HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
1 December 2015

Subject: **2015/16 Q2 CAPITAL MONITORING AND TREASURY MANAGEMENT MID YEAR REVIEW**

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

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1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of this report is to provide Members with the Quarter 2 update at 30 September 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 2; 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 at Quarter 1 on 1 September 2015 at £41,026,866. This can be divided between the investment to be made with Broadacres Housing Association of £35,000,000 and the rest of the Capital Programme at £6,026,866.

2.2 A net decrease to the overall Capital Programme of £23,742,028 is detailed in this Quarter 2 monitor that results in a revised Capital Programme budget of £17,284,838. The main decrease is in relation to the re-profiling of the loan to Broadacres Housing Association where £10,000,000 will be expended in 2015/16 with £25,000,000 being carried forward to future years. The rest of the Capital Programme at Quarter 2 is £7,284,838. The Capital Programme is attached at Annex 'A'.

2.3 The net decrease of £23,742,028, to be approved in this report is detailed in Annex 'B' and is made up of:-

(a) increase in expenditure of £2,300,750 supported from Council reserves;

(b) transfer of funds between schemes, with overall effect being zero;

(c) decrease in expenditure of £361,252 supported from external funding; where £6,748 is being received from Section 106 funding but £368,000 is moved to future years;

(d) reduction in scheme expenditure of £25,681,526; where £25,000,000 is the re-profiling of the Broadacres Housing Association investment.

2.4 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 in 2015/16 £	External Funding £
Environmental & Planning Services	376,288	1,067,038	690,750	690,750	0	0
Customer & Leisure	1,146,229	1,131,469	(14,760)	90,000	(111,508)	(361,252)
Support Services	2,470,721	1,537,963	(932,758)	0	(564,758)	0
Economic Development Fund	2,033,628	3,548,368	1,514,740	1,520,000	(5,260)	0
Sub Total	**6,026,866**	**7,284,838**	**1,167,972**	**2,300,750**	**(681,526)**	**(361,252)**
Loan to Broadacres	35,000,000	10,000,000	(25,000,000)	0	(25,000,000)	0
Total	**41,026,866**	**17,284,838**	**(23,742,028)**	**2,300,750**	**(25,681,526)**	**(361,252)**

Table 2: Capital Programme Q2 2015/16

2.5 To 30 September 2015 capital expenditure of £2,397,923 had been incurred or committed representing 42% of the revised Quarter 2 Capital Programme position of £5,764,838; excluding the loan to Broadacres capital expenditure and also the potential loan to the Dalton Bridge Economic Development Fund Scheme. It is expected at Quarter 2 that the Capital Programme will come in on target at the end of the financial year and all schemes will be closely monitored.

2.6 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 2, the Capital Programme of £17,284,838 is being funded from £276,569 external grants/contributions, £10,000,000 reserve funds to finance the Broadacres Loan, there is £200,000 revenue contribution, £3,548,368 economic development reserve funding, £425,640 from the computer fund, £391,210 from the repairs & renewal fund and £2,443,051 from capital receipts or capital reserves.

3.2 The external grant funding has fluctuated during 2015/16 as the Bedale Cycle scheme continues to be largely funded from S106 funds, although the majority of the scheme's works has now been re-profiled to 2016/17.

3.3 The capital receipts estimated to be received during 2015/16 is £100,500, with further capital receipts being re-profiled to be received in 2016/17 at £1,058,000.

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.

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 3, 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 <u>TREASURY MANAGEMENT POSITION 2015/16:</u>

4.1 The Treasury Management review at Quarter 2 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 and counterparty criteria
(d) investment performance
(e) borrowing position
(f) compliance with prudential and treasury indicators

4.2 The investment position at Quarter 2 was £29,650,000 with an average amount invested in the first six months of £31,874,590; the average interest rate of return was 0.58%. For surplus funds invested for 3 months or more, a return of 0.84% was achieved which was 0.39% greater than the 3 month benchmark at 0.45%. For funds invested short term 0.40% was achieved compared to the 7 day benchmark of 0.35%.

