HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
10 February 2015

Subject: **2014/15 Q3 CAPITAL MONITORING AND TREASURY MANAGEMENT MID YEAR REVIEW REPORT**

All Wards
Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGOUND:

1.1 The purpose of this report is to provide the Quarter 3 update at 31 December 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 affects 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 2014/15 Capital Programme was approved by Cabinet at Quarter 2 on 2 December 2014 at £2,543,427.

2.2 A net decrease to the Capital Programme of £224,486 is detailed in this Quarter 3 monitor that results in a revised Capital Programme budget of £2,318,941. The Capital Programme is attached at Annex 'A'.

2.3 The net decrease of £224,486, to be approved in this report, is made up of:-

(a) decrease in expenditure from re-profiling of £218,793 from 2014/15 to 2015/16;
(b) transfer of funds between schemes, with overall effect being zero;
(c) increase in expenditure of £307 supported from Council reserves;
(d) reduction in scheme expenditure of £6,000.

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

Portfolio	Current Approved Expenditure Q2 £	Revised projected Outturn Q3 £	Variance Increase/ (decrease) £	Budget re-profiled (to) 2015/16 £	Funding transferred between Schemes in 2014/15 £	Request for additional funding £	Funding no longer required £
Environmental & Planning Services	340,029	340,029	-	-	-	-	-
Customer & Leisure	587,068	580,052	(7,016)	(27,323)	20,000	307	-
Support Services	1,616,330	1,398,860	(217,470)	(191,470)	(20,000)	-	(6,000)
Total	**2,543,427**	**2,318,941**	**(224,486)**	**(218,793)**	-	**307**	**(6,000)**

Table 1: Capital Programme Q3 2014/15

2.5 To 31 December 2014 capital expenditure of £987,160 had been incurred or committed representing 42.6% of the revised Quarter 3 Capital Programme position. Schemes are under development and in the final quarter of 2014/15 further capital expenditure is expected to see the majority of the Capital Programme complete by the end of the 2014/15 financial year.

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

3.0 <u>FUNDING THE CAPITAL PROGRAMME</u>:

3.1 For 2014/15, at Quarter 3, the Capital Programme of £2,318,941 is being funded from £266,704 external grants/contributions and £2,052,237 from reserves.

3.2 The external grants contributions of £266,704 are £166,277 Government Grant for Disabled Facilities grant, £50,000 S106 funding towards Sowerby Sports Village and £50,427 as a result of 46% of the Bedale All Weather Pitch scheme being funded by a contribution from the Football Foundation.

3.3 The capital receipts estimated to be received during 2014/15 is £857,707.

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 3 it is estimated that £1,194,530 of funding will be used from the capital receipts reserve 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 is provided along with the Financial Strategy and Capital Programme 2015/16, for approval in February 2015 Cabinet prior to the beginning of the new financial year.

3.6 It should be noted that this report reflects the Capital Programme position at Quarter 3 as if approval has been agreed by Cabinet. This is detailed in the recommendations below.

4.0 <u>TREASURY MANAGEMENT 2014/15 – QUARTER 3:</u>

4.1 The Treasury Management Quarter 3 update 2014/15 is attached at Annex 'C' and provides Members with an update on the:-

(a) Treasury Management legislative requirement
(b) economy and interest rates
(c) investment strategy
(e) borrowing position
(f) compliance with prudential and treasury indicators

4.2 The investment position at Quarter 3 was £27,390,000, with an average interest rate return of 0.77%; this was 0.42% higher than the 7 day market rate at 0.35%. For surplus funds invested for 3 months or more, a return of 0.83% was achieved which was 0.40% greater than the 3 month benchmark at 0.43%.

4.3 To ensure that the Council is proactive in the area of Treasury Management the Council has joined Capital Asset Services (the Council's Treasury Management advisors) regional benchmarking club. This compares Hambleton District Council's investment portfolio position to other District Councils. At the end of December 2014, the average return on the Council's investment portfolio was 0.77%, this is 0.08% greater than the average for other District Council's at 0.69%.

4.4 The interest rate environment continues to offer investment market rates of return around the Base Rate level of 0.5%. The Council's original budgeted investment return for 2014/15 was approved at £300,000 in February 2014. However at Quarter 3, the estimate of interest to be earned during the year has been revised down to £250,950. Further detail is available in the 2014/15 Quarter 3 Revenue Monitoring Report. Further information on the economic environment and interest rates is attached at Annex 'D'.

