This facility will offer cheaper alternative sources of long term funding generating substantial savings of interest payable on the Authority's overall debt in the future.

3.5.8 The Council's treasury strategy for 2014/15 was approved by Full Council on 24 February 2014 (Minute Item 7 C20140224). Within the report were detailed the different borrowing strategies available, of which temporary borrowing and borrowing from other local authorities were options. With UK local authorities struggling to identify approved counterparties to invest in and with low rates being achieved as a result of this risk-adverse approach, the markets have recently become active in local authority to local authority lending. Loans obtainable are for periods up to 5 years at interest rates well below the PWLB's certainty rate. Borrowing undertaken for up to 364 days is termed temporary borrowing and this form of borrowing is also being offered by other local authorities, currently at 0.60%. Temporary borrowing can be used for cash flow purposes pending a more advantageous time to borrow long term. To maximise savings on the interest payable on the Council's external debt, the Treasury Section has in 2014/15 utilised a combination of temporary borrowing, local authority borrowing for up to 5 years, PWLB borrowing for longer periods and the loan facilities provided by Amber Green LEEF 2LLP as detailed in 3.5.4 as well as utilising internal cash balances whenever possible.

3.5.9 The interest rate payable on the Council's long term fixed rate debt has remained consistently below the average of all non-debt free London Boroughs. This has been independently verified by CIPFA and is detailed below.

Interest rate payable on long term fixed rate external debt

	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015
	%	%	%	%	%	%	%	%	%	%
Croydon	5.11	4.64	4.77	4.60	4.42	4.32	4.36	4.06	3.97	3.84
London Boroughs (Average)	6.73	5.66	5.90	5.82	5.65	5.11	4.39	4.55	4.53	4.51

The above data is attached as a chart in **Appendix C**.

3.6 **Compliance with Prudential Indicators**

3.6.1 The Prudential Code for Capital Finance in Local Authorities serves as a professional code of practice to support local authorities in complying with Part 1 of the Local Government Act 2003. The Code required the continual monitoring of the Prudential Indicators set by the Council.

3.6.2 The purpose of the Prudential Indicators set is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.

3.6.3 The Prudential Indicators set by this Authority for 2014/15 and the actual outturn figures are detailed in **Appendix D.**

3.7 **Repayment of Debt and Debt Rescheduling**

3.7.1 In 2014/15, as a result of both the high premiums attached to the premature repayment of debt and the PWLB's introduction of separate interest rates applicable for borrowing and repayment, there were minimal opportunities for the rescheduling of the Council's long term debt and therefore none was undertaken.

3.7.2 The borrowing strategy adopted in 2014/15 ensures that debt will mature over a spread of future years so as to avoid 'clustering' and thus exposure to any future in-year events.

4 CONSULTATION

4.1 Full consultation has taken place with the Council's Treasury Management advisers, Capita Asset Services in the preparation of this report.

5. FINANCIAL CONSIDERATIONS

5.1 Revenue and Capital consequences of this report are dealt within this report. There are no additional financial considerations other than those identified in this report.

The effect of the decision

5.2 Approval of this report will endorse the continued implementation of the Council's Treasury Management Strategy by the Assistant Chief Executive (Corporate Resources and Section 151 Officer).

Risks

5.3 There are no further risks issues other than those already detailed in this report**.**

Options

5.4 These are fully dealt with in this report

Savings/ future efficiencies

5.5 This report sets out the treasury activities in 2014/15 and demonstrates the Council's compliance with the Prudential Code and the limits set in both the Code and the Treasury Strategy Statement and the Annual Investment Strategy 2014/15 report presented to Members on **24 February 2014 (Minute Item 7 C20140224)**.

Approved by: Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer)

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Council Solicitor comments that there are no additional legal considerations arising from this report.

(Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer).

7. HUMAN RESOURCES IMPACT

7.1 There are no immediate Human Resources considerations that arise from the recommendations of this report for London Borough of Croydon staff.

Approved by: Michael Pichamuthu, HRBP, on behalf of Heather Daley, Director of Human Resources.

8. CUSTOMER IMPACT

8.1 There are no Customer impacts arising from this report.

9. EQUALITIES IMPACT ASSESSMENT (EIA)

9.1 Consistent with the requirements of equal opportunities legislation including the Disability Equality Duty, the Council carries out an equality impact assessment on new policies, or existing policies which are the subject of major change.