4.3 The interest rate environment continues to offer investment market rates of return around the Base Rate level of 0.5%. There is some volatility in the market due to the uncertainty as to when the Base Rate will rise which is now expected to be early 2017. This market volatility offers opportunities to seek out higher rates of investment return above Base Rate. The interest earned to date at Quarter 2 is £93,165 against a budget of £139,510, this is being closely monitored and further information will be provided at Quarter 3. Further information on the economic environment and interest rates is attached at Annex 'D'.

4.4 The Council undertook no borrowing at Quarter 2 2015/16 and remained debt free.

4.5 The Council has operated within the treasury and prudential indicators set out at Annex 'E'. The approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16.

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

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

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

6.0 <u>RISK ASSESSMENT</u>:

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

7.0 <u>FINANCIAL IMPLICATIONS</u>:

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

8.0 LEGAL IMPLICATIONS:

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

9.0 EQUALITY/DIVERSITY ISSUES:

9.1 The Capital Programme seeks to address key equality issues that affect the Council and the public. The main scheme that specifically addressed equalities in the second quarter of 2015/16 is the Disabled Facilities Grant Scheme and the disabled access doors to the Civic Centre.

10.0 RECOMMENDATIONS:

10.1 That Cabinet approves and recommends to Council:-

(1) the net decrease of £23,742,028 in the Capital Programme to £17,284,838 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 £2,300,750, where £780,750 is funded from capital receipts and £1,520,000 from the Economic Development Fund;

(3) the increase of capital expenditure £6,748 is funded from external contributions;

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

(5) the Treasury Management position and prudential indicators at Annex ‘E’.

JUSTIN IVES

Background papers: Capital Programme working papers Q2
Treasury management working papers Q2

