HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
1 September 2015

Subject: **2015/16 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 2015 on the progress of the Capital Programme 2015/16 and the Treasury Management position. A full schedule of the Capital Programme 2015/16 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 has no borrowing for a capital purpose at Quarter 1; instead capital expenditure to date 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 2015/16 Capital Programme was approved by Cabinet on 10 March 2015 at £37,854,300. At 2014/15 outturn, £2,375,987 capital expenditure was slipped forward in to the new financial year revising the Capital Programme 2015/16 to £40,230,287.

2.2 A breakdown of the movement in the revised Capital Programme at 2015/16 is as follows:

Portfolio	Original 2015/16 £	2014/15 brought forward £	Revised 2015/16 £
Environmental & Planning Services	366,000	2,288	368,288
Customer & Leisure Services	973,400	178,570	1,151,970
Support Services	1,014,900	586,001	1,600,901
Economic Development Fund	500,000	1,609,128	2,109,128
Loan to Broadacres	35,000,000	0	35,000,000
Total	**37,854,300**	**2,375,987**	**40,230,287**

Table 1: Capital Programme 2015/16

2.3 At this Quarter 1 monitor, a net increase to the Capital Programme of £796,579 results in a total revised capital programme of £41,026,866.

2.4 The net increase of £796,579, to be approved in this report is detailed in Annex 'B' and is made up of:-

(a) increase in expenditure of £1,336,579 supported from Council reserves;
(b) transfer of funds between schemes, with overall effect being zero;

(c) increase in expenditure of £385,000 supported from external funding
(d) reduction in scheme expenditure of £925,000

2.5 Table 2 below outlines the variances reported against each portfolio area.

Portfolio	Current Approved Expenditure £	Revised Expenditure Q1 £	Variance Increase/ (decrease) £	Request for additional funding £	Funding no longer required £	External Funding £
Environmental & Planning Services	368,288	368,288	0	0	0	0
Customer & Leisure	1,151,970	1,154,229	2,259	2,259	0	0
Support Services	1,600,901	2,470,721	869,820	959,820	(425,000)	335,000
Economic Development Fund	2,109,128	2,033,628	(75,500)	374,500	(500,000)	50,000
Loan to Broadacres	35,000,000	35,000,000	0	0	0	0
Total	**40,230,287**	**41,026,866**	**796,579**	**1,336,579**	**(925,000)**	**385,000**

Table 2: Capital Programme Q1 2015/16

2.6 To 30 June 2014 capital expenditure of £1,648,405 had been incurred or committed representing 27% of the revised Q1 Capital Programme position of £6,026,886; excluding the £35,000,000 loan to Broadacres capital expenditure. 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.

2.7 The proposed changes to the Capital Programme, which require approval by this Cabinet, are detailed for each of the 3 Portfolio areas, Economic Development fund and Loan to Broadacres at Annex ‘B’.

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

3.1 For 2015/16, at Quarter 1, the Capital Programme of £41,026,866 is being funded from £269,821 external grants/contributions and £335,000 Section 106 funding. £35,000,000 external borrowing is to fund the Broadacres Loan, there is £200,000 revenue contribution, £1,983,628 Economic Development Funding, £485,013 from the Computer Fund and £2,753,404 from capital receipts or capital reserves.

3.2 The external grant funding is higher than originally estimated by £385,000. This is as a result of £335,000 Section 106 funding for the Bedale Cycle project and £50,000 to support the Economic Development Fund projects.

3.3 The capital receipts estimated to be received during 2015/16 is £403,000.

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 capital reserves. At Quarter 1 it is estimated that £4,819,045 of reserve funding will be used.

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, when the Financial Strategy is updated.

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 2015/16:

4.1 The Treasury Management review at Quarter 1 2015/16 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 £28,470,000, with an average interest rate return of 0.62%. For surplus funds invested for 3 months or more, a return of 0.95% was achieved which was 0.51% greater than the 3 month benchmark at 0.44%.

4.3 The Council undertook no borrowing at Quarter 1 2015/16 and remained debt free. At Cabinet in 10 February 2015 approval was given to undertake borrowing to invest in the loan for Broadacres, along with the permission to use Council's surplus funds. In this report approval is requested for temporary short term borrowing if the need arises in order to assist in the Treasury Management of the Council's cash flow.

4.4 The Council has three investment priorities to ensure the safety of the Council's funds – security, liquidity and yield. In order to ensure that the Council's funds remain secure and that there is sufficient liquidity to be able to use the Council's surplus funds to loan to Broadacres, it may be necessary to undertake short term borrowing for a cash flow purpose. It is recommended in this report that temporary short term borrowing is approved for the management of the Council's cash flow.

4.5 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.

6.2 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 2015/16 is the Disabled Facilities Grant scheme.

10.0 RECOMMENDATIONS:

10.1 That Cabinet approves and recommends to Council:-

(1) the net increase of £796,579 in the Capital Programme to £41,026,866 as detailed in Annex 'B' and also in the Capital Programme attached at Annex 'A';

(2) the increase of capital expenditure is funded from earmarked reserves at £1,336,579, where £952,079 is funded from capital receipts, £374,500 from the Economic Development Fund and £10,000 from the Computer Fund;

(3) the increase of capital expenditure £385,000, funded from external contributions;

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

(5) that temporary short term borrowing can occur if the need arises, in relation to the investment in the loan to Broadacres in order to assist in the Treasury Management of the Council's cash flow as detailed in paragraph 5.4

(6) the Treasury Management and Prudential Indicators at Annex 'E'.