9.2 The Council's Capital and Revenue Budget 2014/15 is not subject to an equality impact assessment. However, in those areas where the setting of the capital and revenue budget result in new policies or policy change, then it is the responsibility of the relevant service department to carry out an equality impact assessment which evaluates how the new or changed policy will impact on disadvantaged sections of the community, including disabled people. The impact assessment includes consultation with disabled people and user-led disabled people organisations.

10. ENVIRONMENT AND DESIGN IMPACT

10.1 There are no Environment and Design impacts arising from this report.

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no Crime and Disorder reduction impacts arising from this report.

12. HUMAN RIGHTS IMPACT

12.1 There are no Human Rights impacts arising from this report.

13. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

13.1 There are no specific Data Protection or Freedom of Information considerations arising from this report.

CONTACT OFFICER:	Derick Fernandes, Treasury Manager Ext. 62526
BACKGROUND DOCUMENTS:	None

LONDON BOROUGH OF CROYDON
Authorised Lending List Criteria as at 31 July 2015 (Criteria as per FITCH)

Lending List Criteria

List	Credit Ratings Criteria
A	**FITCH rating in each of the following categories:-** F1+ on Short Term AA or above Long Term aa- or above Viability Rating 5 or lower for Support Rating AA+ or above Sovereign Rating
B	**FITCH Rating in each of the following categories:-** F1+ on Short Term AA- or above on Long Term a+ or above Viability Rating 5 or lower for Support Rating AA+ or above Sovereign Rating
	Approved Organisations that meet the credit ratings set out above. All Non-UK Banks that meet the FITCH ratings set out above All UK Building Societies that meet the FITCH ratings set out above UK Banks that meet the FITCH ratings set out above **Approved Organisations not meeting the above credit ratings** Part Nationalised UK Banks All UK Local Authorities AAA rated Money Market Funds – as rated by FITCH & one other rating agency. Debt Management Office

LONDON BOROUGH OF CROYDON
Authorised Lending List as at 31 July 2015 (Criteria as per FITCH)

