AGENDA ITEM NO: 6

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
3 December 2013

Subject: **2013/14 Q2 CAPITAL MONITORING AND TREASURY MANAGEMENT MID YEAR REVIEW REPORT**

All Wards

Portfolio Holder for Support Services and Economic Development: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGOUND:

1.1 The purpose of this report is to provide Members with the quarter 2 update at 30 September 2013 on the progress of the capital programme 2013/14 and the treasury management position. A full schedule of the capital programme 2013/14 schemes is attached at Annex A, together with the relevant update on progress of each scheme.

1.2 Capital expenditure is intrinsically linked with treasury management as the way that the capital programme is funded, directly effects the treasury management arrangements of the Council. This Council currently does not borrow for a capital purpose; instead capital expenditure is funded by grants, receipts and reserves. The use of the Council's funds affects the daily treasury management cash flow position, the requirement to investment these surplus funds and the income earned.

2.0 CAPITAL PROGRAMME SUMMARY:

2.1 The 2013/14 capital programme was approved by Cabinet at quarter 1 on 3 September 2013 at £2,711,639.

2.2 A net decrease to the capital programme of £94,740 is detailed in this Quarter 2 monitor that results in a revised capital programme budget of £2,616,899.

2.3 The net decrease of £94,740, to be approved in this report, is made up of:-
(a) increase in expenditure from re-profiling of £25,000 from 2014/15 to this year;
(b) decrease in expenditure from re-profiling of £120,000 from this year to 2014/15
(b) increase in expenditure of £807 supported from Council reserves;
(d) reduction in scheme expenditure of £547.

2.2 Table 1 below outlines the variances reported against each portfolio area.

Portfolio	Current Approved Expenditure Q1 £	Revised projected Outturn Q2 £	Variance Increase/ (decrease) £	Budget re-profiled from /(to) 2014/15 £	Request for additional funding £	Funding no longer required £
Customer Services and Asset Management	573,866	598,319	24,453	25,000	-	(547)
Housing, Planning and Waste Management	474,555	474,555	-	-	-	-
Leisure and Health	1,002,800	883,607	(119,193)	(120,000)	807	0
Support Services and Economic Development	660,418	660,418	-	-	-	-
Total	**2,711,639**	**2,616,899**	**(94,740)**	**(95,000)**	**807**	**(547)**

Table 1: Capital Programme Q2 2013/14

2.3 To 30 September 2013 capital expenditure of £730,210 had been incurred or committed representing 28% of the revised Q2 capital programme position. Other large schemes in the capital programme have been tendered during October / November and it is expected that a large volume of works will be completed at quarter 3.

2.4 The proposed changes to the Capital Programme, detailed for each of the 4 portfolio areas, are attached at Annex B.

3.0 FUNDING THE CAPITAL PROGRAMME:

3.1 The funding resources available for the ten year period from 2013/14 to 2022/23 at 31 March 2013, as included in the Statement of Accounts 2012/13, was £8,509,070. Additional capital grant income will be received over the next 10 years from Government and other contributions but the current total funding position is shown below:

	£
Capital Receipts	4,567,306
Capital Grants	76,586
Capital Fund	3,568,175
Total 31 March 2013	8,509,070

3.2 For 2013/14, at Quarter 2, the capital programme of £2,597,628 is being funded from £328,717 external grants/contributions and £2,268,911 from reserves. At year end in accordance with accounting practice the funds will be used from the capital receipts, unapplied grants or capital fund reserves.

3.3 The position regarding spending and resources for the 10 year capital plan is as follows:-

	£
Total 10 Year Funding (as above)	8,509,070
Add: 2013/14 anticipated capital receipts	560,000
Less: 2013/14 anticipated spend at Q2	2,597,628
	6,471,442
Less: Capital Plan spend 2014/15 - 2022/23 (Prior to the 10 year plan being approved at 3 December 2013)	4,715,000
Remaining Resources	1,756,442

3.4 The overall funding position continues to be closely monitored to ensure the overall capital programme remains affordable and sustainable over the 10 year approved capital plan. The 10 year capital plan report 2014/15 to 20123/24 is included elsewhere on this 3 December 2013 Cabinet agenda.

3.5 It should be noted that the report reflects the capital programme position as if approval has been agreed by Cabinet. This is detailed in the recommendations below.

4.0 TREASURY MANAGEMENT MID YEAR REVIEW 2012/13:

4.1 The Treasury Management Mid Year 2013/14 is attached at Annex C and provides Members with an update on the:
(a) treasury management position
(b) economy and interest rates
(c) investment policy
(d) investment performance
(e) borrowing position
(f) Compliance with prudential and treasury indicators

4.2 The investment position at Quarter 2 was £29,150,000 with an average interest rate return of 0.60%. For surplus funds invested for 3 months or more, a return of 0.63% was achieved which was 0.24% greater than the 3 month benchmark at 0.39%.

4.3 The economic and interest rate environment is resulting in it becoming increasing difficult to place the Council's surplus funds for investment and therefore at quarter 2 the income earned in treasury management has been reduced by £155,000 to £300,000. This decrease in income is detailed further in the Quarter 2 revenue budget monitoring report.

4.4 The Council remains debt free; no borrowing has been taken in 2013/14.

4.5 The Council has operated within the treasury and prudential indicators set out at Annex E. The Director of Resources – S151 Officer - confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2013/14.