JUSTIN IVES

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

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Capital Programme Schemes 2015/16 **Annex A**

Councillor / Officer	Capital Scheme	Budget 2015/16	2014/15 B/Fwd	2015/16	Qtr 1	Qtr 1 + 2015/16	Third Party Contn	Cost to the Council £	Expenditure at 30/06/15	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Estimated complete date	Explanation
		£	£	£	£	£	£	£	£	£	£	£		
Cllr Phillips	**Environmental & Planning Services**													
MJ	Purchase of bins and boxes for refuse and recycling	36,000		36,000		36,000		36,000	12,005	36,000	0		Ongoing	This scheme is on target
MJ	Disabled Facilities Grant	270,000	1,101	271,101		271,101	219,821	51,280	18,444	271,101	0		Mar-16	Grant allocation on going - budget will be spent by end of March 16
MJ	Waste and Street Scene - Telematics	30,000		30,000		30,000		30,000		30,000	0		Jan-15	Linked to Waste & Recycling review, complete by Jan 2015.
MJ	Waste and Street Scene - Training Room	8,000		8,000		8,000		8,000		8,000	0		Dec-15	Converting pest control store into training room, awaiting quotes
MJ	Waste and Street Scene, Central Depot - Dog, Litter Bins	14,000		14,000		14,000		14,000		14,000	0		Nov-15	Order been placed, waiting delivery
MJ	Central Depot - Additional Parking	8,000		8,000		8,000		8,000		8,000	0		Oct-15	Scheme design in progress
MJ	Central Depot - Security Fencing		1,187	1,187		1,187		1,187		1,187	0		Aug-15	Work almost complete. Further analysis of final works underway.
	Total Scheme Value Environmental & Planning Services	366,000	2,288	368,288	0	368,288	219,821	148,467	30,449	368,288	0	0		
llr Mrs Fortur	**Customer & Leisure Services**													
DG	Gym equipment refresh	24,000		24,000		24,000		24,000	23,302	24,000	0		Jun-15	Works completed, waiting final invoice.
DG	Leisure Equipment Lease Buy	200,000		200,000		200,000	200,000	0		200,000	0		Mar-16	Project is being reviewed for viability and further information will be reported at quarter 2.
DG	Web / Intranet Development	17,100	15,990	33,090		33,090		33,090	8,510	33,090	0		Jul-15	The website went live in July
DG	Hambleton Leisure Centre - Fire Alarm System	25,000		25,000		25,000		25,000		25,000	0		Dec-15	Schemes to be developed during 2015/16
DG	Hambleton Leisure Centre - External Render	8,000		8,000		8,000		8,000		8,000	0		Sep-15	Schemes to be developed during 2015/16
DG	Hambleton Leisure Centre - Pool Balustrades	15,000		15,000		15,000		15,000		15,000	0		Dec-15	Schemes to be developed during 2015/16
DG	Hambleton Leisure Centre- Pool Changing Village	85,000		85,000		85,000		85,000		85,000	0		Mar-16	Scope being identified for inclusion with potential gym extension
DG	Hambleton All Weather Pitch Refurbishment	131,000		131,000		131,000		131,000		131,000	0		Sep-15	Out to tender - works due to start in August to complete in September.
DG	Hambleton Leisure Centre Improvement Scheme	275,000		275,000		275,000		275,000	2,700	275,000	0		Mar-16	Scope being identified for inclusion with potential gym extension
DG	Bedale Leisure Centre - Boiler and Air Handling Unit	17,000		17,000		17,000		17,000		17,000	0		Dec-15	Schemes to be developed during 2015/16
DG	Bedale Leisure centre improvement scheme		12,208	12,208		12,208		12,208	5,019	12,208	0		Sep-15	Works complete - preparing final payment certificates
DG	Thirsk & Sowerby Leisure Centre - Roof & Ceiling Repairs	11,000		11,000		11,000		11,000		11,000	0		Mar-15	Schemes to be developed during 2015/16
DG	Thirsk and Sowerby leisure centre improvement scheme		25,969	25,969		25,969		25,969	5,000	25,969	0		Sep-15	Remedial works currently being programmed
DG	Thirsk & Sowerby Sports Village			0		0		0	457	0	0		Sep-15	Remedial works currently being programmed
DG	Stokesley Depot - Security Fencing	8,000		8,000		8,000		8,000		8,000	0		Dec-15	Quotation documents being prepared
DG	Stokesley Leisure Centre improvement scheme			0		0		0		0	0		Sep-15	Remedial works currently being programmed
DG	Stokesley All Weather Pitch Refurbishment		9,925	9,925		9,925		9,925	9,117	9,925	0		Oct-15	Works complete, waiting final invoice
DG	Forum - Capital Repairs	41,300		41,300		41,300		41,300		41,300	0		Dec-15	Feasibility work in progress
Cllr Wilkinson														
DG	CCTV Camera Replacement Programme / wireless network & up	93,000	71,000	164,000		164,000		164,000		164,000	0		Dec-15	Project ongoing
DG	Workspaces - Decoration and Furniture	17,000		17,000		17,000		17,000		17,000	0		Jan-16	Condition surveys to start and areas assessed with quotes going out Jan-16
DG	Workspaces Air Con Refurbishments	6,000		6,000		6,000		6,000		6,000	0		Ongoing	Budgeted for periodically in 10yr capital programme for regulation changes
DG	Car Park Creation Leeming Bar LBFEC		36,141	36,141	6,259	42,400		42,400		42,400	6,259	6,259	Oct-15	Out to quotation, due to start in August. Estimate final costs of £42,398, £4,000 from underspend in bird netting at 17 Market Place with a further £2,259 requested from the capital receipts fund. Approval at Q1.
DG	17 Market Place Bird Netting		6,000	6,000	(4,000)	2,000		2,000		2,000	(4,000)	(4,000)	Dec-15	Quotes been received and alternative solutions found for work to be carried out by Dec 15, £4,000 underspend to cover overspend on Leeming Bar Car park. Approval at Q1.