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

Councillor / Officer	Capital Scheme	Budget 2015/16 Approved at Q1	Qtr 2	Qtr 2 + 2015/16	Third Party Contn	Cost to the Council £	Expenditure at 30/09/15	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	13,364	36,000	0		Ongoing	This scheme is on target and budget will be spent by end of year
MJ	Disabled Facilities Grant	271,101		271,101	219,821	51,280	125,650	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	17,700	30,000	0		Jan-16	Linked to Waste & Recycling review, complete by Jan 2015.
MJ	Waste and Street Scene - Training Room	8,000	1,500	9,500		9,500		9,500	1,500	1,500	Mar-16	Scheme development and procurement in progress and additional funding of £1,500 requested at Q2.
MJ	Waste and Street Scene, Central Depot - Dog, Litter Bins	14,000		14,000		14,000	13,734	14,000	0		Nov-15	Scheme almost complete awaiting last invoice
MJ	Waste Strategy - new kerbside collection bins	0	671,250	671,250		671,250		671,250	671,250	671,250	Mar-16	10 years Waste Strategy, January 2016 - delivery of new bins.
MJ	Central Depot - Additional Parking	8,000		8,000		8,000	2,423	8,000	0		Mar-16	Scheme development and procurement in progress
MJ	Central Depot - Fuel Safety system	0	6,000	6,000		6,000		6,000	6,000	6,000	Mar-16	New scheme - urgent Health &Safety works required for the fuel hose - trip hazard
MJ	Stokesley Depot - Security Fencing	8,000		8,000		8,000		8,000	0		Feb-16	Contractor appointed, start on site date to be confirmed
MJ	HGV Workshop and Storage Area Asbestos removal		12,000	12,000		12,000		12,000	12,000	12,000	Mar-16	Asbestos recognised in recent works at the depot and it is estimated the removal will be an additional £12,000.
MJ	Central Depot - Security Fencing	1,187		1,187		1,187		1,187	0		Jan-16	Scheme almost complete, final element of works to be confirmed with WaSS
	Total Scheme Value Environmental & Planning Services	**376,288**	**690,750**	**1,067,038**	**219,821**	**847,217**	**172,871**	**1,067,038**	**690,750**	**690,750**		
Mrs Fort	**Customer & Leisure Services**											
DG	Gym equipment refresh	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	0		200,000	0		Mar-16	Project is linked to HLC Improvements - awaiting in principle decision in Qtr3
DG	Web / Intranet Development	33,090		33,090		33,090	29,430	33,090	0		Jul-15	The website went live in July
DG	Hambleton Leisure Centre - Fire Alarm System	25,000	(10,000)	15,000		15,000		15,000	(10,000)	(10,000)	Dec-16	Part of schemes to be developed during 2015/16, however £10,000 to be transferred to 2016/17
DG	Hambleton Leisure Centre - External Render	8,000		8,000		8,000		8,000	0		Mar-16	Schemes to be developed during 2015/16
DG	Hambleton Leisure Centre - Pool Balustrades	15,000	(15,000)	0		0		0	(15,000)	(15,000)	Dec-16	Schemes at £15,000 now to be developed during 2016/17
DG	Hambleton Leisure Centre- Pool Changing Village	85,000	(85,000)	0		0		0	(85,000)	(85,000)	Mar-17	Schemes now at £85,000 to be developed during 2016/17
DG	Hambleton All Weather Pitch Refurbishment	131,000		131,000		131,000	3,100	131,000	0		Nov-15	Works complete, awaiting invoices
DG	Hambleton Leisure Centre Improvement Scheme	275,000		275,000		275,000	42,235	275,000	0		Mar-16	Awaiting in principle decision in Qtr3
DG	Bedale Leisure Centre - Boiler and Air Handling Unit	17,000		17,000		17,000	13,337	17,000	0		Dec-15	Work complete awaiting final invoice
DG	Bedale Leisure centre improvement scheme	12,208	(2,730)	9,478		9,478	7,050	9,478	(2,730)		Dec-15	Transferred £2730 to Stokesley Improvements to cover spend.
DG	Thirsk & Sowerby Leisure Centre - Roof & Ceiling Repairs	11,000		11,000		11,000		11,000	0		Mar-16	Schemes to be developed during 2015/16
DG	Thirsk & Sowerby leisure centre improvement scheme	25,969		25,969		25,969	5,000	25,969	0		Dec-15	Remedial works currently being programmed
DG	Thirsk & Sowerby Leisure Centre - Pool tank and surround tiling		90,000	90,000		90,000		90,000	90,000	90,000	Mar-16	The works to the pool tank are critical, External survey identified imminent need to repair tiles / grouting in pool tank. This project will coincide with the "Leisure Centre Improvement Scheme" remidial works which will lessen the impact on 'down-time' for customers and loss of income to the centre.
DG	Thirsk & Sowerby Sports Village	0	6,748	6,748	6,748	0	6,748	6,748	6,748	6,748	Sep-15	This scheme is being funded from section 106 money from Sowerby Housing Developments and to date £6,748 has been spent.
DG	Stokesley Leisure Centre improvement scheme	0	2,730	2,730		2,730	2,725	2,730	2,730		Sep-15	£2730 transferred from Bedale improvements scheme to cover spend
DG	Stokesley All Weather Pitch Refurbishment	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	0		Mar-16	Feasibility work by community tenants in progress
Mr Wilkinson		0		0					0			
DG	CCTV Camera Replacement Programme / wireless network & upgrade	164,000		164,000		164,000		164,000	0		Mar-16	Project ongoing and to complete by 31/03/2016
DG	Workspaces - Decoration and Furniture	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	2,170	6,000	0		Ongoing	Budgeted for periodically in 10yr capital programme for regulation changes
DG	Car Park Creation Leeming Bar LBFEC	42,400		42,400		42,400	60	42,400	0		Oct-15	Car park now operational, landscaping and fencing to complete. Await scheme invoices.
DG	17 Market Place Bird Netting	2,000	(171)	1,829		1,829	1,829	1,829	(171)	(171)	Sep-15	Scheme completed - return to fund £171
DG	Thirsk New TIC	1,337	(1,337)	0		0		0	(1,337)	(1,337)	Sep-15	Retention funding no longer required. Scheme complete. Return to fund £1,337
	Total Scheme Value Customer & Leisure Services	**1,146,229**	**(14,760)**	**1,131,469**	**206,748**	**924,721**	**146,102**	**1,131,469**	**(14,760)**	**(14,760)**		

