HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
2 September 2014

Subject: **2014/15 Q1 CAPITAL MONITORING AND TREASURY MANAGEMENT REPORT**

All Wards
Portfolio Holder for Support Services: Councillor N A Knapton

---

1.0 PURPOSE AND BACKGOUND:

1.1 The purpose of this report is to provide Members with the quarter 1 update at 30 June 2014 on the progress of the capital programme 2014/15 and the treasury management position. A full schedule of the capital programme 2014/15 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, as well as the requirement to investment these surplus funds.

2.0 CAPITAL PROGRAMME SUMMARY:

2.1 The 2014/15 capital programme was approved by Cabinet on 18 March 2014 at £2,126,350. At 2013/14 outturn, £525,486 capital expenditure was slipped forward in the new financial year revising the capital programme 2013/14 to £2,651,836.

2.2 A net increase to the capital programme of £150,354 is detailed in this Quarter 1 monitor that results in a revised capital programme budget of £2,802,190.

2.3 The net increase of £150,354, to be approved in this report as detailed in Annex B, is made up of:-

(a) increase in expenditure of £100,354 supported from reserves;
(b) increase in expenditure of £50,000 supported from external funding;

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

Portfolio	Current Approved Expenditure £	Revised projected Outturn £	Variance £	Request for additional funding £	External funding £
Environmental & Planning Services	321,379	321,379	0	0	0
Customer & Leisure Services	803,993	877,347	73,354	23,354	50,000
Support Services	1,526,464	1,593,464	77,000	77,000	0
Total	**2,651,836**	**2,802,190**	**150,354**	**100,354**	**50,000**

Table 1: Capital Programme Q1 2014/15

2.5 To 30 June 2014 capital expenditure of £253,871 had been incurred or committed representing 9% of the revised Q1 capital programme position. Many of the schemes are currently under development and it is expected at Quarter 1 that the capital programme will come in on target at the end of the financial year.

2.6 The proposed changes to the Capital Programme, which require approval by this Cabinet, are detailed for each of the 3 portfolio areas, at Annex B.

3.0 FUNDING THE CAPITAL PROGRAMME:

3.1 For 2014/15, at Quarter 1, the capital programme of £2,802,190 is being funded from £235,704 external grants/contributions, £50,000 section 106 funding, £200,000 revenue contribution and £2,316,486 from capital receipts and reserves.

3.2 The external grant funding is higher than original estimated by £116,704. This is as a result of 46% of the Bedale All Weather Pitch scheme being funded by a contribution from Football Foundation at £50,427 and an additional £66,277 being received to support the Disabled Facilities Grant scheme.

3.3 The capital receipts estimated to be received during 2014/15 is £917,000.

3.4 Therefore at year end in accordance with accounting practice the capital programme will be financed using all available in year funding prior to using the Council's reserves. At quarter 1 it is estimated that £1,399,486 of reserve funding will be used from the capital receipts or unapplied grants reserves.

3.5 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. Analysis of the funding of the 10 year capital programme will be provided at quarter 2.

3.6 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 POSITION 2014/15:

4.1 The Treasury Management review at quarter 1 2014/15 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 1 was £28,550,000 with an average interest rate return of 0.79%. For surplus funds invested for 3 months or more, a return of 0.85% was achieved which was 0.44% greater than the 3 month benchmark at 0.41%.

4.3 The Council remains debt free; no borrowing was taken in the first quarter of 2014/15.

4.4 The Council has operated within the treasury and prudential indicators set out at Annex E.

5.0 LINK TO COUNCIL PRIORITIES:

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 RISK ASSESSMENT:

6.1 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 FINANCIAL IMPLICATIONS:

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 first quarter of 2014/15 is the disabled facilities grant scheme.

10.0 RECOMMENDATIONS:

10.1 That Cabinet approves and recommends to Council:-

(1) the net increase of £150,354 in the Capital Programme to £2,802,190 as detailed at Annex B and in the Capital Programme attached at Annex A;

(2) the increase of capital expenditure of £100,354, funded from capital reserves;

(3) the increase of capital expenditure of £50,000, funded from external Section 106 funding;

(4) the funding allocation to the Capital Programme as detailed in paragraph 3.1;

(5) the treasury management and prudential indicators at Annex E.

JUSTIN IVES

Background papers: Capital Programme working papers Q1
Treasury management working papers Q1

Author ref: LBW

Contact: Louise Branford-White - Head of Resources
Direct Line No: 01609 767024

Capital Programme Schemes 2014/15 (including 2013/14 schemes B/Fwd)