Councillor / Officer	Capital Scheme	Budget 2015/16	2014/15 B/Fwd	2015/16	Qtr 1	Qtr 1 + 2015/16	Third Party Contn	Cost to the Council £	Expenditure at 30/06/15	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Estimated complete date	Explanation
		£	£	£	£	£	£	£	£	£	£	£		
DG	Thirsk New TIC		1,337	1,337		1,337		1,337		1,337	0			Retention money
	Total Scheme Value Customer & Leisure Services	**973,400**	**178,570**	**1,151,970**	**2,259**	**1,154,229**	**200,000**	**954,229**	**54,104**	**1,154,229**	**2,259**	**2,259**		
Cllr Knapton	**Support Services**													
JI	Public lighting replacement	51,000	47,714	98,714		98,714		98,714	12,158	98,714	0		Mar-16	Project scheduled to be completed in 2015/16
JI	Public lighting energy reductions		11,060	11,060		11,060		11,060		11,060	0		Mar-16	Project on going
JI	Air Conditioning - Legislation requirement Corporate	15,000	20,791	35,791		35,791		35,791		35,791	0		Mar-16	Scheme to be reviewed during Quarter 3
JI	Civic Centre - Window Replacements		4,495	4,495		4,495		4,495		4,495	0		Dec-15	Project almost complete.
JI	Civic Centre - Toilet Refurbishment			0	50,000	50,000		50,000		50,000	50,000	50,000	Oct-15	Out to quotation due to start August and complete during October 2015. Approval at Q1.
JI	Civic Centre - back up generator			0		0		0	284	0	0			Complete. Retention costs incurred - awaiting final position. Approval required at Q2.
JI	Civic Centre - Disabled Access Doors and Ramp			0	35,000	35,000		35,000		35,000	35,000	35,000	Mar-16	Order to be raised and scheme estimated to be complete by Q4. Approval at Q1.
DG	Solar Panels - Civic Centre	87,000		87,000		87,000		87,000		87,000	0		Mar-16	Project to be researched and reviewed
JI	ICT Improvements	259,900	76,047	335,947	(26,395)	309,552		309,552	23,846	309,552	(26,395)		Mar-16	ICT projects on target
JI	ICT Server Room Civic Centre & Springboard			0	75,820	75,820		75,820		75,820	75,820	55,820	Mar-16	ICT server room at the Civic Centre and Springboard Business Centre need to ensure future viability. £11,220 is required at Springboard and £64,600 is required at Civic Centre. £20,000 is transferred from other ICT schemes and £55,820 is to be approved at Q1.
JI	All Leisure Centres - Digital Transaction Software		5,901	5,901		5,901		5,901		5,901	0		Mar-16	ICT projects on target
JI	ICT Leisure Improvements		69,560	69,560		69,560		69,560		69,560	0		Mar-16	ICT projects on target
JI	ICT Information Security/Compliance		12,865	12,865	(12,865)	0		0	705	0	(12,865)		Mar-16	ICT projects on target
JI	ICT Customer Excellence		50,740	50,740	19,260	70,000		70,000		70,000	19,260		Mar-16	ICT projects on target
JI	CIVICA Icon upgrade			0	10,000	10,000		10,000		10,000	10,000	10,000	Dec-15	Cash receipting software to be upgraded. Approval at Q1.
JI	Car Park Restatements	27,000	44,934	71,934		71,934		71,934	45,984	71,934	0		Dec-15	Works for Thirsk Market Place being agreed.
JI	Adoptions - Electric Bollards - Thirsk & Northallerton		40,000	40,000		40,000		40,000		40,000	0		Nov-15	Scheme preparation in progress
JI	Bedale Cycle Scheme			0	398,000	398,000	335,000	63,000		398,000	398,000	63,000		Scheme funded from S106 £316,000, £19,000 S106 from Aiskew PC, plus £63,000 received previously from NYCC (taken from capital receipts). A further £173,000 is in the pipeline from S106. Approval at Q1.
JI	Adoption of Roads - Leeming Bar	150,000		150,000		150,000		150,000		150,000	0		Mar-16	Start of work to be agreed with NYCC and be developed during Q2.
JI	Car Parks - Thirsk Cobbles		2,726	2,726		2,726		2,726		2,726	0		Dec-15	Final inspection to be undertaken
JI	Bedale Gateway Car Park			0	612,000	612,000		612,000		612,000	612,000	612,000	Mar-16	In process of appointing consultants for design work. Scheme is likely to span more than one year. More information available during the year. Approval at Q1.
JI	Adoptions - Thirsk Phases 2 & 3		199,168	199,168	134,000	333,168		333,168		333,168	134,000	134,000	Oct-15	Works to complete in July. Road to be adopted by NYCC and therefore Budget increase of £134,000 is outside HDC control. Budget increase to be approved at Q1.
JI	Repairs & Renewals - Revenue	425,000		425,000	(425,000)	0		0		0	(425,000)	(425,000)	Mar-16	Funding moved to Revenue as no capital works. Approval at Q1.
	Total Scheme Value Support Services	**1,014,900**	**586,001**	**1,600,901**	**869,820**	**2,470,721**	**335,000**	**2,135,721**	**82,976**	**2,470,721**	**869,820**	**534,820**		
Cllr Wilkinson	**Economic Development Fund**													
DG	Economic Development Capital Expenditure	500,000		500,000	(500,000)	0		0		0	(500,000)	(500,000)	Ongoing	Funding to be reprofiled, returned to the reserve. Approval at Q1