4.5 The Council remains debt free; no borrowing has been taken in 2014/15.

4.6 The Council has operated within the Treasury and Prudential indicators set out at Annex 'E'. The Director of Support Services and Deputy Chief Executive – S151 Officer - confirms that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2014/15.

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 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

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 Capital Programme 2014/15 is the Disabled Facilities Grant scheme.

10.0 RECOMMENDATIONS:

10.1 It is recommended that Cabinet approves and recommends that Council:-

(1) approve the net decrease of £224,486 in the Capital Programme to £2,318,941 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 capital expenditure of £20,000 for the Customer Service Web/Intranet Development to be funded from the ICT Customer Excellence Scheme.

b. the decrease in expenditure of £20,000 for the ICT Customer Excellence Scheme to fund the Customer Service Web/Intranet Development.

c. the decrease in expenditure of £206,403 for re-profiling from this year to 2015/16 £27,323 for Hambleton Leisure Centre Improvement Scheme, £19,080 for ICT Improvements scheme and £160,000 for Bedale Gateway Bypass

(3) note the further overall decrease in the Capital Programme which are individually below £20,000 as detailed in Annex 'B' and cumulatively total £18,083

(4) note the Capital Funding position - contributions of £266,704, capital receipts of £857,707 and £1,194,530 capital reserves;

(5) note the Treasury Management activity at Annex 'C';

(6) note the Prudential and Treasury indicators at Annex 'E' and that there were no changes at Quarter 3.

JUSTIN IVES

Background papers: None

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Annex A

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

ANNEX A

COA CC	Ref:	Responsible Officer	Title:	Original Approved Expenditure 14/15	Schemes rolled Fwd from 2013/14	Approved Changes at Q1 2014/15	Approved Changes at Q2 2014/15	Approved Expenditure Revised at Q2 2014/15	Third Party Contribution	Cost to the Council	Expenditure at 22/12/14	Anticipated Expenditure £	Variance at Q3	Change in Funding Taken/(Returned) to Capital Reserve (9 months)
				£				£	£	£	£	£	£	£
			Environmental & Planning Services											
HZ6600/HZ6601	1	MJ	Purchase of bins and boxes for refuse and recycling	36,000				36,000		36,000	32,602	36,000	0	
HZ6000	13	MJ	Disabled Facilities Grants	150,000	80,379			230,379	166,277	64,102	124,475	230,379	0	-66,277
HZ6605	B/fwd	MJ	Depot - Wash Bay		18,000		8,000	26,000		26,000	200	26,000	0	8,000
HZ6609	B/fwd	MJ	Waste & Street Scene Clocking System		9,000			9,000		9,000	0	9,000	0	
HZ6605	11	MJ	Central depot external lighting improvements	20,000				20,000		20,000	15,460	20,000	0	
HZ6608	12	MJ	Central Depot - Security Fencing	8,000				8,000		8,000	0	8,000	0	
HZ6829		MJ	Idox Performance Management Software - Planning				10,650	10,650		10,650	10,650	10,650	0	10,650
													0	
			Total Scheme Value Environmental & Planning Services	**214,000**	**107,379**	**0**	**18,650**	**340,029**	**166,277**	**173,752**	**183,387**	**340,029**	**0**	**-47,627**
			Customer & Leisure Services					0						
								0						
HZ6441	B/Fwd	DG	Thirsk and Sowerby leisure centre improvement scheme		36,227			36,227		36,227	10,258	36,227	0	
HZ6444		DG	Thirsk & Sowerby Sports Village	0		50,000		50,000	50,000	0	33,695	50,000	0	
HZ6440		DG	Stokesley Leisure Centre improvement scheme	0		4,349		4,349		4,349	4,349	4,349	0	4,349
HZ6439	B/Fwd	DG	Bedale Leisure centre improvement scheme		203,296			203,296	50,427	152,869	193,601	203,296	0	-50,427
HZ6325	B/Fwd	DG	CCTV Control Room Upgrade		3,835			3,835		3,835	0	3,835	0	
	B/Fwd	DG	CCTV control room upgrade - Wireless Network		71,000			71,000		71,000	0	71,000	0	-71,000
HZ6046	B/Fwd.	DG	Thirsk New TIC		1337			1,337		1,337	0	1,337	0	
HZ6047	B/Fwd	DG	Bedale Craft Yard Window		3,975			3,975		3,975	3,975	3,975	0	
HZ6048	B/Fwd	DG	Evolution Car Park Extension		7,000		-1,979	5,021		5,021	5,021	5,021	0	-1,979
		DG	Workspaces - roller shutter doors	0		9,005		9,005		9,005	9,312	9,312	307	**9,312**
		DG	Footpath Diversion & Car Park Creation Leeming Bar				36,700	36,700		36,700		36,700	0	36,700