4.6 It should be noted that during quarter 2 of 2013/14 the Council's treasury management advisors have changed their name from Sector to Capital Asset Services.

5.0 <u>LINK TO COUNCIL PRIORITIES</u>:

5.1 All schemes approved as part of the capital programme have been evaluated against key corporate priorities. Schemes are only undertaken and approved by cabinet in accordance with the Council Plan and supporting project initiation documentation.

5.2 Treasury Management supports all aspects of the Council's priorities as with good management of surplus funds, investment interest earned can be used to support Council services.

6.0 <u>RISK ASSESSMENT</u>:

6.1 There are two main risk associated with the capital programme and treasury management:-

Risk	Implication	Prob	Imp	Total	Preventative action
Capital budgets are not monitored, expenditure is above budget and the funding position is unknown	The Council is unable to control capital expenditure or redirect resources to priority areas	3	5	15	Continue with regular budget monitoring with regular reports to Chief Officers, Management team and Members
Treasury management investment of surplus funds occurs with unsound institutions	The value of the investment could be lost	3	5	15	Use of treasury management advisers, good investment creditworthiness rating criteria policy approved by Council and regular monitoring reporting to Members

Prob = Probability, Imp = Impact, Score range is Low = 1, High = 5

6.2 There are no risks associated with approving this report. However, the risks associated with not receiving regular monitoring reports are potentially more serious.

7.0 <u>FINANCIAL IMPLICATIONS</u>:

7.1 The financial implications are dealt with in the body of the report.

8.0 LEGAL IMPLICATIONS:

8.1 Treasury Management activities and the Capital programme conform to the Local Government Act 2003 and the Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice.

9.0 EQUALITY/DIVERSITY ISSUES:

9.1 The capital programme seeks to address key equality issues that affect the Council and the public. The main scheme that specifically addressed equalities in the capital programme 2013/14 is the disabled facilities grant scheme.

10.0 RECOMMENDATIONS:

10.1 It is recommended that Council-

(1) approve the net decrease of £94,740 in the capital programme to £2,616,899 and the detailed capital programme attached at Annex A;

(2) approve all movements in the capital programme +/- £20,000, in accordance with financial regulations, as detailed in Annex B and below:
   a. the increase in expenditure from re-profiling of £25,000 from 2014/15 to 2013/14 for Car Parks - Thirsk Cobbles.
   b. the decrease in expenditure from re-profiling of £120,000 from this year to 2014/15 for Stokesley Leisure Centre Floodlit Pitch

(3) note the further movements in the capital programme below £20,000 as detailed in Annex B and below:
   a. an increase in capital expenditure of £807

(4) note the Capital Funding position and available reserve to support further capital schemes at £1,756,422;

(5) note the treasury management activity at Annex C and that there were no changes to the investment criteria at quarter 2 the mid-year review.

(6) note the prudential and treasury indicators at Annex E and that there were no changes at quarter 2 the mid year review.

JUSTIN IVES

Background papers: None

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Annex A

Capital Programme Schemes 2013/14 (including 2012/13 schemes B/Fwd)