Capital Programme Schemes 2015/16 **Annex A**

Councillor / Officer	Capital Scheme	Budget 2015/16	2014/15 B/Fwd	2015/16	Qtr 1	Qtr 1 + 2015/16	Third Party Contn	Cost to the Council £	Expenditure at 30/06/15	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Estimated complete date	Explanation
		£	£	£	£	£	£	£	£	£	£	£		
DG	Market Towns Investment Plans - Bedale			0	15,000	15,000		15,000		15,000	15,000	15,000	Ongoing	Work to be commenced
DG	Market Towns Investment Plans - Easingwold			0	15,000	15,000		15,000		15,000	15,000	15,000	Ongoing	Work to be commenced
DG	Market Towns Investment Plans - Northallerton			0	15,000	15,000		15,000		15,000	15,000	15,000	Ongoing	Work to be commenced
DG	Market Towns Investment Plans - Stokesley			0	15,000	15,000		15,000		15,000	15,000	15,000	Ongoing	Work to be commenced
DG	Market Towns Investment Plans - Thirsk			0	15,000	15,000		15,000		15,000	15,000	15,000	Ongoing	Work to be commenced
DG	Industrial Park Review - Leeming			0	40,000	40,000		40,000		40,000	40,000	40,000	Ongoing	Work to be commenced
DG	Industrial Park Review - Dalton			0	40,000	40,000		40,000		40,000	40,000	40,000	Ongoing	Work to be commenced
DG	Industrial Park Review - Stokesley			0	40,000	40,000		40,000		40,000	40,000	40,000	Ongoing	Work to be commenced
DG	Industrial Park Review - Thirsk			0	40,000	40,000		40,000		40,000	40,000	40,000	Ongoing	Work to be commenced
DG	Industrial Park Review - Northallerton			0	40,000	40,000		40,000		40,000	40,000	40,000	Ongoing	Work to be commenced
DG	Industrial Estates/Employment land			0	75,000	75,000	25,000	50,000		75,000	75,000	50,000	Ongoing	£10,000 from each Industrial park review (£50,000 in total) to be transferred to Industrial Estate/ Employment Land. The additional £25k to be funded by the LDF
DG	WIFI Market Towns		4,115	4,115	5,000	9,115		9,115		9,115	5,000	5,000	Ongoing	Work underway
DG	ED Improve Infrastructure North Northallerton			0	25,000	25,000	25,000	0	10,185	25,000	25,000	0	Ongoing	Work underway and full budget estimated to be spent
DG	North Northallerton Recreation Element			0		0		0		0	0		Ongoing	
DG	ED Improvement Infrastructure Central Northallerton		1,440,160	1,440,160	44,500	1,484,660		1,484,660	1,459,437	1,484,660	44,500	44,500	Ongoing	Prison purchased and full budget estimated to be spent.
DG	ED Improvement Infrastructure Dalton Bridge		164,853	164,853		164,853		164,853	11,255	164,853	0		Ongoing	Project is underway
	Total Scheme Value EDF	**500,000**	**1,609,128**	**2,109,128**	**(75,500)**	**2,033,628**	**50,000**	**1,983,628**	**1,480,877**	**2,033,628**	**(75,500)**	**(125,500)**		
Cllr Knapton	**Support Services**													
JI	Loan to Broadacres	35,000,000		35,000,000		35,000,000		35,000,000		35,000,000	0		Mar-16	Funds to be invested during 2015/16
	Total Scheme Value Loan to Broadacres	**35,000,000**	**0**	**35,000,000**	**0**	**35,000,000**	**0**	**35,000,000**	**0**	**35,000,000**	**0**	**0**		
	Total Capital Programme 2015/16	**37,854,300**	**2,375,987**	**40,230,287**	**796,579**	**41,026,866**	**804,821**	**40,222,045**	**1,648,405**	**41,026,866**	**796,579**	**411,579**		

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– 2 schemes affect the Capital Programme at Quarter 1:-

(a) Car Park Creation Leeming Bar Food Enterprise Centre – 27 bays were originally approved but a further option was developed to introduce 21 additional parking bays and the most cost effective option is to provide the additional parking bays at £42,398. This is an increase of £6,398. £2,398 additional funding is required as £4,000 is proposed to be transferred from the17 Market Place Bird Netting scheme.

(b) 17 Market Place Bird Netting – This scheme is has £4,000 additional funding that is not required and can be transferred to the Car Park Leeming Bar Food Enterprise Centre.

1.4 Support Services – 8 schemes affect the Capital Programme at Quarter 1:

(a) Civic Centre – Toilet refurbishment – the toilets located near the Council Chamber are being refurbished and requires funding of £50,000.