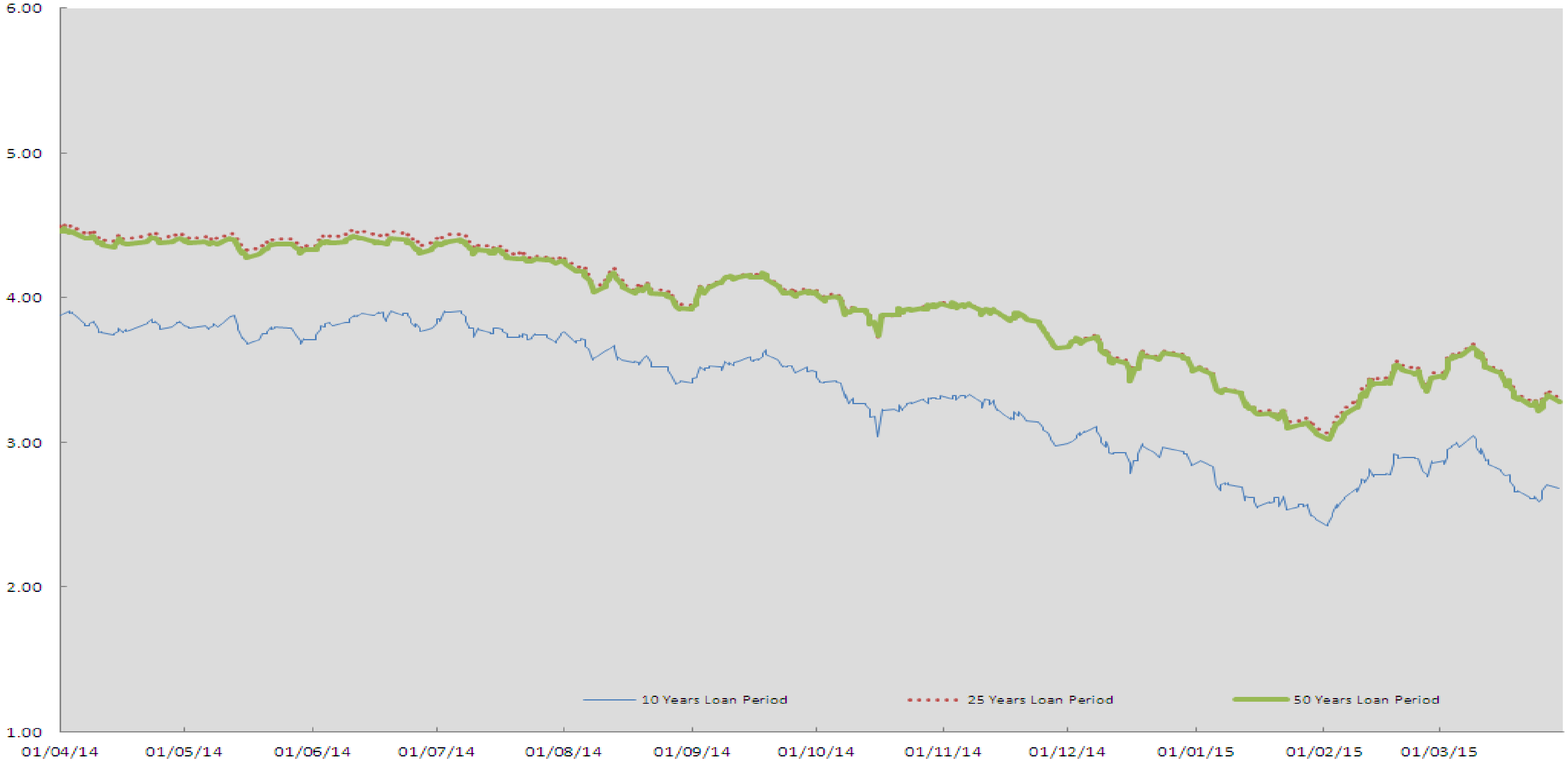
LIST A

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Royal Bank Of Canada **(Canada)**	20,000,000	AA	F1+	aa	2	AAA
Scottish Widows Money Market Fund	15,000,000	AAA				
Goldman Sachs Money Market Fund	15,000,000	AAA				
JP Morgan Money Market Fund	15,000,000	AAA				
Morgan Stanley Money Market Fund	15,000,000	AAA				
Royal Bank of Scotland Plc **(Part Nationalised) (UK)**	25,000,000	BBB+	F2	bbb+	5	AA+
Debt Management Account **(UK Government Body)**	No Limits					

LIST B

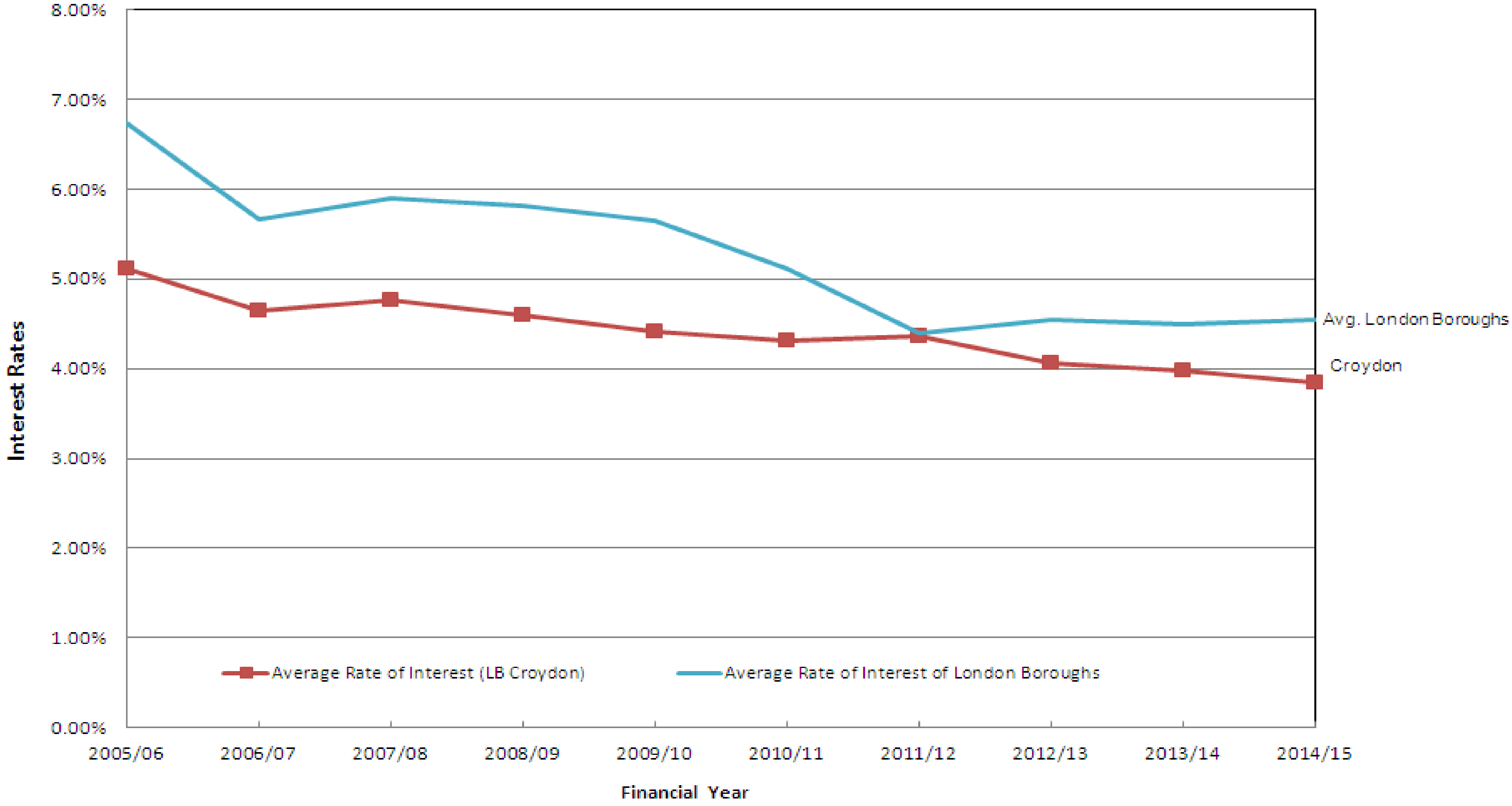
Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Australia & New Zealand Banking Group **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Montreal **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Bank Of Nova Scotia **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Canadian Imperial Bank Of Commerce **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Commonwealth Bank Of Australia **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
DBS Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
HSBC Bank Plc **(UK)**	10,000,000	AA-	F1+	a+	1	AA+
National Australia Bank **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Overseas Chinese Banking Corporation Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Standard Chartered PLC **(UK)**	10,000,000	AA-	F1+	aa-	5	AA+
Svenska Handelsbanken AB **(Sweden)**	10,000,000	AA-	F1+	aa-	2	AAA
Toronto-Dominion Bank **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
United Overseas Bank Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Westpac Banking Corporation **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
All UK Local Authorities	10,000000					