Ref:	Responsible Officer	Title:	Current Approved Expenditure	Third Party Contribution	Cost to the Council	Expenditure at 31/08/13 / 30/09/13	Anticipated Expenditure £	Variance	Change in Funding Taken/(Returned) to Capital Reserve	Estimated completion date	Explanation
			£	£	£	£	£	£	£		
		Housing, Planning and Waste Management									
B/Fwd	MJ	Domestic Violence Refuge	120,928	0	120,928	120,928	120,928	0			Complete
1	MJ	Purchase of bins and boxes for refuse and recycling	36,000	0	36,000	9,076	36,000	0		Ongoing	An order was placed in September with rest being ordered in the new year
2	MJ	Disabled Facilities Grants	242,627	158,717	83,910	53,992	242,627	0		Ongoing	Committed expenditure of £53,992 another 2 applications awaiting approval for £20,183. Looking at number of referrals coming through budget should be spent by end of year.
3	MJ	Depot wash bay	18,000	0	18,000	0	18,000	0		28/02/2014	Looking to commence Nov/Dec
4	MJ	Central depot external lighting improvements	8,000	0	8,000	1,800	8,000	0		28/02/2014	Looking to re-commence Nov/Dec
5	MJ	Central depot door improvements	15,000	0	15,000	9,805	15,000	0		17/09/2013	Completed Awaiting Invoices
6	MJ	Vehicle workshop adaptations	25,000	10,000	15,000	10,855	25,000	0		28/02/2014	Work commenced
	MJ	Waste and Street Scene Clocking System	9,000		9,000	0	9,000	0		31/03/2014	New Scheme requested at Quarter 1 2013/14 and in progress
		Total Scheme Value Housing, Planning and Waste Management	**474,555**	**168,717**	**305,838**	**206,456**	**474,555**	**0**	**0**		
		Leisure and Health									
B/Fwd	125000	Pool Filters SLC & BLC	125,000		125,000	0	109,271	-15,729	-15,729	31/12/2013	Work scheduled to be done mid November/early December and will come under budget. Therefore £15,279 to be used to fund overspend on Stokesley Leisure Centre improvement scheme.
B/Fwd	47039	Pool Tank Tiles BLC	47,039		47,039	30,474	47,039	0		30/09/2013	Scheme to finalise and further invoices awaited
B/Fwd & 11	26000	HLC Plant Controls & Air Handling	26,000		26,000	26,807	26,807	807	807	30/09/2013	Work now complete
B/Fwd	70761	Combined Heat & Power Unit SLC / BLC / TSP	70,761		70,761	69,773	70,761	0		30/09/2013	Completed and further discussion with Supplier to finalise invoices
9	24000	Gym equipment refresh	24,000	0	24,000	0	24,000	0		31/03/2014	Work scheduled to be done mid November/early December
10	15000	Air conditioning - Legislative requirement Leisure Nov/Dec	15,000	0	15,000	0	15,000	0		Ongoing	Work Scheduled for end of year
12	9000	Hambleton leisure centre dehumidifier	9,000	0	9,000	0	9,000	0		31/10/2013	Work commenced in July and progressing
13	10000	Hambleton and Stokesley leisure centres - changing room tiles	10,000	0	10,000	0	10,000	0		31/12/2013	Work commenced and Order placed
14	250000	Thirsk and Sowerby leisure centre improvement scheme	250,000	160,000	90,000	2,000	250,000	0		31/12/2013	Work scheduled to be done mid November/early December.
15	240000	Bedale leisure centre improvement scheme	240,000	80,000	160,000	0	120,000	-120,000	-120,000	31/03/2014	Work tendered and scheduled to be done mid November/early December. Works to Flood light £120,000 pitch to be rolled forward into 2014/15 as matched funding of £80,000 to be received next year.
16	158000	Stokesley leisure centre improvement scheme	158,000	0	158,000	0	173,729	15,729	15,729	31/12/2013	Work tendered and scheduled to be done mid November / early December. Tender over budget by £15,729 but to be funded by underspend on Pool Filtration Scheme
17	8000	Hambleton leisure centre PA system	8,000	0	8,000	0	8,000	0		31/12/2013	Work commenced and Order placed
25	20000	Hambleton LC Improvement Scheme	20,000	0	20,000	1,735	20,000	0		Ongoing	Preliminary work on development of Hambleton Leisure Centre, Scheme in 2014/15 partially b/fwd into 2013/14 at quarter 1
		Total Scheme Value Leisure and Health Services	**1,002,800**	**240,000**	**762,800**	**130,789**	**883,607**	**-119,193**	**-119,193**		
		Customer Services and Asset Management									
B/Fwd	MR	Car Parks - Thirsk Cobbles	80,105	0	80,105	80,105	80,105	0		30/06/2013	Complete - Slight Overspend at Quarter 1- Retention will occur 14/15 £2700
	MR	Car Parks - Thirsk Cobbles					25,000	25,000	25,000	31/03/2014	Bring partial funding forward from 2014/15 capital programme to commence works in 2013/14
B/Fwd	MR	Car Parks - Reinstatements	51,000	0	51,000	51,000	51,000	0		30/06/2013	Complete - Slight overspend reported at quarter 1
B/Fwd	MR	Car Parking Charges - Directional Signs	6,510	0	6,510	6,475	6,510	0		30/06/2013	Work Completed
B/Fwd & 18	MR	Adoptions - Northallerton Thurston Rd	130,037		130,037	129,490	129,490	-547	-547	31/07/2013	Work Completed - no retention - adoption sent back to NYCC
B/Fwd & 19	MR	Ellerbeck Court, Stokesley Adoption Works	73,645		73,645	0	73,645	0		31/03/2014	Work to commence October/November to look at completion of adoption by end of November 2013
20	MR	Car Park tariff changes	15,500	0	15,500	3,017	15,500	0		31/10/2013	Work commenced remaining work to be completed October 2013. Intro of Long Stay at the Forum CP
22	MR	Public lighting replacement	36,000	0	36,000	0	36,000	0		31/03/2014	Work waiting on Northern Power doing underground work in Sandhutton, Battersby Junction and Thimbleby, work should be completed by end of March 2014
23	MR	Public lighting energy reductions	100,000	0	100,000	0	100,000	0		31/03/2014	Work to commence in September
B/Fwd	SW	CCTV Control Room Upgrade	10,069	0	10,069	4,473	10,069	0		03/10/2013	Remedial work started and progressing
7	SW	CCTV control room upgrade - Wireless Network	71,000	0	71,000	0	71,000	0		31/03/2014	Remedial work started, increase in project costs for invaluable consultancy expenditure to ensure successful delivery of the project
		Total Scheme Customer Services and Asset Management	**573,866**	**0**	**573,866**	**274,560**	**598,319**	**24,453**	**24,453**		
		Support Services and Economic Development									
B/Fwd	SW	Thirsk New TIC	3,000	0	3,000	0	3,000	0		Ongoing	Retention monies - dispute with contractor to be resolved
8	SW	Leeming Bar Food Enterprise Centre Improvement Works'	12,000	0	12,000	6,990	12,000	0		31/01/2014	The scheme is expected to be completed by the end of December 2013
26	SW	Evolution Car Park Extension	7,000	0	7,000	0	7,000	0			Negotiations ongoing with third parties
B/Fwd	JI	Service Applications, Software, Servers	34,253	0	34,253	14,107	34,253	0		31/03/2014	Work in progress - additional funding required from ICT underspends
24	JI	ICT Improvements / Separation from Shared Services	0	0	0	0	0	0		31/03/2014	Return £89,835 to reserve - June 2013 Cabinet Report
24	JI	ICT Committee Admin	17,900	0	17,900	7,893	17,900	0		31/03/2014	Final assessment underway - should be installed by Dec 2013
24	JI	ICT Telephony Improvements	11,265	0	11,265	0	11,265	0		31/03/2014	Contract awarded - will be complete by Nov 2013
24	JI	ICT Separation from Shared Services	500,000	0	500,000	53,713	500,000	0		31/03/2014	Contracts awarded and being drawn up - will be complete by Dec 2013
24	JI	ICT Improvements	50,000	0	50,000	35,000	50,000	0		31/03/2014	Currently tendering - will be complete by Dec 2013
24	JI	ICT Desktop Replacement	25,000	0	25,000	703	25,000	0		31/03/2014	Work to commence in Jan 2014
		Total Scheme Value Support Services and Economic Development	**660,418**	**0**	**660,418**	**118,405**	**660,418**	**0**	**0**		
		Total Capital Approvals 2013/14	**2,711,639**	**408,717**	**2,302,922**	**730,210**	**2,616,899**	**-94,740**	**-94,740**		