Capital Programme Schemes 2015/16 — Annex A

Councillor / Officer	Capital Scheme	Budget 2015/16 Approved at Q1	Qtr 2	Qtr 2 + 2015/16	Third Party Contn	Cost to the Council £	Expenditure at 30/09/15	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Estimated complete date	Explanation
		£	£	£	£	£	£	£	£	£		
Ilr Knaptо	**Support Services**											
JI	Public lighting replacement	98,714		98,714		98,714	34,530	98,714	0		Mar-16	Project scheduled to be completed in 2015/16
JI	Public lighting energy reductions	11,060		11,060		11,060	37	11,060	0		Mar-16	Project scheduled to be completed in 2015/16
JI	Air Conditioning - Legislation requirement Corporate	35,791	(7,791)	28,000		28,000	1,604	28,000	(7,791)	(7,791)	Mar-16	Works now agreed, start on site dates to be confirmed, however only £28,000 is estimated to be completed in 2015/16 with £7,791 to be roll -forward to 2016/17
JI	Civic Centre - Window Replacements	4,495	(4,495)	0		0		0	(4,495)	(4,495)	Sep-15	Project complete, return to fund £4,495
JI	Civic Centre - Toilet Refurbishment	50,000		50,000		50,000	4,945	50,000	0		Oct-15	Site work in progress and on target to complete on budget
JI	Civic Centre - back up generator	0		0		0	0	0	0			Scheme Complete.
JI	Civic Centre - Disabled Access Doors and Ramp	35,000		35,000		35,000		35,000	0		Mar-16	Power assist doors now complete, ramp scheme design and procurement in progress
DG	Solar Panels - Civic Centre	87,000		87,000		87,000		87,000	0		Mar-16	Scheme design and procurement being assessed
JI	ICT Improvements	309,552		309,552		309,552	84,906	309,552	0		Mar-16	ICT projects on target
JI	ICT Server Room Civic Centre & Springboard	75,820		75,820		75,820		75,820	0		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.
JI	All Leisure Centres - Digital Transaction Software	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	610	69,560	0		Mar-16	ICT projects on target
JI	ICT Information Security/Compliance	0		0		0	925	0	0		Mar-16	ICT projects on target
JI	ICT Customer Excellence	70,000		70,000		70,000	1,950	70,000	0		Mar-16	ICT projects on target
JI	CIVICA Icon upgrade	10,000		10,000		10,000		10,000	0		Dec-15	Cash receipting software to be upgraded. Approved at Q1.
JI	Car Park Restatements	71,934		71,934		71,934	46,484	71,934	0		Mar-16	Scheme design in progress
JI	Adoptions - Electric Bollards - Thirsk & Northallerton	40,000		40,000		40,000		40,000	0		Feb-16	Scheme design in progress
JI	Bedale Cycle Scheme	398,000	(368,000)	30,000	0	30,000		30,000	(368,000)	(368,000)	Mar-16	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. This scheme will be investigated in 2015/16 with the majority of funds being forward to 2016/17.
JI	Adoption of Roads - Leeming Bar	150,000		150,000		150,000		150,000	0		Mar-16	Sewerage adopted, Street lighting remedial works in progress, meet with NYCC highway arranged for Nov-15 to agree remedial works
JI	Car Parks - Thirsk Cobbles	2,726		2,726		2,726		2,726	0		Dec-15	Scheme remedial work in progress, await final invoice
JI	Bedale Gateway Car Park	612,000	(552,000)	60,000		60,000		60,000	(552,000)	(552,000)	Mar-16	Appointing consultants for design work in Q3. Scheme is likely to span more than one year, with construction commencing in Q1 2016/17.
JI	Adoptions - Thirsk Phases 2 & 3	333,168	(472)	332,696		332,696	332,696	332,696	(472)	(472)	Sep-15	Scheme completed and £472 return to fund.
JI	Repairs & Renewals - Revenue	0		0		0		0	0		Mar-16	Funding moved to Revenue as no capital works. Approval at Q1.
	Total Scheme Value Support Services	**2,470,721**	**(932,758)**	**1,537,963**	**0**	**1,537,963**	**508,686**	**1,537,963**	**(932,758)**	**(932,758)**		
Ir Wilkins	**Economic Development Fund**											
DG	Economic Development Capital Expenditure	0		0		0		0	0		Ongoing	Funding to be reprofiled, returned to the reserve. Approval at Q1
DG	Market Towns Investment Plans - Bedale	15,000		15,000		15,000		15,000	0		Ongoing	
DG	Market Towns Investment Plans - Easingwold	15,000		15,000		15,000		15,000	0		Ongoing	
DG	Market Towns Investment Plans - Northallerton	15,000		15,000		15,000		15,000	0		Ongoing	Work to be commenced
DG	Market Towns Investment Plans - Stokesley	15,000		15,000		15,000		15,000	0		Ongoing	
DG	Market Towns Investment Plans - Thirsk	15,000		15,000		15,000		15,000	0		Ongoing	
DG	Industrial Park Review - Leeming	40,000	(10,000)	30,000		30,000		30,000	(10,000)		Ongoing	
DG	Industrial Park Review - Dalton	40,000	(10,000)	30,000		30,000		30,000	(10,000)		Ongoing	Work to be commenced and funds to be reduce for Industrial Park review as not required and transfer to the Improvement Infrastructure Central Northallerton Scheme.
DG	Industrial Park Review - Stokesley	40,000	(10,000)	30,000		30,000		30,000	(10,000)		Ongoing	
DG	Industrial Park Review - Thirsk	40,000	(10,000)	30,000		30,000		30,000	(10,000)		Ongoing	
DG	Industrial Park Review - Northallerton	40,000	(10,000)	30,000		30,000		30,000	(10,000)		Ongoing	
DG	Industrial Estates/Employment land	75,000		75,000	25,000	50,000		75,000	0		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	9,115		9,115		9,115		9,115	0		Ongoing	Work underway
DG	ED Improve Infrastructure North Northallerton	25,000		25,000	25,000	0	18,037	25,000	0		Ongoing	Work underway and full budget estimated to be spent
DG	North Northallerton Recreation Element	0		0		0		0	0		Ongoing	