Ref:	Responsible Officer	Title:	Original Approved Expenditure 14/15	Schemes rolled Fwd from 2013/14	Current Approved Expenditure	Third Party Contribution	Cost to the Council	Expenditure at 30/6/14	Anticipated Expenditure £	Variance	Change in Funding Taken/(Returned) to Capital Reserve	Estimated completion date	Explanation
			£		£	£	£	£	£	£	£		
		Environmental & Planning Services											
1	MJ	Purchase of bins and boxes for refuse and recycling	36,000		36,000		36,000	12,076	36,000	0			Budget will be spent by year end. Monitoring of the demand for bins for new properties is underway and further information will be available at Q2.
13	MJ	Disabled Facilities Grants	150,000	80,379	230,379	100,000	130,379	9,992	230,379	0	-66,277		The budget is predicted to be fully spent this year. There has been a change in the agent for this service to Swale Housing Improvement Agency. Also Increase grant received from the Government of £66,277, therefore this amount can be returned to the reserve.
B/fwd	MJ	Depot - Wash Bay		18,000	18,000		18,000	0	18,000	0			Tender documentation is being prepared, anticipated completion date is October 2014.
B/fwd	MJ	Waste & Street Scene Clocking System		9,000	9,000		9,000		9,000	0			Different options available are being investigated, anticipated completion date is February 2015.
11	MJ	Central depot external lighting improvements	20,000		20,000		20,000	15,460	20,000	0			Project 95% complete, awaiting the completion of the Depot Wash Bay to complete the scheme; anticipated completion date is October 2014.
12	MJ	Central Depot - Security Fencing	8,000		8,000		8,000	0	8,000	0			Tender documentation being prepared.
										0			
		Total Scheme Value Environmental & Planning Services	**214,000**	**107,379**	**321,379**	**100,000**	**221,379**	**37,528**	**321,379**	**0**	**(66,277)**		
		Customer & Leisure Services											
B/Fwd	DG	Thirsk and Sowerby leisure centre improvement scheme		36,227	36,227		36,227	8,459	36,227	0			Retention monies. Continued negotiation with contractor to rectify poor work. HDC Legal services now involved
	DG	Thirsk & Sowerby Sports Village	0		0	0	0	430	50,000	50,000			Funded by section 106 as agreed at December cabinet. Conditions survey is ongoing
	DG	Stokesley Leisure Centre improvement scheme	0		0	0	0	4,349	4,349	4,349	4,349		Invoice for this scheme issued late and not list credited. Approval sought at Q1 Cabinet for extension to the scheme.
B/Fwd	DG	Bedale Leisure centre improvement scheme		203,296	203,296		203,296	102,627	203,296	0	-50,427		Funding for remainder of changing room improvements - Retention monies. Continued negotiation with contractor to rectify poor work. HDC legal service involved. Outdoor floodlit pitch (these works are due to be completed in August 2014). Football Foundation has also provided 46% of the pitch funding at £50,427, therefore Capital reserve returned.
B/Fwd	DG	CCTV Control Room Upgrade		3,835	3,835		3,835	0	3,835	0			Scheme is ongoing
B/Fwd	DG	CCTV control room upgrade - Wireless Network		71,000	71,000		71,000	0	71,000	0			The Project Initiation Document continues to be developed
B/Fwd	DG	Thirsk New TIC		1337	1,337		1,337	0	1337	0			Retention monies
B/Fwd	DG	Bedale Craft Yard Window		3,975	3,975		3,975	0	3,975	0			Works completed during April 2014
B/Fwd	DG	Evolution Car Park Extension		7,000	7,000		7,000	0	7,000	0			Works completed during May 2014
	DG	Workspaces - roller shutter doors	0		0		0	0	9,005	9,005	9,005		New doors being installed to increase efficiency, reduced costs and bring doors up to recommended standards for Health & Safety. Approval required at Q1 from September 2014 Cabinet.
2	DG	Leisure Equipment Lease Buy	200,000		200,000	200,000	0	0	200,000	0			Site ict infrastructure works planned. Needs to be coordinated with other developments with HLC studio/ gym improvements and take cognisance of North Northallerton scheme.
10	DG	Customer Services Web/Intranet Development	100,000		100,000		100,000	0	100,000	0			This project is expected to deliver during 2014/15 and approval was given at Outturn 15/07/14 Cabinet for £12,210 of this funding to have been utilised during 2013/14. Further report to Cabinet in October 2014.
14	DG	Hambleton All Weather Pitch Refurbishment	131,000		131,000	19,000	112,000	0	131,000	0			This will form part of the North Northallerton plans which are currently at consultation stage. Full consideration will be given as this project progresses.
15	DG	Stokesley All Weather Pitch Refurbishment	11,000		11,000		11,000	0	11,000	0			Minor works - not yet started. Due later 14/15.
16	DG	Hambleton Leisure Centre Improvement Scheme	20,000	15,323	35,323		35,323	0	35,323	0			Preparatory works for studio (remaining budget in 15/16). Some expenditure incurred on initial assessment/schematics. Scheme needs to take consideration of North Northallerton project and potential for external grant funding. Not yet started
	DG	Hambleton Leisure Centre Fence	0		0		0	0	10,000	10,000	10,000		The fence work to be completed by September 2014. Approval confirmed by Cabinet 15 July 2014 in the Outturn report.
		Total Scheme Value Customer & Leisure Services	**462,000**	**341,993**	**803,993**	**219,000**	**584,993**	**115,865**	**877,347**	**73,354**	**-27,073**		
		Support Services											
B/Fwd	JI	Air conditioning - Legislative requirement Corporate	15000	11,862	26,862		26,862		26,862	0			Scheme on-going, review of air conditioning units to identify those in need of priority. Included in 10 year plan as an ongoing scheme for 3 years.
B/Fwd	JI	Public lighting energy reductions		31,088	31,088		31,088	16,888	31,088	0			Part night complete for Public Lighting awaiting Invoices. Car parks still to consider, budget predicted to be spent.
4	JI	Public lighting replacement	51,000	18,816	69,816		69,816	0	69,816	0			Concrete programmed replacement columns to go ahead as well as every day renewals from ageing stock, budget predicted to be spent.
5	JI	Civic Centre - Carpet Replacement	10,000		10,000		10,000	0	17,000	7,000	7,000		Scheme extended to include the public area around the centre of the building on the first floor. Approval required at Q1 cabinet for additional £7k.
6	JI	Civic Centre - Internal Painting	6,000		6,000		6,000	0	6,000	0			Project 50% complete awaiting invoices.