ANNEX B

PROPOSED CHANGES TO THE CAPITAL PROGRAMME:

1.1 The proposed changes to the capital programme, detailed for each of the portfolio areas are listed below:

1.2 Customer Services and Asset Management – 2 schemes require adjustment at Quarter 2:-

(a) Car Parks – Thirsk Cobbles – Phase 2 of this project has been approved in the 10 Year Capital Plan in previous years at £75,000. It is recommended to Cabinet that £25,000 is brought forward to 2013/14 as the works are expected to commence in March 2013. This is not an increase in the use of capital funding, just a change in the timing of the project.

(b) Adoptions – Northallerton Thurston Road – This work has now been completed at £129,490 and is under budget by £547. This will be returned to the capital reserve.

1.3 Housing Planning and Waste Management – No schemes have been adjusted in quarter 2 2013/14.

1.4 Leisure & Health – 4 schemes have been require adjustment at Quarter 2:

(a) Pool Filters at Stokesley and Bedale Leisure Centres – This scheme was estimated at £125,000 but one tender received to complete the work at Stokesley Leisure Centre has resulted in lower costs than estimated. (The other tenders received were in the range of the original estimate). It should be noted that the £15,729 is to be used to fund the overspend in the Stokesley Leisure Centre scheme, which is detailed below.

(b) Hambleton Leisure Centre Plant Controls & Air Handling – This scheme has been completed and come in slightly over budget at £807 which is only a 3% increase over the allocated amount of £26,000. It is proposed that the additional funds are transferred from the reserve.

(c) Bedale Leisure Centre Improvement Scheme – The total scheme is £240,000 of which half £120,000 relates to works to the floodlit pitch. It is recommended that the works to the floodlit pitch £120,000 are slipped forward into 2014/15, so that the matched funding of £80,000 can be secured. Therefore £120,000 will be moved into 2014/15 and the funding returned to the capital reserve.

(d) Stokesley Leisure Centre Improvement Scheme – Further to the receipt of the tender documents, this scheme has come in over budget by £15,729 due to the cost of materials being higher than originally estimated. It is proposed that the required funds of £15,729 be transferred from the under spend on the Stokesley Leisure Centre Pool Filters scheme, as described above.

1.5 Support Services and Economic Development – No schemes have been adjusted in quarter 2 2013/14.

1.6 Capital schemes are monitored on a monthly basis and reported to Cabinet quarterly, ensuring that the majority of schemes are held within budget or reported to Council at the earliest opportunity.

1.7 New Schemes added to the capital programme all have supporting Project Initiation Documentation to ensure projects are affordable, sustainable and prudent.

ANNEX C

TREASURY MANAGEMENT POSITION 2013/14 – QUARTER 1

1.0 LEGISLATIVE REQUIREMENT:

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (Treasury Management Strategy Statement, Annual and Mid-year reports, as well as quarterly updates). This report therefore ensures this Council is implementing best practice in accordance with the Code.

1.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This Mid-year report therefore
(a) updates Members on the current treasury management position

1.3 The Council's capital expenditure plans at quarter 2 continue to be financed by either external grants or contributions, capital receipts received in the year or capital reserves. The changes in the capital expenditure plans as detailed in the first half of this report are not financed by borrowing and do not affect the Council's underlying need to borrow.

1.4 In 2013/14 the Council's treasury position (excluding finance leases) is to continue to be debt free. No borrowing has been taken in 2013/14 to date.

1.5 The capital financing requirement, which is the amount of borrowing required to support the capital expenditure programme, is zero for this Council. All capital expenditure as detailed in the paragraphs above is supported from grants, contributions and reserves. The following table shows the treasury management position as at 30 September 2013:

	30 Sept 13 £m	Rate %
Capital Financing Requirement	0	
Borrowing	0	0.0
Investments	29,150	0.60

Table 2: Borrowing and Investment position at 30 September 2013

1.6 The table shows that changes in the capital expenditure programme only affects the treasury management position through the surplus funds that are available to the Council to invest, to earn investment income.

2.0 THE ECONOMY, INTEREST RATES AND TREASURY MANAGEMENT STRATEGY:

2.1 The economic background, interest rate forecast and summary outlook, which sets the environment in which the Council's treasury management operates is attached at Annex D.