PWLB Interest rates for the 10 year, 25 year and 50 year loan periods in 2014/15



Appendix B

London Borough of Croydon - Average Rate of Long Term Fixed Rate Debt 2005/06 – Present



Appendix C

Appendix D

PRUDENTIAL INDICATORS FOR 2014/15

		2014/15	2014/15	Notes
	PRUDENTIAL INDICATORS	**Budget** **£'000**	**Actual** **£'000**	1
1.	**Prudential Indicators for Capital Expenditure**			
1.1	Capital Expenditure			
	General Fund	179,187	110,803	
	HRA	40,151	41,636	
	Total	219,338	152,439	
1.2	In year Capital Financing Requirement			
	General Fund	74,808	34,217	
	HRA	12,430	8,078	
	Total	87,238	42,295	2
1.3	Capital Financing Requirement as at 31 March 2015 – **balance sheet figures**			
	General Fund (net of Minimum Revenue Provision (MRP) costs)	565,000	521,493	
	HRA	333,905	322,496	
	Total	898,905	843,989	3
2	**Prudential Indicators for Affordability**			
2.1	Ratio of financing costs to net revenue stream			
	General Fund	10.00%	8.80%	4
	HRA	16.50%	12.85%	5
2.2	General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum). - In year increase	£10.00	£3.65	6
2.3	HRA impact of Prudential (unsupported) borrowing on housing rents (per annum)	0	0	
3	**Prudential Indicators for External Debt**			
3.1	Borrowing Requirement			
	External Debt brought forward 1 April	819,964	720.064*	
	External Debt carried forward 31 March	891,751	760,839	7
	*includes a temporary loan of £2.8m-repaid 8/4/14.			
	Additional borrowing requirement	71,787	40,775	

4	**Prudential Indicators for Treasury Management**			
4.1	Borrowing limits - upper limit for fixed interest rate exposure expressed as:-			
	Net principal re fixed rate borrowing / investments	931,751	599,774	
4.2	Borrowing limits - upper limit for variable rate exposure expressed as:-			
	Net principal re variable rate borrowing / investments	20%	9.09%	
4.3	Lending limits - upper limit for total principal sums invested for over 364 days expressed as a % of total investments	30%	24.74%	

Notes:

1. Actual is based upon draft accounts 2014/15 which are yet to be audited.

2. Long term funding of £42.295m was used to finance capital expenditure in the year. Of this, £34.217mm was for the General Fund (GF) and £8.078m was for the Housing Revenue Account (HRA).