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

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				£				£	£	£	£	£	£	£
		DG	17 Market Place Bird Netting				6,000	6,000		6,000		6,000	0	6,000
	2	DG	Leisure Equipment Lease Buy	200,000			-200,000	0		0	0	0	0	
HZ6819	10	DG	Customer Services Web/Intranet Development	100,000				100,000		100,000	41,400	120,000	20,000	**20,000**
	14	DG	Hambleton All Weather Pitch Refurbishment	131,000			-131,000	0		0	0	0	0	
	15	DG	Stokesley All Weather Pitch Refurbishment	11,000				11,000		11,000	0	11,000	0	
HZ6438	16	DG	Hambleton Leisure Centre Improvement Scheme	20,000	15,323			35,323		35,323	1,592	8,000	-27,323	**-27,323**
		DG	Hambleton Leisure Centre Fence	0		10,000		10,000		10,000	7,908	10,000	0	10,000
			Total Scheme Value Customer & Leisure Services	**462,000**	**341,993**	**73,354**	**(290,279)**	**587,068**	**100,427**	**486,641**	**311,111**	**580,052**	**-7,016**	**-64,368**

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

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				£				£	£	£	£	£	£	£
			Support Services					0						
								0						
HZ6822	B/Fwd	JI	Air conditioning - Legislative requirement Corporate	15000	11,862			26,862		26,862	6,800	26,862	0	
HZ6301	B/Fwd	JI	Public lighting energy reductions		31,088			31,088		31,088	18,745	31,088	0	
HZ6300	4	JI	Public lighting replacement	51,000	18,816			69,816		69,816	343	69,816	0	
	5	JI	Civic Centre - Carpet Replacement	10,000		7,000		17,000		17,000	6,915	17,000	0	7,000
	6	JI	Civic Centre - Internal Painting	6,000				6,000		6,000	5,999	6,000	0	
	7	JI	Civic Centre - Window Replacements	10,000				10,000		10,000	952	10,000	0	
HZ6828	8	JI	Civic Centre - Backup Generator	40,000				40,000		40,000	26,154	40,000	0	
HZ6807	9	JI	ICT Improvements	187,030				187,030		187,030	42,069	154,860	-32,170	**-25,080**
HZ6850	17	DG	All Leisure Centres - Digital Transaction Software	24,000				24,000		24,000	10,351	24,000	0	
HZ6850	9	JI	ICT Leisure Improvements	105,670				105,670		105,670	2,049	105,670	0	
HZ6852	9	JI	ICT Information Security/Compliance	6,300				6,300		6,300	0	1,000	-5,300	**-12,390**
HZ6853	9	JI	ICT Customer Excellence	76,000				76,000		76,000	5,260	56,000	-20,000	**-20,000**
		JI	ICT Finance system split from Richmondshire District Council	0		60,000		60,000		60,000	49,142	60,000	0	60,000
HZ6013	18	JI	Car Park Restatements	45,000				45,000		45,000	0	45,000	0	
HZ6010	19	JI	Car Parks - Thirsk Cobbles	75,000	14,348		6,406	95,754		95,754	93,028	95,754	0	6,406

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

COA CC	Ref:	Responsible Officer	Title:	Original Approved Expenditure 14/15	Schemes rolled Fwd from 2013/14	Approved Changes at Q1 2014/15	Approved Changes at Q2 2014/15	Approved Expenditure Revised at Q2 2014/15	Third Party Contribution	Cost to the Council	Expenditure at 22/12/14	Anticipated Expenditure £	Variance at Q3	Change in Funding Taken/(Returned) to Capital Reserve (9 months)
				£				£	£	£	£	£	£	£
HZ6015	20	JI	Bedale Gateway Car Park	160,000				160,000		160,000	0	0	-160,000	**-160,000**
HZ6025	21	JI	Adoptions - Thirsk Phases 2 & 3	200,000				200,000		200,000	0	200,000	0	
HZ6052	22	JI	Adoptions - Electric Bollards - Thirsk & Northallerton	40,000				40,000		40,000	0	40,000	0	
		JI	Thirsk Market Place Central Area Enhancement	0		10,000		10,000		10,000	4,003	10,000	0	10,000
			Structural Repair to Civic Centre Roof				6,460	6,460		6,460		6,460	0	6,460
	N/A	JI	Revenue Repairs & Renewals	399,350				399,350		399,350	220,852	399,350	0	
			Total Scheme Support Services	**1,450,350**	**76,114**	**77,000**	**12,866**	**1,616,330**	**0**	**1,616,330**	**492,663**	**1,398,860**	**-217,470**	**-127,604**
			Total Capital Approvals 2014/15	**2,126,350**	**525,486**	**150,354**	**-258,763**	**2,543,427**	**266,704**	**2,276,723**	**987,160**	**2,318,941**	**-224,486**	**-239,599**

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 schemes required adjustment at Quarter 3.