ANNEX A Annex A

Capital Programme Schemes 2014/15 (including 2013/14 schemes B/Fwd)

Ref:	Responsible Officer	Title:	Original Approved Expenditure 14/15	Schemes rolled Fwd from 2013/14	Current Approved Expenditure	Third Party Contribution	Cost to the Council	Expenditure at 30/6/14	Anticipated Expenditure £	Variance	Change in Funding Taken/(Returned) to Capital Reserve	Estimated completion date	Explanation
			£		£	£	£	£	£	£	£		
7	JI	Civic Centre - Window Replacements	10,000		10,000		10,000	0	10,000	0			Out to tender, projected to be completed in 2 phases end of August and end of September 2014.
8	JI	Civic Centre - Backup Generator	40,000		40,000		40,000	0	40,000	0			Out to tender to be installed by end of September.
9	JI	ICT Improvements	187,030		187,030		187,030		187,030	0			ICT projects continue to be at early stage of development. Further information will be available at quarter 2.
17	DG	All Leisure Centres - Digital Transaction Software	24,000		24,000		24,000	0	24,000	0			This will form part of additional capital funded support from ICT. Feasibility work has now been undertaken. Likely to be delivered in phases.
9	JI	ICT Leisure Improvements	105,670		105,670		105,670		105,670	0			This will be delivered in phases during 2014/15 and is to be reported at the ICT steering group during August 2014.
9	JI	ICT Information Security/Compliance	6,300		6,300		6,300		6,300	0			The legislative PCN requirements to be completed as highlighted in the Health Check report.
9	JI	ICT Customer Excellence	76,000		76,000		76,000		76,000	0			Development of E-Forms to benefit interaction with Customers online
	JI	ICT Finance system split from Richmondshire District Council	0		0		0	0	60,000	60,000	60,000		Decision for the Finance system to be split as part of the repatriation from Richmondshire District Council. New Licences and 20 days of consultancy work required. Approval required at Q1 from Cabinet September 2014.
18	JI	Car Park Restatements	45,000		45,000		45,000	0	45,000	0			In process of preparing tender documentation. On Site in September.
19	JI	Car Parks - Thirsk Cobbles	75,000	14,348	89,348		89,348	83,590	89,348	0			Work complete - awaiting final invoices
20	JI	Bedale Gateway Car Park	160,000		160,000		160,000	0	160,000	0			Work on Scheme documentation suspended, local consultation to be undertaken on principle of car park summer/early autumn.
21	JI	Adoptions - Thirsk Phases 2 & 3	200,000		200,000		200,000	0	200,000	0			Liaison started with NYCC on scheme requirements.
22	JI	Adoptions - Electric Bollards - Thirsk & Northallerton	40,000		40,000		40,000	0	40,000	0			Liaison started with NYCC to commence on scheme detail in early August.
	JI	Thirsk Market Place Central Area Enhancement	0		0		0	0	10,000	10,000	10,000		
N/A	JI	Revenue Repairs & Renewals	399,350		399,350		399,350		399,350	0			Revenue Repair & Renewals funded from Reserves
		Total Scheme Support Services	**1,450,350**	**76,114**	**1,526,464**	**0**	**1,526,464**	**100,478**	**1,603,464**	**77,000**	**77,000**		
		Total Capital Approvals 2014/15	**2,126,350**	**525,486**	**2,651,836**	**319,000**	**2,332,836**	**253,871**	**2,802,190**	**150,354**	**-16,350**		

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 Environmental & Planning Services – no new schemes/changes have been included at Quarter 1.

1.3 Customer & Leisure Services and Asset Management – 4 schemes affect the Capital Programme at Quarter 1:-

(a) Thirsk & Sowerby Sports Village – This scheme is new at Quarter 1 and requires approval to spend £50,000, which is being funded from external Section 106 funding. This is to support the initial development of the project in the form of the condition surveys.

(b) Stokesley leisure Centre Improvement Scheme – This scheme is almost complete, retention monies are held and increased funding of £4,349 is required to finalise outstanding invoice.

(c) Hambleton Leisure Centre Fence – This scheme is new at Quarter 1 and requires funding approval of £10,000 from the capital reserve. The fence is to prevent travellers from parking unwanted trailers and vehicles on the open space land adjacent to Hambleton Leisure Centre.

(d) Workspaces: Roller Shutter Doors – This scheme is new at Quarter 1 and requires approval of £9,005 from the capital reserve. New doors are to be installed to increase efficiency, reduce overall costs and bring the doors up to the recommended standards for Health & Safety.

1.4 Support Services – 3 schemes affect the capital programme at Quarter 1:

(a) Civic Centre - Carpet Replacement – Increased funding of £7,000 is required to complete this scheme to include carpet replacement to the public area around the centre of the building on the first floor.

(b) ICT Finance system split from Richmondshire District Council – This scheme is new at Quarter 1 and requires funding approval of £60,000 from the Capital reserve. There is a requirement for the Finance System to be split as part of the repatriation from Richmondshire District Council. New ICT Licences and 20 days of consultancy work are required.

(c) Thirsk Market Place Central Area enhancement scheme – This scheme is new at Quarter 1 and requires funding approval of £10,000 from the capital reserve. The purpose of this scheme is to enhance the environment of the central pedestrianised area of Thirsk Market Place. It includes new street furniture, tree planting and York stone paving repairs.