3.0 ANNUAL INVESTMENT STRATEGY 2013/14 – Mid Year Review Quarter 2:

3.1 **Investment Policy** – the Council's investment policy is governed by the Department for Communities and Local Government guidance, which was implemented in the Treasury Management Strategy Statement (TMSS) for 2013/14, and includes the Annual Investment Strategy approved by Cabinet on 19 March 2013. This Policy sets out how surplus funds are invested and placed with highly credit rated financial institutions, using Sector's suggested credit-worthiness approach. This includes the use of Country sovereign credit ratings as well as individual financial institution credit ratings and Credit Default Swap (CDS) overlay information provided by Capita Asset Services

3.2 The Treasury Management Strategy Statement sets out the Council's investment priorities as being:-

- Security of capital;
- Liquidity; and
- Yield

3.3 The Council's priority is security of its surplus funds when investing with financial institutions. However the Council will always aim to achieve the optimum return (yield) on investments commensurate with proper levels of liquidity and of course security.

3.4 **Investments held by the Council** - in the current economic climate it is considered appropriate to keep all investments short term even though core cash funds were available for investment for more than one year. This is due to the continued uncertainty in the market and security being of prime importance. The investments cover cash flow needs but also to seek out value available in higher interest rates in periods just up to 12 months.

3.5 Investment rates available in the market have continued at historically low levels with the base rate remaining at 0.5% since March 2009. Investment rates have fallen further during the second quarter of 2013/14 as a result of the Funding for Lending Scheme introduced by the Government and described at Annex D in the economic background and Interest rate review.

3.6 The average level of funds available for investment purposes during quarter 2 – 30 September 2013 - was £30,896,709. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council held core cash balances of £27,000,000 at Quarter 2 and £2,150,000 cash flow movement balances. Total investment balance at 30 September 2103 was £29,150,000.

3.7

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.36%	0.46%	£22,472
3 month	0.39%	0.63%	£162,941

Table 3: Investment performance for quarter 1 – latest information 30 September 2013

3.8 The table shows that the Council monitors its core cash against 3 month LIBID – London Inter bank Investment Rates – and its cash flow investments against the 7 day rate. The Council outperformed the 3 month benchmark by 0.24% and the 7 day benchmark by 0.10%

3.9 The Council's budgeted investment return for 2013/14 was approved at quarter 1 at £455,000. However at quarter 2 due to continued low levels of return and less opportunity being available the investment return budget has been reduced in the Q2 Revenue monitoring report by £155,000 to £300,000. Performance for investments interest earned for the first six months of 2013/14 is £185,413. This return at quarter 2 2013/14 is in line with the revised budget.

4.0 BORROWING 2013/14 – Mid Year Review Quarter 2:

4.1 The following borrowing information is provided to ensure Members are updated with the interest rates available for borrowing and are kept informed with regards to the current position. Capita Asset Services – the Council's treasury management advisers – 25 year PWLB target rate for new long term borrowing for the quarter rose from 4.10% to 4.40%

4.2 The table below shows the Public Works Loans Board interest rates which were available for loans during quarter 2 of 2013/14. The Public Works Loans Board is the mechanism by which the Government allows local authorities to borrow at slightly lower interest rates than are available to other institutions. Certainty rates, as detailed in the table, are interest rates available to local authorities if they inform the Government of their borrowing requirements at the beginning of the financial year and are 0.002% (or 20 basis points) below Public Works Loans Board rates. This was introduced by the Government in October 2012.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.98%	1.95%	3.17%	4.19%	4.27%
Date	18/07/2013	18/07/2013	18/07/2013	18/07/2013	18/07/2013
High	1.17%	2.6%	3.79%	4.48%	4.51%
Date	18/09/2013	11/09/2013	11/09/2013	11/09/2013	11/09/2013
Average	1.07%	2.27%	3.47%	4.32%	4.37%

Table 4: Public Works Loan Board (PWLB) certainty rates, quarter ended 30 September 2013

4.3 **Treasury Borrowing** – the Council remains debt free and undertook no external borrowing for cash flow purposes or capital financing purposes in the first six months of 2013/14.

4.4 **Rescheduling of Borrowing** – the Council has no debt and therefore undertook no rescheduling of debt during 2013/14.

4.5 **Repayment of borrowing** – the Council has no external loans and therefore no repayments were necessary.

5.0 COMPLIANCE WITH PRUDENTIAL AND TREASURY INDICATORS:

5.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) were approved in the Treasury Management Strategy Statement by Cabinet on 19 March 2013 and are in compliance with the Council's Treasury Management Practices.

5.2 During the financial year to date the Council has operated within the Treasury and Prudential Indicators approved and are shown in Annex E.

5.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th September 2013.

ANNEX D

ECONOMIC BACKGROUND, INTEREST RATE FORECAST AND SUMMARY OUTLOOK

ECONOMIC BACKGROUND

- The quarter ended 30 September saw:
    - o Indicators suggested that the economic recovery accelerated;
    - o Household spending growth remained robust;
    - o Inflation fell back towards the 2% target;
    - o The Bank of England introduced state-contingent forward guidance;
    - o 10-year gilt yields rose to 3% at their peak and the FTSE 100 fell slightly to 6460;
    - o The Federal Reserve decided to maintain the monthly rate of its asset purchases.

- After strong growth of 0.7% in Q2, it appears that UK Gross Domestic product (GDP) is likely to have grown at an even faster pace in Q3. On the basis of past form, the Chartered Institute of Purchase & Supply (CIPS) /Markit business surveys for July and August point to quarterly growth of potentially over 1.0% in the third quarter of 2013. Similarly, the official data have continued to improve. Admittedly, industrial production was flat in July. But even if it held steady in the rest of the quarter, it would still be 0.9% higher in Q3 than in Q2. In addition, the service sector expanded by 0.2% m/m and the construction sector grew by 2.2% m/m in July after growth of 1.8% q/q in Q2.