(b) Civic Centre – Disabled Access Door & Ramps – The Civic Centre disabled access to the Council Chamber is to be improved for ease of access at a cost of £35,000.

(c) Civica Icon Upgrade – the cash receipting software needs to be upgraded as the current software will no longer be supported in the future. This will cost £10,000.

(d) Bedale Cycling Scheme – this scheme is being financed from external Section 106 funding and will see improved cycle pathways and the introduction of a cycle bridge. It is likely that this scheme will span more than one year but at Quarter 1, the total scheme is being introduced into the Capital Programme.

(e) Bedale Car Park – this scheme has been revised and the current car parks will remain open in Bedale with the new car park being constructed near the new Bedale Bypass road. This scheme is likely to span more than one year but at Quarter 1, the total scheme is being introduced to the Capital Programme.

(f) Adoptions – Thirsk Phase 2 & 3: NYCC Road Adoptions – this scheme requires additional funding of £134,000 due to the costs anticipated by North Yorkshire County Council increasing. These costs are outside the Council's control.

(g) Repairs & Renewals – This scheme at £425,000 is being removed from the Capital Programme, because the nature of the works are revenue related. It was originally included as the Repairs & Renewals fund can also be used to support capital schemes.

(h) There are 4 ICT schemes – ICT Improvements, ICT Server Room, ICT Information Security/compliance and ICT Customer excellence – where the funding between these projects is being reprofiled. This is to ensure that the funding is used to the best affect.

The ICT Server room scheme also requires an additional £44,600, as the ICT server room is to move to a more appropriate location in the Civic Centre. In addition at Springboard Business Centre, £11,220 is required in order to enable the server room there to continue to be viable. The total cost to ensure the future of the ICT server rooms is £75,820.

1.5 Economic Development Fund – initially £500,000 new schemes were profiled to be introduced in 2015/15, this has now been adjusted to £424,500. Two schemes have attracted external funding totalling £50,000, so £125,000 has been returned to eth Economic Development Fund. The detailed of the schemes is seen in Annex 'A'.

1.6 Loan to Broadacres – at Quarter 1 the funds to support Broadacres had not as yet been invested. It is anticipated at this time that the funding will be utilised.

1.7 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 2015/16 – 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 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 2015:

	30 Jun 15 £m	Rate %
Capital Financing Requirement	0	
Borrowing	0	
Investments	28.47	0.62

Table 1: Borrowing and Investment position at 30 June 2015

2.0 THE ECONOMY, INTEREST RATES AND TREASURY MANAGEMENT STRATEGY:

2.1 After strong UK Gross Domestic Product (GDP) growth in 2013 at an annual rate of 2.7% and 3.0% in 2014, quarter 1 of 2015 was disappointing at only 0.4%, though subsequent data indicates that this could well be revised up further down the line and also indicates a return to stronger growth in quarter 2. In its May quarterly Inflation Report, the Bank of England reduced its Gross Domestic Product (GDP) forecast for 2015 from 2.9% to 2.5% and from 2.9% to 2.7% in 2016, while increasing its forecast for 2017 from 2.4% to 2.7%.

2.2 Uncertainty around the likely result of the UK general election in May has obviously now evaporated although this has been replaced by some uncertainty around the potential impact on the UK economy of the European Union (EU) referendum promised by, or in, 2017. In addition, the firm commitment of the Conservative Government to eliminating the deficit within the term of this Parliament will have an impact on GDP growth rates. However, the Monetary Policy Committee (MPC) is fully alert to this and will take that into account, and also the potential spill over effects from the Greek crisis, in making its decisions on the timing of raising Bank Rate.

2.3 As for the American economy, confidence has improved markedly in this quarter that the US will start increasing the Federal fund’s rate by the end of 2015 due to a return to strong economic Gross Domestic Product (GDP) growth after a disappointing start to the year in quarter 1, (a contraction of 0.2%), after achieving 2.4% growth in 2014.

2.4 In the Eurozone, the European Central Bank (ECB) in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected Eurozone (EZ) countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth, though it remains to be seen whether this will have an enduring effect as strong as the recovery in the US and UK.

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

	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%	1.50%	1.50%	1.75%
5yr PWLB rate	2.30%	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%
10yr PWLB rate	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%
50yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%

Table 3: Investment rate forecast at quarter 1 – 30 June 2015

2.6 Capita Asset Services undertook a review of its interest rate forecasts after the May Bank of England Inflation Report. The European Central Bank's (ECB's) quantitative easing programme to buy up Eurozone (EZ) debt caused an initial widespread rise in bond prices and, correspondingly, a fall in bond yields to phenomenally low levels, including the debt of some European countries plunging into negative yields. Since then, fears about recession in the Eurozone (EZ), and around the risks of deflation, have abated and so there has been an unwinding of this initial phase with bond yields rising back to more normal, though still historically low yields.

2.7 This latest forecast includes a move in the timing of the first increase in Bank Rate from quarter 1 of 2016 to quarter 2 of 2016 as a result primarily of poor growth in quarter 1, weak wage inflation and the recent sharp fall in inflation due to the fall in the price of oil and the impact of that on core inflation. The UK fell marginally into deflation in April (-0.1%) and figures near zero will prevail for about the next six months until the major fall in oil prices in the latter part of 2014 falls out of the twelve month calculation of Consumer Price Index (CPI) inflation. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The Monetary Policy Committee (MPC) is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.