1.5 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.

1.6 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 2014/15 – 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 report therefore updates Members on the current Treasury Management position.

1.3 In 2014/15 the Council's treasury position (excluding finance leases) continues to be debt free. No borrowing has been taken during the first quarter of 2014/15.

1.4 The capital financing requirement, which is the amount of borrowing required to support the Capital 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 June 2014:

	30 Jun 14 £m	Rate %
Capital Financing Requirement	0	
Borrowing	0	
Investments	28.55	0.79

Table 2: Borrowing and Investment position at 30 June 2014

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.

2.2 Capita Asset Services - the Council's Treasury Management advisors – brief forward view of the economy and interest rate position is detailed in the subsequent paragraphs.

2.3 After strong UK Gross Domestic product growth of 0.7%, 0.8% and 0.7% in Quarters 2, 3 and 4 respectively in 2013, and 0.8% in Q1 2014, it appears very likely that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster through the threshold of 7%, set by the Monetary Policy Committee (Monetary Policy Committee) last August, before it said it would consider any increases in Bank Rate. The Monetary Policy Committee has, therefore, now broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. Accordingly, markets are expecting a first increase around the end of 2014.

2.4 Also encouraging has been the sharp fall in inflation (Consumer Prices Index), reaching 1.5% in May, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed in this quarter.

2.5 In June, the Federal Reserve continued with its monthly $10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from $85bn to $35bn and are expected to stop by Q3 201, providing strong economic growth continues this year. First quarter Gross Domestic product figures were depressed by exceptionally bad winter weather, but growth rates since then look as if they are recovering well.

2.6 The Euro Zone is facing an increasing threat from deflation. In May, the inflation rate fell further, to reach 0.5%. However, this is an average for all Euro Zone countries and includes some countries with negative rates of inflation. Accordingly, the European Central Bank did take some rather limited action in June to loosen monetary policy in order to promote growth.

2.7 Interest rate Forecast - The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.40%	4.40%
25yr PWLB rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	4.90%	5.00%
50yr PWLB rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	4.90%	5.00%

2.8 Capita Asset Services undertook a review of its interest rate forecasts in May, after the Bank of England's Inflation Report. However, more recent developments to the Bank of England's forward guidance have necessitated a second updating in this quarter carried out on 30 June. This latest forecast now includes a first increase in Bank Rate in Quarter 1 of 2015 (previously quarter 4 of 2015).

2.9 Summary Outlook - Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded during 2013 and the first quarter of 2014 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are currently very positive in indicating that growth prospects are also strong for the rest of 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy has been that wage inflation has been significantly below Consumer Prices Index inflation, so disposable income and living standards were being eroded, (although income tax cuts had ameliorated this to some extent). However, recent falls in inflation have created the potential for the narrowing of this gap and it could narrow further during this

year, especially if there is also a recovery in growth in labour productivity (leading to increases in pay rates). With regard to the US, the main world economy, it faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although labour force participation rates remain lower than ideal.

2.10 As for the Euro Zone, concerns subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of Government debt to Gross Domestic product ratios could continue to rise. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

3.0 ANNUAL INVESTMENT STRATEGY 2014/15 – Quarter 1:

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 2014/15, and includes the Annual Investment Strategy approved by Cabinet on 11 February 2014. This Policy sets out how surplus funds are invested and placed with highly credit rated financial institutions, using Capita Asset Services 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 Sector.

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

- Security of capital;
- Liquidity; and
- Yield

The Council's priority is security of its surplus funds when investing with financial institutions, followed by ensuring the right level of liquidity is available. The Council will also aim to achieve the optimum return (yield) on investments, but security is key.

3.3 **Investments held by the Council** – In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs but also to seek out value available in higher interest rates in periods up to 12 months. Investments occur with highly credit rated financial institutions using Capita Asset services suggested creditworthiness approach which focuses on the institutional and sovereign credit ratings.

3.4 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2014.

3.5 Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme.

3.6 The average level of funds available for investment purposes during the quarter was £30,446,48. 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 £25,920,000 at Quarter 1 - core cash balances for investment purposes (i.e. funds available for more than 1 month) and £2,630,000 cash flow movement balances. Total investment balance at 30 June 2104 was £28,550,000, overall return was 0.79%.

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.34%	0.50%	£6,276
3 month	0.41%	0.85%	£53,783

Table 3: Investment performance for quarter 1 –30 June 2014

3.7 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 by 0.44% and outperformed the 7 day benchmark by 0.16%. The Council also benchmarks against Capita Asset Service District Council data and this will be reported at quarter 2 when information is available.

3.8 The Council's budgeted investment return for 2014/15 is £300,000. Performance for investments interest earned for the quarter is £60,059. This return for the first 3 months of 2014/15 is slightly below the budget but it is expected that the budget will be achieved due to the current speculation surrounding interest rates.

4.0 BORROWING 2014/15 QUARTER 1:

4.1 Capita Asset Management Services – the Council's Treasury Management advisor – confirmed that borrowing rates for the 25 year PWLB (Public Works Loan Board) target rate for new long term borrowing for the quarter remained at 4.40% until 19 May 2014 when it then fell to 4.30%.

