REVISED NOTES TO THE STATEMENT OF ACCOUNTS

19. Nature and Extent of Risks Arising from Financial Instruments – Interest Rate Risk (G3 – Notes Supporting the Balance Sheet – agenda page 181)

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. Current Authority policy is to not exceed a maximum of 40% of borrowings in variable rate loans.

The Authority has a mixture of standard fixed rate borrowings and LOBO (lender option borrower option) loans. The LOBO loans were taken out between 2003 and 2008 with maturity periods of between 35 and 60 years. The interest rates payable on these loans could be changed at specified dates during the life of the loan at the lender's option. The specified dates vary from loan to loan but occur at intervals of between six months and five years from the initial advance according to the individual loan contract. If a lender chose to vary the interest payable then the Authority would have the option to repay the loan without penalty. In practice the lender would only exercise their option if market rates were to increase above the current rate.

The Authority's long-term and current borrowing can be analysed as follows:

Borrowing Analysis	Fixed or Variable Rate	Borrowing as at 31 March 2016
Long-Term Borrowing:		£'000
PWLB Loans (Principal)	Fixed	60,524
LOBO Loans (Principal)	Variable	101,800
Other Loans & Accounting Adjustments	Fixed	9,202
Total Long-Term Borrowing		**171,526**
Current Borrowing:		
Other Local Authorities	Fixed	9,183
Other Short Term Borrowing & Accrued Interest	Fixed	88
Total Short Term Borrowing		**9,271**

Other loans and accounting adjustments (£9,202,000) includes an accounting adjustment of £1,704,158 in respect of LOBO loans. This technical accounting adjustment represents the cash benefit obtained by paying lower interest payments over a specified initial period on some of the LOBO loans. The adjustment is shown in the balance sheet as an addition to the value borrowed but is reduced by way of a credit to the income and expenditure account each year over the full term of the relevant loans. The adjustment has been included above as being at fixed rates because the value will not be affected even if the LOBO lenders exercise their option to change the rates of interest on the underlying loans.

During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, this strategy is then used to monitor against the budget throughout the year. This allows for any adverse changes to be accommodated. The analysis will also advise if new borrowing is taken out whether it is fixed or variable.

34. Contingent Liabilities (G5 – Other Notes – agenda page 203)

At 31 March 2016, the Authority had the following significant contingent liabilities:

A group of property search companies is seeking the refund of fees paid to the Council to access land charges data. The parties have agreed to pay the property search companies legal costs to be subject to a detailed assessment by way of costs only proceedings if not agreed. The council is in discussion with the claimants about the costs aspect of the claim. At present it is not possible to put a final value on these potential liabilities but the Council estimates the contingent liability at £100,000.

The Council has £101.8m of Lender Option Borrower Option loans (LOBOs), taken out between 2003 to 2008, with terms of 30 to 60 years. Information on the Council's borrowings, including LOBO loans, is included in Note 18. A number of local authorities, including this Council, have received objections from local electors as to the lawfulness of local authorities obtaining borrowings through LOBO loans. Whilst the LOBO loans held by this Council have not currently been found to be unlawful, there is on-going analysis of LOBOs generally by councils affected, their auditors and specialist lawyers. The law in relation to this matter is complex and there is uncertainty as to what the consequences could be should a local authority have obtained borrowing through a LOBO that was found to be unlawful. In the event of a LOBO loan being found to be unlawful, restitutionary remedies may result in the outstanding balances on these loans having to be repaid in full to the lender and may result in additional costs resulting from losses incurred by the lender.