3.0 ANNUAL INVESTMENT STRATEGY 2015/16 – 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 2015/16, and includes the Annual Investment Strategy approved by Cabinet on 10 February 2015. 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 periods up to 12 months with highly credit rated financial institutions, using Capita Asset services suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

3.4 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2015.

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 £31,154,615. 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 £12,400,000 at 30 June 2015 - core cash balances for investment purposes (i.e. funds available for more than 1 month) and £16,070,000 cash flow movement balances. Total investment balance at 30 June 2104 was £28,470,000, overall return was 0.62%. Compared to 2014/15 there has been a switch between levels in the Core Cash balances and the Cashflow balances, this is as a result of making funds available for the loan to Braodacres as previously reported to Cabinet on 10 February 2015.

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.36%	0.40%	£18,889
3 month	0.44%	0.95%	£29,477

Table 3: Investment performance for quarter 1 – 30 June 2015

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 0.51% and outperformed the 7 day benchmark by 0.04%. 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 2015/16 is £300,000. Performance for investments interest earned for the quarter is £48,365. This return for the first 3 months of 2014/15 is below the budget. Due to lower interest rates on Call Accounts and Fixed Term Deposits available to the Council and an estimated reduction in funds available when the loan to Broadacres is made it is expected that the budget will not be achieved. At quarter 1 a reduction of £50,180 has been made to the budget which has been reported in the Quarter 1 Revenue Monitoring Report, also presented at cabinet 2 September 2015.

3.9 4.0 BORROWING 2015/16 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 rose slightly from 3.40% to 3.50% after the May Bank of England Inflation report.

4.2 The table below shows the Public Works Loans Board interest rates which were available for loans during the first quarter of 2015/16. 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	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
High	1.33%	2.32%	3.04%	3.65%	3.55%
Date	25/06/2015	25/06/2015	10/06/2015	24/06/2015	04/06/2015
Average	1.23%	2.09%	2.785%	3.37%	3.29%

Table 4: PWLB certainty rates, quarter ended 30 June 2015

4.3 **Treasury Borrowing** – the Council undertook no external borrowing in the first quarter of 2015/16. Cabinet approved on 10 February 2015 that borrowing may be undertaken to support the investment in the loan to Broadacres, but to date no borrowing has occurred and the council remains debt free.

4.4 In addition to the borrowing for the investment in the Loan to Broadacres in order to manage the Council's surplus funds and cash flow position in this report approval is requested for temporary short term borrowing if the need arises.

4.5 The council has three investment priorities to ensure the safety of the council's funds – Security, liquidity and yield. In order to that the Council's funds remain secure and that there is sufficient liquidity to be able to use the Council's surplus funds to loan to Broad acres, it may be necessary to undertake short term borrowing for a cash flow purpose. This will ensure that funds are available to invest in the loan to Broadacres and long term borrowing will not have to occur if long term interest rates are not favourable.

4.6 **Rescheduling of Borrowing** – the Council has no debt and therefore undertook no rescheduling of debt during the first quarter of 2015/16.

4.7 **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 10 February 2015.

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 2015:

a. The economic recovery slowed in the first quarter;
b. Survey measures pointed to renewed vigour in Q2;
c. Wage growth picked up as the labour market tightens;
d. Deflation lasted only one month, but the outlook remain subdued;
e. Another split vote on the Monetary Policy Committee (MPC) drew nearer, but a rate hike this year remained unlikely;
f. The general election confirmed that the fiscal squeeze will re-intensify next year; and
g. The possibility of a "Grexit[1]" became greater.

1.2 The latest economic data showed that the recovery slowed in the first quarter. However, the latest National Accounts painted the recovery in a better light than previously thought. Indeed, Q1's quarterly Gross Domestic Product (GDP) growth estimate was nudged up from 0.3% to 0.4% on the back of some stronger construction data. What's more, given the strength of the business surveys, we wouldn't be surprised if Q1's growth figure was revised even higher in time.

1.3 In any case, the surveys suggest that the recovery got swiftly back on track in Q2. On the basis of past form, the average level of the Markit/CIPS composite Purchasing Managers' indices (PMI) is consistent with quarterly Gross Domestic Product (GDP) growth of around 0.8%. And the Bank of England's Agents' scores point to a similarly-strong pick-up. Granted, only limited official data has been published so far for Q2, but April's industrial production and trade figures paint an encouraging picture for the economic recovery at the start of the quarter.

1.4 Early indicators suggest that the recovery in household spending has maintained plenty of momentum in Q2. Although retail sales volumes rose by just 0.2% on the previous month in May, this followed a 0.9% rise in April. Accordingly, even if sales volumes were unchanged in June, they would still have risen by 0.9% over Q2 as a whole, matching Q1's rise. What's more, spending off the high street looks to have remained robust as well. The Bank of England's Agents' Score of turnover in the services sector points to a further acceleration in nominal spending on services in the near term. In addition, the latest consumer confidence figures suggest that households still think now is a good time to undertake major purchases.

1.5 Household spending should continue to be supported by developments in the labour market. The International Labour Organization (ILO) unemployment rate has now fallen to 5.5%, not far above pre-crisis levels. And the employment rate is the highest since records

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[1] The possibility of Greece leaving the Eurozone.

began. The significant tightening in the labour market over the past eighteen months or so has begun to feed through into pay, with annual growth in headline average weekly earnings (excluding bonuses) picking up to 2.7% in April, its strongest since February 2009. We expect nominal wage growth to strengthen a bit further over the coming months as the unemployment rate continues to nudge down. The subdued outlook for inflation should underpin real wage growth.