4.2 The table below shows the Public Works Loans Board interest rates which were available for loans during the first quarter of 2014/15. 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	1.20%	2.50%	3.42%	4.12%	4.08%
Date	08/04/2014	14/04/2014	16/05/2014	16/05/2014	16/05/2014
High	1.47%	2.85%	3.66%	4.30%	4.28%
Date	17/06/2014	20/06/2014	20/06/2014	03/04/2014	02/04/2014
Average	1.29%	2.66%	3.56%	4.22%	4.18%

Table 4: PWLB certainty rates, quarter ended 30 June 2014

4.3 **Treasury Borrowing** – the Council remains debt free and undertook no external borrowing or cash flow purposes or capital financing purposes in the first quarter of 2014/15.

4.4 **Rescheduling of Borrowing** – the Council has no debt and therefore undertook no rescheduling of debt during the first quarter of 2014/15.

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) are included in the approved Treasury Management Strategy Statement by Cabinet on 11 February 2014. This was revised on 18 March 2014 and again approved by Cabinet due to the changes in the capital expenditure programme.

5.2 During the financial year to date the Council has operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Annex E.

ANNEX D

ECONOMIC BACKGROUND, INTEREST RATE FORECAST AND SUMMARY OUTLOOK

1.0 ECONOMIC BACKGROUND

1.1 During the quarter ended 30th June 2014:

a. Indicators suggested that the economic recovery accelerated;
b. Household spending rose again;
c. Inflation fell to its lowest level since September 2009;
d. The International Labour Organisation measure of unemployment fell further to 6.6%;
e. The Monetary Policy Committee suggested that the economy might warrant higher interest rates before the end of the year;
f. Low tax receipts put the fiscal tightening slightly off track; and
g. The European Central Bank (European Central Bank) made announcements designed to boost bank lending and counter the risk of deflation.

1.2 After a healthy quarterly expansion in UK Gross Domestic product of 0.8% in Q1, some of the early indicators point to growth accelerating in the second quarter. On the basis of past form, the CIPS/Market business activity surveys point to quarterly Gross Domestic product growth of around 1.5% in Q2. Admittedly, the composite Purchasing Managers Index has tended to overstate the pace of the recovery over the past year. However, survey data was also encouraging on the strength of the recovery in Q2. All of the headline figures in April's industrial production release were encouraging. Indeed, even if production only manages to hold steady in the remaining two months of the quarter, it would still be 0.7% higher in Q2 overall than in Q1. That said, the £2.5bn trade deficit in April, compared to £1.7bn last year, highlights that the recovery is still struggling to rebalance towards exports.

1.3 Meanwhile, household spending looks to have supported further Gross Domestic product growth in Q2. While retail sales volumes fell by 0.5% on the previous month in May, following strong growth in April, the underlying trend remains strong as a combination of rapid jobs growth and falling prices continues to fuel a recovery in consumer spending. In addition, the more forward-looking survey balances of expected sales also point to solid growth in consumer spending in the near-term. Furthermore, non-high street spending remained robust too. Annual growth in new car registrations averaged around 5% in April and May and the Bank of England's Agents' Survey recorded the measure of consumer services turnover at its joint highest level in May since 1998. So it still seems likely that overall household spending strengthened in the second quarter.

1.4 The labour market has continued its strong recovery. Employment rose by a huge 345,000 in the three months to April, by far the biggest increase since records began in 1971. Despite an increase in the workforce, employment growth was enough to bring the headline (three-month average) unemployment rate down to 6.6% in April. In addition, the timelier claimant count measure of unemployment fell by 27,400 in May, potentially pointing to further falls in the broader International Labour Organisation measure of unemployment. Nonetheless, pay growth has remained subdued, with headline annual growth (three month average) in average earnings (including bonuses) falling to 0.7% in April, well below inflation of 1.8%. Since real earnings have yet to rise, some consumers may be overstretching their finances in order to spend more.

1.5 Meanwhile, after sending dovish messages through the May Inflation Report, the Monetary Policy Committee's communications have now gone full circle, from trying to prevent interest rate expectations from rising too quickly via the introduction of forward guidance last summer, to trying to *raise* them now. A number of Committee members, including Governor Mark Carney, have warned of not-too-distant policy tightening.

1.6 Indeed, the main factor that could dissuade the Monetary Policy Committee from starting on an earlier path for increasing Bank Rate is inflation. Consumer Prices Index inflation fell to 1.5% in May, the lowest rate since late 2009. Recent developments, including sterling's further appreciation, falls in producer price inflation and very weak wages growth, suggest that Consumer Prices Index inflation could fall to as low as 1% later this year.

1.7 Meanwhile, May's public borrowing figures contained tentative signs that the coalition is struggling to bring down the deficit in line with fiscal plans this year. The underlying measure of borrowing (Public Sector Net Borrowing ex. excluding Royal Mail pension fund transfers) was £13.3bn in May, exceeding the consensus forecast of £12.2bn. The increase was largely driven by a drop in tax receipts, rather than strong increases in spending. Spending in April and May is around 9% higher than it was in the same period last year. However, it is still too early in the fiscal year to draw conclusions from these figures.

1.8 One risk which continues to linger is an overheating housing market. Fears that a nationwide bubble is building will not have been assuaged by the Financial Policy Committee's relatively timid action announced alongside June's Financial Stability Report. Indeed, the 15% limit on the proportion of the volume of new mortgages that can be advanced at a multiple of 4.5 times income or more is unlikely to prevent a further rise in high loan-to-income ratio lending, given that the limit is a fair way above the actual current proportion of 10%. Furthermore, the tweaks to the existing stress tests used to assess mortgage applicants seem unlikely to make a material difference either. Admittedly, the housing market has already shown some signs of slowing of its own accord. Indeed, approvals for new mortgages fell to an eleven-month low in May, and the new buyer enquiries balance of the RICS Housing Market Survey has continued to moderate. However, with supply remaining tight, further strong increases in house prices in the near-term look likely. Although the Financial Policy Committee could announce further measures at a later date, the timidity of its actions so far may have slightly increased the chances that the Monetary Policy Committee could raise Bank Rate in the not too distant future.