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

Councill or / Officer	Capital Scheme	Budget 2015/16 Approved at Q1	Qtr 2	Qtr 2 + 2015/16	Third Party Contn	Cost to the Council £	Expenditure at 30/09/15	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Estimated complete date	Explanation
		£	£	£	£	£	£	£	£	£		
DG	ED Improvement Infrastructure Central Northallerton	1,484,660	44,740	1,529,400		1,529,400	1,469,397	1,529,400	44,740	(5,260)	Ongoing	Demolition consultant appointed at £60,000 to be funded by a transfer from Industrial park review of £50,000 and also £10,000 to be used from the initial stage of the scheme which is no longer required. A further £5,260 is to be transferred back to the economic development fund reserve to fund other schemes.
DG	ED Improvement Infrastructure Dalton Bridge	164,853	1,520,000	1,684,853		1,684,853	82,830	1,684,853	1,520,000	1,520,000	Ongoing	Additional £1,520,000 required as approved at Cabinet in September 2015.
	Total Scheme Value EDF	**2,033,628**	**1,514,740**	**3,548,368**	**50,000**	**3,498,368**	**1,570,264**	**3,548,368**	**1,514,740**	**1,514,740**		
llr Knapto	**Support Services**											
JI	Loan to Broadacres	35,000,000	(25,000,000)	10,000,000		10,000,000		10,000,000	(25,000,000)	(25,000,000)	Mar-16	Profile of £10m confirmed to be lent to Broadacres Housing Association in 2015/16 with th remaining expenditure being transferred to 2016/17
	Total Scheme Value Loan to Broadacres	**35,000,000**	**(25,000,000)**	**10,000,000**	**0**	**10,000,000**	**0**	**10,000,000**	**(25,000,000)**	**(25,000,000)**		
	Total Capital Programme 2015/16	**41,026,866**	**(23,742,028)**	**17,284,838**	**476,569**	**16,808,269**	**2,397,923**	**17,284,838**	**(23,742,028)**	**(23,742,028)**		

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 - 4 schemes require adjustment at Quarter 2:

(a) Waste & Street Scene Training Room – An additional £1,500 is required to complete this scheme to £9,500 due to tenders being received higher than originally anticipated.

(b) 10 Year Waste strategy Review – the new waste contract is to be approved in January 2016 and as a result every home will receive a third wheelie bin which will increase kerbside recycling for the collection of cardboard and plastics, cartons, cans, paper and glass. The cost of £671,250 will be funded from the capital reserve and the savings generated will be used to finance this cost over 10 years.

(c) Central Depot - Fuel Safety System - it is essential that health and safety standards are adhered to and the fleet operates to reduce risks of slip and trip hazards in relation to the hoses from the fuel tanks. A new scheme of £6,000 will address these issues.