- Consumer spending also continued to rise and may beat the increase seen in Q2. While the 1.1% monthly rise in retail sales in July was almost entirely offset by a 0.9% fall in August, the unusually warm weather in August is likely to have had a part to play in this. The retail surveys also painted a positive picture for household spending growth, with the Bank of England's Agents' Scores, BRITISH Retail Consortium(BRC) and Confederation of British Industry(CBI) retail sales indicators showing stronger growth in Q3. And while growth in non-high street spending may have slowed, it probably remained robust. For example, although annual growth in new car registrations eased from the 24% rate seen in Q2, it was still a strong 15% in August.

- The run of good news on the labour market continued, with the International Labour Organisation (ILO) unemployment rate falling to 7.7% in July from 7.8% in June. Employment rose by 80,000 in the three months to July, supported by an even bigger rise in full-time employment. This meant that the ratio of full-time to part-time workers continued to rise after it troughed last summer. The timelier claimant count measure of the unemployment rate also fell. Indeed, the cumulative fall in unemployment of 68,900 in July and August – the biggest two month fall since May and June 1997 – brought the claimant count unemployment rate down from 4.4% at the end of Q2 to 4.2% in August. Despite this, the headline (3 month average of the annual) rate of pay growth fell from 2.2% in June to just 1.1% in July. Excluding bonuses, earnings growth ticked up slightly to 1.1% y/y, but this remained well below the rate of CPI inflation at 2.7% in August, meaning real wages continued to fall.

- Meanwhile, the cost of new credit has continued to fall, perhaps in response to the extension of the Bank of England's Funding for Lending Scheme (FLS) earlier this year. The quoted interest rate on a 5-year fixed mortgage at a 75% loan-to-value ratio was 3.34% in August, 7 basis points lower than in June and 77 basis points lower than when the Funding for Lending Scheme (FLS) was introduced in July 2012.

- Demand in the housing market continued to grow at a fast pace, supported by the Funding for Lending Scheme (FLS) and the Government's Help to Buy scheme, which provide equity loans to credit-constrained borrowers. The Royal Institute of Chartered Surveyors (RICS) housing market survey reported that new buyer enquiries hit their highest level on record in August. Mortgage approvals for new house purchase rose to their highest level since February 2008 in August. Consequently, house prices continued to rise, with the Halifax and Nationwide measures recording 6.2% and 3.5% year/year rises in August, respectively.

Office for National Statistics (ONS) data, though, shows that in real terms only London experienced year-on-year price rises in July. All other regions saw modest falls.

- The economic recovery may finally be feeding through to the public finances. Although the government registered a surprise deficit in July (a month that normally delivers a surplus), in August net borrowing was ‘just’ £13.2bn, compared to £14.4bn in August 2012.

- The new Governor of the Bank of England, Mark Carney, took office in July. Alongside the August Quarterly Inflation Report, the Bank introduced its new policy of forward guidance in which the Monetary Policy Committee (MPC) pledged not to raise official interest rates, or reduce the size of the asset purchase facility, until the International Labour Organisation (ILO) unemployment rate falls to 7%. At this point, the Monetary Policy Committee (MPC) would discuss whether or not to alter official policy. This guidance was subject to three ‘knockouts’ which, if breached, would invalidate the guidance. These are that the Monetary Policy Committee (MPC) forecasts inflation at or above 2.5% in 18-24 months’ time, inflation expectations are no longer sufficiently well anchored or financial stability is threatened by the stance of monetary policy. On the Monetary Policy Committee’s (MPC’s) current forecasts, the unemployment rate is most likely to reach 7% in late 2016.

- However, financial markets continued to price in increases in Bank Rate by mid-2015, with overnight index swap rates and gilt yields rising after the announcement of forward guidance. Members of the Monetary Policy Committee (MPC) subsequently appeared at the Treasury Select Committee and three gave further speeches to clarify the guidance, but there was little market impact. However, the Bank of England’s surveys suggest the message may have got through to the public as the balance of people expecting interest rates to rise over the next 12 months fell from 29% in May to 24% in August.

- Meanwhile, Consumer Price Index (CPI) inflation fell from a 2013 peak of 2.9% in June to 2.7% in August. The fall was primarily the result of a drop in the contribution from petrol prices and a reduction in core inflation from 2.3% in June to 2% in August. Consumer Price Index (CPI) inflation looks likely to have edged down again in September, perhaps to about 2.5%, reflecting a further fading of both energy prices and core inflation.

- The big news in financial markets was that the Federal Reserve unexpectedly decided not to taper its asset purchases in September. In announcing its decision to maintain monthly purchases at $85bn, the Fed explained that it wanted to *“await more evidence that [the economic recovery] will be sustained before adjusting the pace of its purchases.”* This came despite previous hints of tapering from the Fed and the fall in the unemployment rate in both July and August. It currently stands at 7.3%.