1.9 Internationally, the robust 217,000 increase in US non-farm payrolls in May is another encouraging sign that the economy is getting back on the right track after the weather-related weakness during the winter. The 0.6% m/m rise in US industrial production in May also suggests that activity is bouncing back. Meanwhile, the US Federal Reserve continued tapering its asset purchases by a further $10bn in June's policy meeting and highlighted that the benign outlook for inflation means monetary policy will remain loose for some time. The Fed lowered its forecasts for Gross Domestic product growth and unemployment, but the Federal Open Market Committee's policy statement made no reference to the recent build up of price pressures.

1.10 Activity indicators for the Euro Zone suggest that the recovery only gained a little momentum in Q2. Moreover, the spectre of deflation continues to hang over the region. Harmonised Index of Consumer Prices inflation fell from 0.7% to 0.5% in May, the joint weakest rate since 2009 and far beneath the European Central Bank's 2% price stability ceiling. Furthermore, unit labour costs have risen by just 0.1% in the past year. As developments in wages tend to affect wider measures of inflation after a short lag, the latest data suggests that consumer price inflation could fall even further. Accordingly, the European Central Bank made a number of announcements in June designed to boost bank lending and counter deflationary risks, including rate cuts and potential asset purchases. However, the policies involved are not as bold as they might seem. The interest rate cuts were very small and the decision not to sterilise bond purchases made under the Securities Markets Programme amounts to just 1.7% of Gross Domestic product.

1.11 In the UK, equities continued to underperform, despite improving expectations for the strength and sustainability of the UK's recovery. Indeed, they have continued to underperform US equities, even though the consensus expects the UK to grow faster than the US in 2014. Meanwhile, gilt yields edged up – particularly at the short-end of the curve – following the Monetary Policy Committee's communications in June, which were more hawkish than May's Inflation Report. In contrast, forward rates at the long end of the curve fell further, although it is not clear whether this is a result of pessimism about the UK's growth prospects in the long run, or a decline in the term premium which reflects uncertainty about the future path of interest rates.

2.0 INTEREST RATE FORECAST

THE UK

2a. May Bank of England Quarterly Inflation Report

Over the last four quarters, we have had a continuing run of strong economic news which has consolidated confidence that the UK economy is recovering strongly. However, please note that the Governor said the economy "has only just begun to head back towards normal" after the slowest ever recovery from a recession. Widespread disbelief that unemployment would take nearly three years to fall to 7%, as the Bank forecast at the time of the August Inflation Report, has indeed proved to be well founded as the rate fell to 6.8% in Q1 2014 and then to 6.6% in quarter 2. Accordingly, this latest Inflation Report has seen the Bank provide a view of the economy as moving from a recovery supported by household spending to a more broadly based expansion sustained by:-

- Growth in business investment;
- A change from falling to rising real wages (average wage increases started to exceed the rate of Consumer Prices Index inflation over the last quarter but more recently, this situation has reversed back again);
- Increasing employment;
- Productivity growth to support those real wage increases and improve export competitiveness – expected to reach 2.5% by the end of 2014.

Key economic statistics in the Inflation Report were as follows: -

1. Gross Domestic product has grown at an annual rate of 3.1% over the last four quarters;
2. Bank of England Gross Domestic product forecasts: 2014 unchanged at 3.4%, 2015 upped from 2.7% to 2.9%, and for 2016 unchanged at 2.8%;
3. Inflation to be well behaved over the next two years: rising to 2.0% in two years' time from 1.7% in Q2 2015;
4. Growth of productivity has only started to marginally improve, although it is expected to gradually rise back to its average historical rate.

We have reservations that the Bank's current forecasts for Gross Domestic product growth may be over optimistic and that strong economic growth could weaken as the main impetus has come from consumer spending and an uplift in borrowing to buy property. Whilst the release of this burst of pent up demand to buy property is having a very welcome effect on the economy, this surge is likely to fade in time and will then leave a question mark over where growth is going to come from. Basically, there are four main areas of demand in the UK economy: -

1. Consumers – but most consumers are maxed out on borrowing and trying to pay down debt. In addition, although average wage inflation is now higher than Consumer Prices Index inflation, many consumers are still experiencing declining disposable income as their wage increases are continuing to be less than inflation. This will not reverse until productivity and business investment improve, so as to warrant paying higher wages than are being paid currently. It is mainly higher wages that could provide a solid stimulus to an increase in consumer expenditure which would then underpin strong growth. There are also concerns that a significant number of mortgage holders are going to find it very difficult to manage increases in Bank Rate, and so in mortgage rates, when they do start.

2. Government – again, maxed out on borrowing and committed to austerity programmes to reduce its expenditure. Further austerity measures are still to come.

3. Foreigners buying our exports – but the European Union, our major export market, is likely to experience tepid growth, at best, for the next few years. Also the rise in the value of Sterling means that imports are becoming cheaper which will cause UK consumers to increase purchases of cheaper imported goods in preference to UK produced competing products, so depressing UK Gross Domestic product growth.