1.3 Customer & Leisure Services - 3 schemes require adjustment at Quarter 3:

(a) Workspaces: Roller Shutter Doors – New doors installed during Quarter 3 completes the scheme and resulted in £307 additional expenditure, this was 3.4% increase above the original cost of the scheme at £9,005.

(b) Customer Services Web/Intranet Development - The initial project costs were based upon indicative prices supplied by software houses in September 2013. In the event, the software product actually chosen was more expensive than anticipated but this will be offset in the longer term by the product needing less ICT resource for operation. An increase of £20,000 is required to be approved (an increase above the original cost by 20%) which can be funded from the ICT Customer Excellence scheme, detailed in paragraph 1.4(c) below.

(c) Hambleton Leisure Centre Improvement Scheme - Approval is sought at Quarter 3 to re-profile £27,323 of this scheme in to 2015/16. Initial expenditure has been incurred for schematic assessment and preparatory works and consultants have been appointed to prepare the business case. Project to roll forward into 2015/16 as the scheme needs to take consideration of North Northallerton project and potential for external grant funding. .

1.4 Support Services– 2 schemes require adjustment at Quarter 3:-

(a) ICT Improvements - Six out of the twelve projects are awaiting quotes but the majority of projects should complete in 2015/16. One of the twelve projects will not commence until 2015/16 and therefore approval is sort for £19,080 to be rolled forward into 2015/16. The Total Land Charges project has been funded by revenue and therefore £6,000 is returned to the reserve. Funding has been reduced by £7,090 to support ICT Information Security/Compliance project as detailed in paragraph 1.4(b) below.

(b) Structural ICT Information Security / Compliance - The legislative PSN (Public Security Network) requirements are to be completed as highlighted in the External Health Check report commissioned in April 2014. Original expenditure was estimated at £6,300 but an additional £7,090 is requested at Quarter 3 2014/15, totalling £13,390. The additional £7,090 can be met by a transfer of funding from the ICT improvements project as detailed above in paragraph 1.4(a). The majority of the expenditure will be spent in 2015/16 due to a delay in the project implementation. Only £1,000 will be expended with £12,390 being rolled forward to 2015/16.

(c) ICT Customer Excellence – Approval is sort at Quarter 3 to use £20,000 funding to support the Customer Services Web / Intranet Development project as detailed above in paragraph 1.3(b).

(d) Bedale Gateway Car Park – This project is on hold until after Bedale & Leeming Bypass is completed in 2016. Funding of £160,000 to be returned to the reserve.

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 2014/15 – QUARTER 3

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 Quarter 3 report therefore updates Members on the current Treasury Management position

1.3 The Council's capital expenditure plans at Quarter 3 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 therefore there is no affect on the Council's underlying need to borrow.

1.4 In 2014/15 the Council's treasury position (excluding finance leases) is to continue to be debt free. No borrowing has been taken in 2014/15 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 31 December 2014:-

	31 Dec 14 £000's	Rate %
Capital Financing Requirement	0	-
Borrowing	0	0.0
Investments	27,390	0.77

Table 1: Borrowing and Investment position at 31 December 2014

1.9 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 and interest rate forecast, which sets the environment in which the Council's Treasury Management operates, is attached at Annex 'D'.

3.0 ANNUAL INVESTMENT STRATEGY 2014/15 – QUARTER 3:

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. It sets out the Council's investment priorities as being:

- Security of capital;

- Liquidity;
- Yield

3.2 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 in line with its risk appetite and which is commensurate with proper levels of liquidity and security. 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 periods up to 12 months. Investment are placed with highly credit rated financial institutions, using the Council's Treasury Management advisers – Capita Asset Services - suggested creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information.

3.3 **Investments held by the Council** - in the current economic climate, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on Banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low for the foreseeable future.

3.4 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. The volatility in the market has pushed back economic forecasters' view of when the next base rate rise will be to Quarter 4 2015.

3.5 The average level of funds available for investment purposes during Quarter 3 – 31 December 2014 - was £31,289,164. 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 (funds available for a year or more) of £25,000,000 at Quarter 3 and £2,390,000 cash flow movement balances. Total investment balance at 31 December 2104 was £27,390,000.