3. The Capital Financing Requirement (CFR) reflects the local authority's underlying need to borrow for a capital purpose. The CFR as 31 March 2015 included the £20m investment in the Real Lettings Property Fund as detailed in 3.3.10 above.

4. This reflects the impact on the GF of the Council's external debt. The GF's net revenue stream consists of the amount to be met from government grants and local taxpayers. The GF's ratio of financing cost was lower that estimated as a result of the new borrowing undertaken at lower than estimated interest rates.

5. This reflects the impact on the HRA of the Council's external debt. The HRA's net revenue stream consists of rental income received and other income as shown in the HRA accounts.

6. This represents the extra annual levy on a Band D tax bill arising from the take up of GF unsupported borrowing.

7. The external debt brought forward as at 1 April 2014 includes a temporary loan of £2.80m taken up to ease the cashflow position on 31 March 2014. This loan was taken from the Royal Borough of Kensington & Chelsea and repaid on 8 April 2014. The actual external debt outstanding as at 31st March 2015 includes the £43.575m of new loans taken up in 2014/15 – see 3.5.4 and 3.5.5. It also includes the £223.126m taken up for the HRA Self Financing settlement sum on 28 March 2012.

GLOSSARY OF TERMS USED IN THE TREASURY ANNUAL REVIEW REPORT

Affordable Borrowing Limit and Authorised Limit for external debt	The maximum amount the Council can borrow for capital and revenue purposes, allowing a prudent margin for unexpected events. The Affordable Borrowing Limit reflects a level of borrowing which, while not desirable, is affordable in the short term. The Council does not have the power to borrow above the Authorised Limit.
Capital Financing Requirement	A calculated notional figure that represents the authority’s underlying need to borrow to finance capital expenditure. Note that this does not necessarily mean that this is the sum borrowed.
CIPFA	The Chartered Institute of Public Finance and Accountancy. The leading professional accountancy body for the public services.
CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes Fully Updated Edition 2011	The professional code governing treasury management, which was approved by Full Council on 26 February 2013 (Minute A31/13).
Consumer Price Index (CPI)	The Consumer Price Index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.
Debt Management Office (DMO)	The Debt Management Office (DMO) is an Executive Agency of Her Majesty’s Treasury. The DMO’s responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. The majority of the Council’s debt is arranged through the DMO (see PWLB below).
European Central Bank (ECB)	The European Central Bank (ECB) is the central bank for Europe’s single currency, the Euro. The ECB’s main task is to maintain the Euro’s purchasing power and thus price stability in the Eurozone. The ECB also sets the bank lending rate across the Eurozone.
European Union (EU)	The European Union (EU) is a politico- economic union of 28 member states that are primarily located in Europe.
European Investment Bank (EIB)	The European Investment Bank (EIB) is owned by the 28 EU countries. It borrows money on the capital markets and lends it at a low interest rate to projects that improve infrastructure, energy supply or environmental standards both inside the EU and in neighbouring or developing countries.

FITCH	An internationally recognised rating agency which is used and approved by the Council's Treasury Advisers, Capita Asset Services. Standard & Poor's and Moody's are also rating agencies.
Lenders Option / Borrowers Option Loans (LOBO's)	A form of borrowing where loans run at a fixed rate of interest for a fixed period of time, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercises the option to change the interest rate the borrower can then decide whether to accept the new terms or repay the loan. These can offer more attractive rates to the borrower than conventional lending.
London Interbank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Minimum Revenue Provision (MRP)	The amount which must be set aside from revenue each year to cover future repayment of loans. There is no MRP requirement for HRA borrowing.
Monetary Policy Committee (MPC)	Interest rates are set by the Bank of England's Monetary Policy Committee (MPC). The MPC sets an interest rate it judges will enable the inflation target to be met (2% per annum currently). The Bank's Monetary Policy Committee (MPC) is made up of nine members - the Governor, three Deputy Governors for Monetary Policy, Financial Stability and Markets & Banking, the Bank's Chief Economist and four external members appointed directly by the Chancellor.
Operational boundary for external debt	The maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.(see Affordable & Authorised limits above).
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.
Retail Price Index (RPI)	The RPI was once the principal official measure of inflation. It has been superseded by the CPI.