(d) HGV Workshop and Storage Area Asbestos Removal – this new scheme requires £12,000 of funding to ensure the safe removal of asbestos in line with health & safety requirements.

1.3 Customer & Leisure Services - 8 schemes require adjustment at Quarter 2:

(a) Pool Changing Village, Pool Balustrades and part of the Fire Alarm System scheme at Hambleton Leisure Centre – For the pool Changing Village scheme there is currently an application with Sport England to consider funding part of these works. Due to the timing of the decision being made, this scheme has been moved into 2016/17 at £85,000. The works on the other two schemes at £15,000 and £10,000 respectively will be done at the same time as the Changing Village works and therefore have been rescheduled to complete in 2016/17.

(b) Bedale Leisure Centre and Stokesley Leisure Centre Improvement Scheme – works are continuing and a realignment of funds has occurred between these schemes at £2,730 with a nil effect on the overall capital cost.

(c) Thirsk & Sowerby Leisure Centre – Pool tank and surrounding tiling - The works to the pool tank are critical. An external survey (Pool Diving Solutions) identified imminent need to repair tiles and grouting in the pool tank. This project will coincide with the "Thirsk & Sowerby Leisure Centre Improvement Scheme" remedial works, which will lessen the impact on 'down-time' for customers and loss of income to the centre.

(d) Thirsk & Sowerby Sports Village – this scheme is ongoing with the planning application being presented in September 2015 to be at Planning Committee in November 2015. The cost in 2016/17 is currently £6,748 and this is financed by external Section 106 funding.

(e) 17 Market Place Bird Netting – This scheme has been completed and £171 has been returned to the capital reserve.

(f) Thirsk New Tourist Information Centre – the retention monies held for this scheme completed in a previous year are no longer required and therefore £1,337 is returned to the capital reserve.

1.4 Support Services– 5 schemes require adjustment at Quarter 2:

(a) Air Conditioning – Legislation Requirement Corporate – This scheme is ongoing as it is a legislative requirement to ensure air condition units meet health and safety standards. Therefore this work is on a rolling programme and it is recognised that £7,791 will be utilised next year.

(b) Civic Centre – Window replacement – this scheme has been completed and therefore £4,495 will be returned to the capital reserve.

(c) Bedale Cycle Scheme - the initial works are being prepared in 2015/16 with the majority of the work £368,000, in relation to the external Section 106 funding, occurring in future years.

(d) Bedale Gateway Car Park – this scheme is scheduled to complete at the end of August 2016 when the new Bedale Bypass is opened. The design consultant has been appointed and the works are being initiated in 2015/16. The majority of the work will occur in 2016/17a and therefore the funds have been transferred into 2016/17.

(e) Adoptions – Thirsk Phases 2 & 3 – This scheme has been completed and £472 has been returned to the capital reserve.

1.5 Economic Development Fund – £5,000,000 was originally approved by Cabinet for the Economic Development Fund, of which £2,033,628 was allocated at Quarter 1 2015/16. At Quarter 2, this has increased by £1,514,740 which has seen an increase of £60,000 for the consultation and tender for the demolition of the prison and £1,520,000 has been allocated by Cabinet in July 2015 for a secured loan of up to £1.5m on commercial terms offered to the businesses comprising the Business Improvement District at Dalton and £20,000 for associated legal costs. A decrease of £55,260 has also occurred due to less funding £50,000 being required for the Industrial park Reviews and £5,260 on the prison project.

1.6 Loan to Broadacres – £10,000,000 has been confirmed to be invested with Broadacres Housing Association by 31 March 2016. The remainder of the funds have been re-profiled to future years.

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.

1.8 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 2

1.0 LEGISLATIVE REQUIREMENT:

1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. The first main function of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. In general terms, this management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 Accordingly, Treasury Management is defined as:

"The management of the Local Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 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.

1.5 The regulatory environment places responsibility on Members for the review and scrutiny of Treasury Management policy and activities. This Mid-year report therefore

(a) updates Members on the current Treasury Management position

(b) updates Members on the changes to the Council's credit rating methodology for the investments of its surplus funds. This is in line with the credit rating agencies (Fitch, Moody's and Standard & poor's) approach to credit ratings and the Council's treasury management advisers – Capita Asset Services – advice.