3.6

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.35%	0.50%	£20,372
3 month	0.43%	0.83%	£161,603

Table 2: Investment performance for quarter 3 – latest information 31 December 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 benchmark by 0.40% and the 7 day benchmark by 0.15%.

3.8 The Council's original budgeted investment return for 2014/15 was approved at £300,000 in February 2014. However at Quarter 3, the estimate of interest to be earned during the year has been revised down to £250,950. Further detail is available in the 2014/15 Quarter 3 Revenue Monitoring Report.

4.0 BORROWING 2014/15 – QUARTER 3:

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 advisor – target PWLB rate for new long term borrowing for Quarter 4 2014/15 has decreased from the original estimate in February 2014 for 25 years by 0.6% to 3.40%, and for 5 years has decreased by 0.5% to 2.20%.

4.2 The table below shows the Public Works Loans Board interest rates which were available for loans during Quarter 3 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 0.02% (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	1.12%	1.94%	2.54%	3.24%	3.22%
Date	31/12/2014	16/12/2014	16/12/2014	16/12/2014	16/12/2014
High	1.38%	2.56%	3.24%	3.85%	3.84%
Date	01/10/2014	01/10/2014	01/10/2014	01/10/2014	01/10/2014
Average	1.24%	2.23%	2.91%	3.60%	3.60%

Table 3: Public Works Loan Board (PWLB) certainty rates, half year ended 31 December 2014

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 nine months of 2014/15.

4.4 **Rescheduling of Borrowing** – the Council has no debt and therefore undertook no rescheduling of debt during 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) were approved in the Treasury Management Strategy Statement by Cabinet on 11 February 2014 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 which are attached at Annex 'E'.

5.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the Quarter ended 31 December 2014.

ANNEX ‘D’

1.0 ECONOMIC BACKGROUND

1.1 After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Quarter 1, 0.9% in Quarter 2 2014 (annual rate 3.2% in Quarter 2), Quarter 3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

1.2 Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The Autumn Statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

1.3 The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Quarter 2 and Quarter 3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently predicted that the first increase in the Fed. rate will occur by the middle of 2015.

1.4 The Eurozone is facing an increasing threat from deflation. In November the inflation rate fell to 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB did take some rather limited action in June and September to loosen monetary policy in order to promote growth and is currently expected to embark on quantitative easing early in 2015 to counter this threat of deflation and to stimulate growth.

2.0 INTEREST RATE FORECAST:

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

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
5yr PWLB rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%

2.2 Capita Asset Services undertook a review of its interest rate forecasts on 5 January 2015 after a proliferation of fears in financial markets around the plunge in the price of oil had caused a flight from equities into bonds and from exposure to the debt and equities of emerging market oil producing countries to safe havens in western countries. These flows were compounded by further fears that Greece could be heading towards an exit from the Euro after the General Election on January 25 and financial flows generated by the increasing likelihood that the ECB would soon be starting on full blown quantitative easing (QE) purchase of Eurozone Government debt. In addition, there has been a sharp increase in confidence that the US will start increasing the Federal Reserve Rate by the middle of 2015 due to the stunning surge in GDP growth in Quarters 2 and 3 of 2014. This indicated that the US is now headed towards making a full recovery from the financial crisis of 2008.

2.3 The result of the combination of the above factors is that we have seen bond yields plunging to phenomenally low levels, especially in long term yields. These falls are unsustainable in the longer term but just how quickly these falls will unwind is hard to predict. In addition, positive or negative developments on the world political scene could have a major impact in either keeping yields low or prompting them to recover back up again. We also have a UK general election coming up in May 2015; it is very hard to predict what its likely result will be and the consequent impact on the UK economy, and how financial markets will react to those developments.

2.4 This latest forecast includes a move in the timing of the first increase in Bank Rate from Quarter 2 of 2015 to Quarter 4 of 2015 as a result of the sharp fall in inflation due to the fall in the price of oil and the cooling of the rate of GDP growth in the UK, albeit, that growth will remain strong by UK standards, but not as strong as was previously forecast. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only currently increasing marginally as a result of wage inflation now running slightly above the depressed rate of CPI inflation, though some consumers will not have seen that benefit come through for them. In addition, whatever party or coalition wins power in the next General Election, will be faced with having to implement further major cuts in expenditure and / or increases in taxation in order to eradicate the annual public sector net borrowing deficit.

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 Q3**
	£'000	**£'000**
Capital Expenditure	2,126	2,318
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%