- Across the quarter as a whole, advanced economy bond markets sold off, suggesting the rise in UK gilt yields was not solely down to markets’ scepticism about domestic forward guidance. Gilt yields tracked US Treasury yields up, with ten-year gilts rising by around 60 basis points to reach 3% in early September for the first time since mid-2011. After the Federal Reserve’s decision not to taper, gilt yields fell back, although not enough to offset the previous rise. Ten-year gilts finished the quarter at 2.7%. Equity markets stayed relatively flat over the quarter. While the FTSE 100 rose from 6470 to 6620 over the first few weeks of June, the index closed the quarter at 6462.

- Meanwhile, Eurozone business surveys suggested that the economy continued to expand in Q3, albeit at a moderate pace. There was also a general election in Germany in which the incumbent Chancellor, Angela Merkel, performed better than expected by winning 41.5% of the vote. She is now likely to form a coalition, but it remains to be seen what form this will take.

Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%
10yr PWLB rate	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%
25yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%
50yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%

Capita Asset Services (the Council's Treasury Management Advisors) undertook a review of its interest rate forecasts in late September as a result of an increase in confidence in economic recovery, chiefly in the US, but more recently, also in the UK and Eurozone. The latest forecast now includes a first increase in Bank Rate in quarter 3 of 2016 (previously quarter 4).

SUMMARY OUTLOOK

UK economy

After the previous Inflation Report included a somewhat encouraging shift towards optimism in terms of a marginal upgrading of growth forecasts, the August Inflation Report occurred in the midst of a welter of economic statistics which have left economists and forecasters speechless in terms of finding suitable words to describe a major simultaneous shift up in gear of the economy in all of the three sectors of services, manufacturing / industrial AND construction! It is therefore not surprising that the Report upgraded growth forecasts for 2013 from 1.2% to 1.4% and for 2014 from 1.7% to 2.5%. However, Bank Governor Mark Carney put this into perspective by describing this welcome increase as not yet being "escape velocity" to ensure we return to strong AND sustainable growth, after what has been the weakest recovery on record after a recession. So very encouraging - yes, but, still a long way to go! As for inflation, it was forecast to be little changed from the previous Report – falling back to 2% within two years and staying there during year three.
In addition to the stimulus provided by Quantitative Easing (QE) the Funding for Lending Scheme (FLS), is aimed at encouraging banks to expand lending to small and medium size enterprises. The Funding for Lending Scheme (FLS) certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level), and causing a significant increase in house prices – but only in London and the south east. Funding for Lending Scheme (FLS) is also due to be bolstered by the second phase of Help to Buy aimed to support purchasing of second hand properties, which is now due to start in October.

Forward guidance caveats

The Bank of England also issued forward guidance with the Inflation Report which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / International Labour Organisation (ILO) i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years. The UK unemployment rate currently stands at 2.5 million i.e. 7.7 % on the Labour Force Survey / International Labour Organisation (ILO) measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The Capita Asset Services view is that the recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession. The latest Inflation Report noted that productivity has sunk to 2005 levels. We are, therefore, concerned that there has been a significant level of retention of labour, which will mean that a significant amount of Gross Domestic product (GDP) growth can be accommodated without a major reduction in unemployment.

In summary, our current views are centred around the following: -

UK

- Growth has been on an upward trend – 0.3% in Q1; 0.7% in Q2 and likely to be much stronger in Q3. The so called double dip recession at the beginning of 2012 was erased by the latest revision of statistics.
- Business surveys, consumer confidence, consumer borrowing and house prices are all on the up and may help to create a wide spread feel good factor. However, this is still a long way away from the UK getting back to sustainable strong growth.
- A fair proportion of UK Gross Domestic product (GDP) is dependent on overseas trade; the high correlation of UK growth to US and EU Gross Domestic product (GDP) growth means that the UK economy is still vulnerable to what happens in overseas markets.
- Consumer expenditure is likely to remain suppressed by inflation being higher than increases in average earnings i.e. disposable income will continue to be eroded.
- The coalition government is hampered in promoting growth by the need to tackle the budget deficit. However, the March Budget did contain measures to boost house building and the supply of mortgages, and brought forward, by one year to April 2014, the start of a £10,000 tax free allowance for incomes.
- There is little sign of a co-ordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- Government inspired measures to increase the supply of credit to small and medium enterprises (which are key to achieving stronger growth) by banks are not succeeding.
- Gilt yields remain vulnerable to pressures to rise, especially as they are powerfully influenced by US treasury yields and American investors have been spooked by Chairman Bernanke’s comments on tapering Quantitative Easing (QE). The Federal Reserve’s reluctance to start tapering in September has, potentially, only delayed a trend for gilt yields to rise.

Eurozone

- Most Eurozone countries are now starting to see a return to growth after a prolonged recession. The prospects for growth, at least in the short term, have also improved. However, for some countries, austerity programmes could prove to be a self defeating spiral of falling demand, tax receipts, and Gross Domestic product (GDP), leading to a rise, not fall, in debt to Gross Domestic product (GDP) ratios. Debt ratios in excess of 90% will cause market concern as beyond this level, the costs of servicing such debt becomes oppressive and growth inhibiting. This could, therefore, lead to an inevitable end game in the over the next few years of withdrawal from the Eurozone bloc in order to regain national control of a currency, government debt, monetary policy and, therefore, of setting national interest rates. The European Central Bank’s (ECB) pledge to provide unlimited bond buying support for countries that request an official bailout means that market anxiety about these countries is likely to be subdued in the near term. However, the poor economic fundamentals and outlook for some economies could well mean that an eventual storm in financial markets has only been delayed, not cancelled.