1.6 The latest consumer prices figures showed that deflation lasted just one month. Consumer price index (CPI) inflation rose from -0.1% in April to +0.1% in May, reflecting the slower pace of falls in food prices and a rebound in petrol prices. We had stressed for a long while that deflation was likely to be fleeting, as it primarily reflected temporary external factors such as the fall in energy prices and food prices, as well as an appreciation in sterling, rather than weakness in domestic demand. Meanwhile, there have not been any signs that very low inflation has had any adverse second round effects on inflation expectations or spending decisions. Nonetheless, inflation looks set to hover just above zero for the next six months, and it wouldn't take much during that period, perhaps a renewed 10% fall in the oil price, for the UK to be tipped back into deflation.

1.7 Unsurprisingly, then, the Monetary Policy Committee (MPC) do not appear to be in any rush to raise interest rates. Granted, the minutes of June's Monetary Policy Committee meeting showed that for two members, the decision to leave rates on hold was "finely balanced". And a recent interview with the Financial Times, resident Monetary Policy Committee (MPC) hawk Martin Weale suggested that he is not too far off restoring his vote to raise rates again. But with inflation close to zero, the first budget of the next parliament due to be published in July, and the situation in Greece becoming increasingly troubling, it looks that they will wait at least another few months before turning against the grain again. And with the rest of the committee likely to stand pat for even longer, it looks unlikely that there will be an increase in interest rates this year. Indeed, we still think that the first hike in Bank Rate will occur in Q2 next year, broadly in line with market expectations.

1.8 Meanwhile, with the Conservatives winning an outright majority in May's general election, the fiscal squeeze is set to re-intensify next year. We will know more detail about the Chancellor's plans at the Budget on the 8th July, but we already know that in order to meet their manifesto pledge, the Conservatives will have to implement a fiscal consolidation worth around 5% of GDP over the next four years. And given that they have pledged to not increase VAT, income tax or national insurance in the next parliament, more of the planned squeeze will have to come through cuts to spending than in the last parliament. Admittedly, these plans may be watered down, but it is clear that fiscal policy will be a hindrance, not a help, to the economic recovery over the next few years, and underlines that monetary policy will have to remain extremely accommodative. Meanwhile, the general election brought with it another cloud to the economic recovery – namely a referendum on the UK's membership of the European Union which could happen during 2016, though a May date now appears unlikely.

1.9 Internationally, the major development over the past quarter has been the deterioration of the situation in Greece. At the time of writing, the country is still a member of the euro-zone, but its future as part of the single currency has become increasingly uncertain. Greece urgently needs financial assistance in order to meet its debt repayments, but is unwilling to accept the reforms which creditors demand in exchange for funds. The situation is so severe that emergency capital controls have been imposed in order to stop the Greek banking system from collapsing. It is still possible that Greece and its creditors are able to strike a last-minute deal, but it is clear that this is likely to only offer a short-term solution, and Greece will need to undertake substantial debt restructuring or outright default if it is to return its public finances to a sustainable position in the long run. Whilst the UK's direct economic and financial exposures to Greece are small, there could be an adverse impact on the UK's economy from a wider fallout and period of general financial market instability that would be likely to prevail if a “Grexit” were to occur.

1.10 Finally, UK equity prices have significantly underperformed their United States counterparts since the beginning of Q2, with the FTSE 100 falling by 2.3%, whilst the Standard&Poor 500 has fallen by only 0.5%. That said, UK equity prices have performed better than those in Europe, which have been hit by renewed fears of a Grexit. Meanwhile, sterling has remained strong against the euro, due to these fears as well as the European Central Bank (ECB)'s ongoing programme of Quantitative Easing. UK 10-year government bond yields have also increased by about 50 basis points since the beginning of Q2. This probably reflects a confluence of factors, such as easing fears of a prolonged bout of deflation, and growing concerns about the impact of a deterioration in the situation in the euro-zone. In any case, gilt yields had looked too low early this year given the fundamental strength of the economic recovery.

2.0 INTEREST RATE FORECAST

Change in market sentiment and outlook

2.1 There has been very little change in our forecasts since our previous forecast in February. We have moved back the start of the increases in Bank Rate by one quarter, to quarter 2 of 2016, to reflect a lowering of forecasts for growth, and in line with comments from the Bank of England.

2.2 In its May Inflation Report, the Bank of England reduced its forecasts for annual growth from 2.9% to 2.5% in 2015 and 2.7% in 2016. 2017 growth was forecast at 2.4% from 2.7%. There were a number of contributing factors to these downward revisions.

2.3 UK quarterly growth in quarter 1 2015 was disappointing and slowed to 0.4% (2.9% year-on-year), from 0.8% (3.4% year-on-year), in the previous quarter.

2.4 The Bank also took a more pessimistic view on the rate of, and timing of, the keenly hoped for recovery of growth in labour productivity and of increases in wages; it cut its forecast for wages growth in 2015 from 3.5% to 2.5%. This is despite strong growth in employment and continuing reductions in the rate of unemployment; employment increased by 202,000 in the three months January to March and by 1.25m over the last two years. Unemployment has dropped by 386,000 over the last year and the unemployment rate has fallen to 5.5%. On the other hand, job vacancies stood at 736,000 in the last quarter, close to their highest level since records began in 2001. Despite all this positive news, annual wage increases (excluding bonuses) in the last three months were only 1.9%. For this recovery to become sustainable over the longer term, there must be a recovery in the growth of productivity and real wages in excess of the rate of inflation.