4. Business investment in fixed capital formation; but this has fallen from 13.5% to 10.4% of Gross Domestic product over 2008 - 2013. However, there are encouraging signs that businesses are catching the upturn in optimism and are beginning to increase investment and exports into new markets in emerging countries. However, it will take a significant length of time for this start to make a material impact on total UK Gross Domestic product growth rates and to take over the baton from consumers.

2b. The evolution of forward guidance

If you have been following the comments flying around through late June and early July, you may have ended up with the impression that Carney and other Monetary Policy Committee members have been giving rather confused signals as to what the Monetary Policy Committee's thoughts are when making "forward guidance" comments on what is going to happen to Bank Rate and when. Here is a quick recap of how forward guidance has evolved: -

1. **August 2013.** The Monetary Policy Committee would not consider raising Bank Rate until the unemployment rate falls to 7%; this was deemed unlikely to occur until late 2016.
2. **February 2014 Quarterly Inflation Report.** Forward guidance mark 1 was abolished as the unemployment rate fell rapidly (the 7% threshold was breached in April 2014). Mark 2 'fuzzy guidance' was to be based on a range of about eighteen indicators but was still to be driven, ultimately, by the fundamental concept of how quickly the amount of slack in the economy after the recession, was used up. However, there were a wide range of views in the Monetary Policy Committee as to how much slack there was and also around how quickly it would be used up, as there is no definitive and objective way of measuring this concept of slack. However, the Bank, and Carney, both commented that market views of likely increases in Bank Rate were in the right ball park (i.e. late 2014 / early 2015).
3. **14 May: 2014 Quarterly Inflation Report.** By this time, we had hard data that the UK economic recovery was going full steam ahead in 2014, i.e. this pointed to it being more likely that Bank Rate would have to go up sooner than had been expected

previously. Instead of which, Carney went out on a limb and made comments to the effect that the possibility of any Bank Rate increase in 2014 and, arguably, even as soon as Q1 2015 was minimal. No other Monetary Policy Committee member contradicted these comments, so the logical inference was that his comments must also have been a reflection of the view of the Monetary Policy Committee.

4. **12 June: Carney Mansion House speech.** Carney expressed surprise that financial markets had not factored in a higher probability that Bank Rate could go up in 2014. To say that the financial markets were flabbergasted by this dramatic change of tack since a month ago was a bit of an understatement!

5. **18 June: Monetary Policy Committee minutes.** The Monetary Policy Committee said, (for a second time), that the decision on rates was becoming more balanced. It also said that the low probability (15%) attached in the markets to a rise in 2014 was "somewhat surprising". So Carney's comments at the Mansion House were not a Suarez moment of madness but rather comments that the whole Monetary Policy Committee agreed with. So the financial markets now had to go back to where they started from; that they WERE right that a Bank Rate increase was likely in 2014, probably towards the end of the year (November 2014 would be the quarterly Inflation Report month when the Monetary Policy Committee would be most likely to take action in Q4). However, to be fair to Carney and the Monetary Policy Committee, saying that 15% was too low leaves wide open just how too low this was, i.e. should it have been a 30% risk; or 70%? Do those comments really mean the financial markets are now right to pencil in a first increase in Q4 2014?

6. **24 June: Select Committee Carney comments.** An MP accused Carney of being an 'unreliable boyfriend' i.e. blowing hot one day and cold the next day. Overall, MPs felt that Carney's attempts at communicating forward guidance had been muddled and left the financial markets, and others, confused in as much as the various attempts at forward guidance had pointed in different directions. Carney attempted to dig himself out of this onslaught by emphasising that the timing for the FIRST increase in Bank Rate would be data driven i.e. no one could say for certain when that would occur. However, what he placed the most emphasis on was the medium term, i.e. the timing of the first increase was of a lesser degree of importance. So, in the medium term, increases would be **"limited and gradual".** Also, rates would not get back to around 5% as before the financial crisis. He also criticised the financial markets for not responding to the strength of recent economic data and commented that the Monetary Policy Committee would change its views according to how data evolved. This evoked a response from one MP to say that in that case, forward guidance was redundant and we had returned to the days of "old fashioned smoke and mirrors"!

2c. So where are we now?

Let's make an attempt at trying to blow away the smoke of battle to see clearly where we are now: -

a. Since our previous interest rate forecast on 19 May, short Sterling rates (a good indicator for when financial markets expect the first increase in Bank Rate), have shifted significantly from indicating an early 2015 first increase to Q4 2014.

b. The one piece of guidance which appears to have emerged from the fray of battle unscathed is that in the medium term increases in Bank Rate will be **"LIMITED AND GRADUAL".** Also, rates would not get back to around 5% as before the financial crisis.

c. The Monetary Policy Committee have also indicated their concerns that an earlier increase in Bank Rate could help them later with implementing a slower pace of increases in Bank Rate and keeping Bank Rate lower, than if there was a later timing for the first increase. It, therefore, becomes a matter of debate as to how rigidly they

will be driven by actual data and what their 2 to 3 year forecasts for inflation (and on the other side of the same coin - slack), indicate, and instead how much weight they will put on their judgement to decide on the optimum time to vote for the first increase given their medium term concerns. Another way of putting this is 'should forecasters now be placing more weight on what they think the Monetary Policy Committee will do, rather than what they think inflation, and other data, would warrant on their own in terms of the timing of the first increase in Bank Rate?'