- The ECB maintained its central policy rate at 0.5% in this quarter.

- Greece: after the agreement to a further major financial support package amounting to nearly €50bn in December 2012, it now looks almost certain that the country will need another, smaller, bailout package as progress has not been quick enough in rectifying the national finances.

- Spain: there is also increasing concern over the Spanish economy; the social cost and pain of a very high level of unemployment of 27%, similar to the level in Greece, could mean that both countries are approaching the limit of operating austerity programmes within democratic systems. Spain has, to date, resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks.

- Italy: the general election created a highly unstable political situation where the two dominant parties initially formed an unlikely coalition due to the blocking power of the new upstart Five Star anti-austerity party which has 25% of seats and has refused to enter a coalition agreement with ANY party. There could therefore be volatility in Spanish and Italian bond yields over the next year, depending on political and economic developments.

- Germany: the general election in September returned Angela Merkel's party to power, but not with an overall majority. It will have to form a coalition, but with a new makeup, as the previous junior party was wiped out.

- Cyprus: the fallout from the bail out in March 2013 has done huge damage to the Cypriot economy and many commentators consider it is only a matter of time before another bailout will be needed – or exit from the Euro.

- The Eurozone remains particularly vulnerable to investor fears of contagion if one country gets into major difficulty.

US

- There has been a marked improvement in consumer, investor and business confidence this year.

- Unemployment has continued on a steady, but unspectacular decline to 7.3%, but is still a long way from the target rate of 6.5% for an increase in the Federal Reserve policy rate.

- The housing market has turned a corner, both in terms of rising prices and in increases in the volume of house sales. More householders are, therefore, escaping from negative equity.
- US equities have reached all time highs.

- The package of tax increases and cuts in Government expenditure starting in 2013 does not appear to be having a major impact on depressing growth.

- Gross Domestic product (GDP) in Q1 was disappointingly downgraded from +2.4% to a sub par +1.8% before rising to 2.5% in Q2.

- The shale gas revolution is providing some solid underpinning to the US economy by enhancing its international competitiveness through cheap costs of fuel.

- There has been a start to the repatriation of manufacturing production from China to the USA as Chinese labour costs have continued their inexorable rise and new forms of high tech production have made home based production more viable and flexible.

China

- Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector.

- There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehman's crisis.

Japan

- The initial euphoria generated by "Abenomics", the huge Quantitative Easing (QE) operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and introduce other economic reforms, appears to have stalled.

Capital Asset Services Forward View

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during the remainder of 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

Near-term, there is some residual risk of further Quantitative Easing (QE) - if there is a dip in strong growth or if the Monetary Policy Committee (MPC) takes action to do more Quantitative Easing (QE) in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years. This could cause shorter-dated gilt yields and Public Works Loan Board (PWLB) rates over the next year or two to significantly undershoot the forecasts in the table below. The failure in the US, (at the time of writing), over passing a Federal budget for the new financial year starting on 1 October, and the expected tension over raising the debt ceiling in mid October, could also see bond yields temporarily dip until any binding agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Federal Reserve could cause bond yields to rise.

The longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

Downside risks currently include:

- The conflict in the UK between market expectations of how quickly unemployment will fall as opposed to the Bank of England's forecasts

- Prolonged political disagreement over the US Federal Budget and raising the debt ceiling

- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations.

- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- The Italian political situation is frail and unstable.

- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.

- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.

- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

- The potential for upside risks to UK gilt yields and Public Works Loan Board (PWLB) rates, especially for longer term Public Works Loan Board (PWLB) rates include:

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.

- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.

- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth which could result in the ratio of total government debt to Gross Domestic product (GDP) to rise to levels that undermine investor confidence in the UK and UK debt.

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

- In the longer term – an earlier than currently expected reversal of Quantitative Easing (QE) in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

ANNEX E

Prudential and Treasury Management Indicators

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement by Cabinet on 19 March 2013

The main purpose of the indicators is to control how much a Council needs to borrow and as this Council is debt free, the majority of the prudential indicators are nil.

1. PRUDENTIAL INDICATORS	**2013/14**	**2013/14**
Extract from budget and rent setting report	**Original Budget**	**Actual Q1**
	£'000	**£'000**
Capital Expenditure	1,907	2,598
Ratio of financing costs to net revenue stream	N/A	N/A
Net borrowing requirement General Fund		
brought forward 1 April	Nil	Nil
carried forward 31 March	Nil	Nil
in year borrowing requirement	Nil	Nil
Capital Financing Requirement 31 March 2103	Nil	Nil
Incremental impact of capital investment decisions	£	£
Increase in Council Tax (band D) per annum	£5.28	£5.28

2. TREASURY MANAGEMENT INDICATORS	**2013/14**	**2013/14**
	original	**actual**
	£'000	**£'000**
Authorised Limit for external debt -		
borrowing	£5,000	£5,000
other long term liabilities	£1,000	£1,000
TOTAL	£6,000	£6,000
Operational Boundary for external debt -		
borrowing	£4,000	£4,000
other long term liabilities	£600	£600
TOTAL	£4,600	£4,600
Actual external debt	£0	£0
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing / investments	Nil	Nil
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments OR:-	Nil	Nil
Upper limit for total principal sums invested for over 364 days (per maturity date)	£11,500	£11,500

Maturity structure of fixed rate borrowing during 2012/13	upper limit	lower limit
under 12 months	0%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%