2.5 The election of a majority Conservative Government which is going to implement significant cuts in government expenditure, in order to reduce the size of the annual budget deficit, will slow Gross Domestic Product (GDP) growth marginally.

2.6 Consumer price index (CPI) inflation dipped into deflation territory, falling to -0.1%. This dip into deflation will only last for a short period until the fall in the prices of oil and food drop out of the twelve month calculation of Consumer price index (CPI), especially during Q4 2015, when inflation is expected to tick up markedly. The latest Inflation Report clearly shows an anticipated rise in inflation to being slightly above the 2% target in the two to three year time horizon.

2.7 Greece: the Greek government led by the anti European Union (EU) and anti-austerity party Syriza, is making a strong push to renegotiate the austerity programme and debt repayments. This has been met with a robust rejection by the European Central Bank (ECB), European Union (EU) and International Monetary Fund (IMF). There is, therefore, a risk that this could end with Greece leaving the Euro. However, the Eurozone has put in place sufficient firewalls that a Greek exit would have little direct impact on the rest of the Eurozone and the Euro. The Spanish local elections this quarter surprised analysts due to a strong showing by the anti-austerity party. However, there is considerable debate as to whether this level of support will transfer from a protest vote at local level into the general election at a national level which is coming up soon.

2.8 We remain concerned at the level of potential risk surrounding the government and corporate debt of several of the major emerging economies, from the perspective of both the potential for default in some countries and also a sharp swing in investor sentiment: investors have previously sought out higher yields in these economies during an extended period when yields in western countries have been heavily suppressed.

2.9 Clients should expect a high level of volatility in Public Works Loan Board (PWLB) rates over 2015, depending on how long it takes to decide what will happen in Greece and as other factors impinge on market and investor sentiment. We would not be surprised to see Public Works Loan Board (PWLB) rates swinging by 50 base points in a quarter, which makes any forecasts in the shorter term subject to a much higher level of volatility than has been usual.

3.0 THE GLOBAL ECONOMY

3.1 The American economy experienced disappointing growth in quarter 1 2015, contracting by 0.2% on an annualised basis, due to bad weather hitting construction and consumer spending, a ports strike and the near 20% appreciation in the value of the dollar. However, it is expected to recover strongly in quarter 2 and resume its trend of making a full recovery from the financial crash. Gross Domestic Product (GDP) growth for 2014 as a whole of 2.4% holds great promise for strong growth going forward and for further falls in unemployment. It is therefore expected that the Fed will start on the first increase in the Fed rate during 2015 and is likely to be ahead of the UK in being the first major western country to raise rates.

3.2 As for the Eurozone, the ECB fired its big bazooka in announcing a massive €1.1 trillion programme of Quantitative Easing in January 2015 to buy up high credit quality government debt of selected EZ countries. This programme started in March and will run to September 2016. This seems to have already had a beneficial impact in improving confidence and sentiment. There has also been a continuing trend of marginal increases in the GDP growth rate which hit 0.4% in quarter 1 2015 (1.0% y/y). Deflation has also ended with a return into positive territory with an increase from 0.0% in April to +0.3% in May. In May, ten year bond yields shot up by around 50 bps after having dipped to near zero for a brief period.

4.0 CAPITA ASSET SERVICES' FORWARD VIEW

4.1 Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also Monetary Policy Committee decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

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

4.3 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

4.4 We would, however, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable Public Works Loan Board (PWLB) rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012:-

Downside risks to current forecasts for UK gilt yields and Public Works Loan Board (PWLB) rates include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows;
- UK strong economic growth being weaker than we currently anticipate;
- Weak growth or recession in the UK's main trading partners - the EU, US and China;
- A resurgence of the Eurozone sovereign debt crisis;

- Recapitalisation of European banks requiring more government financial support;
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

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

- Uncertainty around the risk of a UK exit from the EU;
- The European Central Bank severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the Eurozone;
- The commencement by the US Federal Reserve of increases in the Fed. funds rate in 2015, causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities;
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

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 10 February 2015

The main purpose of the indicators is to control how much a Council needs to borrow. In 2015/16, the Council will invest in a loan to Broadacres of £35,000,000. Therefore the indicators are calculated on the Council borrowing £35,000,000 from the Public Works Loan Board (PWLB).

1. PRUDENTIAL INDICATORS	**2015/16**	**2015/16**
Extract from budget and rent setting report	**Original Budget**	**Actual Q1**
	£'000	**£'000**
Capital Expenditure	37,937	41,027
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	35,000	35,000
Capital Financing Requirement 31 March 2015	35,000	35,000
Incremental impact of capital investment decisions	£	£
Increase in Council Tax (band D) per annum	£0.00	£0.00

2. TREASURY MANAGEMENT INDICATORS	**2014/15**	**2014/15**
	original	**actual**
	£'000	**£'000**
Authorised Limit for external debt -		
borrowing	£40,000	£40,000
other long term liabilities	£1,000	£1,000
TOTAL	£41,000	£41,000
Operational Boundary for external debt -		
borrowing	£39,000	£39,000
other long term liabilities	£600	£600
TOTAL	£39,600	£39,600
Actual external debt	£0	£0
Upper Limit on fixed interest rates based on net debt	108%	108%
Upper Limit on variable interest rates based on net debt	-8%	-8%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£9,000	£9,000

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%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%