d. Many forecasters have, therefore, brought forward their forecast for the first increase in Bank Rate to take account of the various comments that have been made by the Monetary Policy Committee and Carney and the fact that economic recovery in 2014 is likely to be very robust. (27.6.14 June Q1 Gross Domestic product figure came in at an annual rate of 3.0%). Surveys and other economic data are now pointing to Q2 building further momentum to around an annual rate of 3.4%.) We agree with this movement and have moved forward our first increase in Bank Rate from Q4 2015 to Q1 2015.

e. But…and this little word BUT can have such a powerful effect! What would happen in the medium term if economic data were to take a nasty turn? Suppose the Monetary Policy Committee over estimate the amount of slack in the economy and under estimate the speed with which it is used up? Or, to put it another way, suppose they get their forecasts for inflation over the next 2-3 years too low and inflation builds up quickly and threatens to become a significant risk. Could the commitment to "limited and gradual" increases in Bank Rate melt and disappear like snow on a balmy spring day? One wonders.

Accordingly, in our revised interest rate forecast, this earlier start to the timing of the first increase in Bank Rate has resulted in slight increases in Bank Rate in the two subsequent years compared to our previous forecast. However, we have slowed down the pace at which increases occur in line with the 'slow and gradual' forward guidance which has been emphasised recently.

3.0 THE GLOBAL ECONOMY

3.1 We can only repeat our previous warnings that we are in times when events can precipitate major volatility in markets. During this year we have seen a flight to safe havens resulting from investment flows out of emerging countries back to western economies as the prospects for higher growth in these economies has improved. This has been triggered by the Fed's start to tapering and successive months of reducing Quantitative Easing purchases by $10bn per month.

3.2 As for the Euro Zone, while Ireland and Portugal have made very good progress and have been able to exit from their bail out programmes, there remains the prospect that Greece could require a third bailout package, though not one on the same scale as the first two.

3.3 A further concern over the Euro Zone is the potential "Japanification" of the economy as some countries are now experiencing, or are very near to, deflation. Deflation causes a real increase in the value of debt. This is dangerous in itself for already heavily indebted countries but even more so where countries are still running up annual deficits of 3% or more. We are, therefore, concerned that some Euro Zone countries experiencing low growth, will, over the next few years, see a significant increase in total government debt to Gross Domestic product ratios. There is a potential danger for these ratios to rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the Euro Zone debt crisis. While the European Central Bank has adequate resources to manage a debt crisis in a small Euro Zone country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the European Central Bank

and to Euro Zone politicians. All eyes are currently on the European Central Bank in terms of whether they will provide further policy support, having resorted to negative interest rates in June in an effort to encourage financial institutions to lend into the "real economy".

4.0 CAPITA ASSET SERVICES FORWARD VIEW

4.1 We would remind clients of the view that we expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are as we are experiencing volatility which is highly correlated to geo-political developments.

4.2 As there remain the threat of potential risks from a number of sources caution must be exercised in respect of all interest rate forecasts at the current time. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is predicted to remain unchanged, as market fundamentals will focus on the improved UK economic performance as well as issues such as the sheer volume of UK gilt issuance (and also US Treasury issuance) and the price of those new debt issues. Negative (or positive) developments on the geo-political front as well as any fresh issues regarding an Euro Zone-related sovereign debt crisis could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

4.3 Our interest rate forecast is based on an initial assumption that we will not be heading into a major resurgence of the Euro Zone debt crisis, or a break-up of the Euro Zone, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where Euro Zone institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the Euro Zone will be tepid for the next couple of years and, therefore, has the potential to dampen UK growth, as the European Union is our biggest export market.

4.4 Our PWLB forecasts are based around a balance of risks. However, we would flag up the potential for upside risks, especially for longer term PWLB rates, as follows:-

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a greater flow of funds out of bonds and into equities.
- UK inflation being significantly higher than in the wider European Union and US, causing an increase in the inflation premium inherent to gilt yields.

Downside risks currently include:

- The situation over Ukraine poses a major threat to Euro Zone and world growth if it was to deteriorate into "economic warfare" between the West and Russia, where Russia resorted to using its control over gas supplies to Europe. Heightened political risks in the Middle East and East Asia could also trigger safe haven flows back into bonds.
- A failure to rebalance UK growth towards exporting and business investment causing a weakening of overall economic growth beyond 2014.
- A resurgence of the Euro Zone sovereign debt crisis caused by ongoing deterioration in government debt to Gross Domestic product ratios.
- Recapitalising of European banks requiring more government financial support.

- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which still face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- There are also increasing concerns that the reluctance of western economies to raise interest rates significantly for some years. This plus the huge Quantitative Easing measures which remain in place (and may be added to by the European Central Bank in the near future), has created potentially unstable flows of liquidity searching for yield and therefore heightened the potential for an increase in risks in order to get higher returns. This is a return of the same environment which led to the 2008 financial crisis.

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 18 March 2014

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	**2014/15**	**2014/15**
Extract from budget and rent setting report	**Original Budget**	**Actual Q1**
	£'000	**£'000**
Capital Expenditure	2,126	2,792
Ratio of financing costs to net revenue stream	Nil	Nil
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 2015	Nil	Nil
Incremental impact of capital investment decisions	£	£
Increase in Council Tax (band D) per annum	£0.06	£0.06

2. TREASURY MANAGEMENT INDICATORS	**2014/15**	**2014/15**
	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 investments	90%	90%
Upper limit for variable rate exposure		
Net principal re variable rate investments	50%	50%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£10,000	£10,000

Maturity structure of fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	0%	100%
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%