1.6 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by this Council on 24 February 2015. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

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

1.8 The Council undertook no borrowing at Quarter 2 2015/16 and remained debt free. This is expected to be the position at 31 March 2016 at year end.

1.9 The capital financing requirement, which is the amount of borrowing required to support the capital expenditure programme, is set at £35,000,000. This is due to the Council's approval to invest in Broadacres Housing Association, which is classed as capital expenditure. In 2015/16, £10,000,000 will be invested but this will be financed from the Council's reserves and no long term borrowing will occur. All other capital expenditure as detailed in the paragraphs above is supported from grants, contributions and reserves. The following table shows the treasury management position as at 30 September 2015:

	30 Sept 15 £000's	Rate %
Capital Financing Requirement	35,000	
Borrowing	0	0.0
Investments	29,650	0.58

Table 1: Borrowing and Investment position at 30 September 2015

1.10 The table shows that changes in the capital expenditure programme only affect the Treasury Management position through the surplus funds that are available to the Council to invest, to earn investment income.

2.0 THE ECONOMY, INTEREST RATES AND TREASURY MANAGEMENT STRATEGY:

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

3.0 ANNUAL INVESTMENT STRATEGY 2015/16 – Mid Year Review Quarter 2:

3.1 **Investment Policy** – the Council's investment policy is governed by the Department for Communities and Local Government guidance, which was implemented in the Treasury Management Strategy Statement (TMSS) for 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 – the Council's treasury management advisers - suggested credit-worthiness approach. This includes the use of Country sovereign credit ratings as well as individual financial institution credit ratings and Credit Default Swap (CDS) overlay information provided by Capita Asset Services.

3.2 **Investment Counterparty Criteria** - The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of the new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

3.3 In keeping with the agencies' new methodologies, the credit element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution.

3.4 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AAA for all countries except the UK where there is no limit but the UK is currently AA+. This is in line with the Treasury Management Strategy Statement approved by Council on 24 February 2015. A sovereign rating is still used in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

3.5 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. Further, the credit rating process will continue to utilise Credit Default Swap prices as an overlay to ratings in the new methodology.

3.6 The treasury management strategy statement and annual investment strategy sets out the Council's investment priorities as being:-

- Security of capital;
- Liquidity;
- Yield

3.7 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 of course security.

3.8 **Investments held by the Council** - As set out in Annex 'D', 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. The continuing potential for a re-emergence of a 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.

3.9 The average level of funds available for investment purposes during Quarter 2 – 30 September 2015 - was £31,874,590. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The investment with Broadacres Housing Association has been agreed and therefore over the next two quarters of 2015/16, the Council's funds available for investment will be used to finance the Broadacres agreement, so the treasury management investments will reduce.

3.10 The Council held core cash balances of £15,400,000 at Quarter 2 and £14,250,000 cash flow movement balances. The cash flow movement balances are higher than usual due to the investment with Broadacres occurring in the next few months. Total investment balance at 30 September 2105 was £29,650,000.

3.11

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.35%	0.40%	£50,390
3 month	0.45%	0.84%	£89,120

Table 2: Investment performance for Quarter 2 – latest information 30 September 2015

3.12 The table shows that the Council monitors its core cash against 3 month LIBID – London Interbank Bid Rate (this is effectively the investment rate) – and its cash flow investments against the 7 day rate. The Council outperformed the 3 month benchmark by 0.39% and the 7 day benchmark by 0.05%

3.13 The Council's budgeted investment return for 2015/16 was approved at £139,510 at Quarter 1 and the performance for the first six months was £93,165. This is being closely monitored and further information will be provided at Quarter 3.

4.0 <u>BORROWING 2015/16 – Mid Year Review Quarter 2</u>

4.1 The following borrowing information is provided to ensure Members are updated with the interest rates available for borrowing and are kept informed with regards to the current position. Capita Asset Services – the Council's treasury management advisers – 25 year PWLB target rate for new long term borrowing for Quarter 4 2015/16 is 3.70% and for 5 years is 2.40%.

4.2 As outlined below, the general trend has been an increase in interest rates during the first Quarter but then a fall during the second quarter.

4.3 The table below shows the Public Works Loans Board interest rates which were available for loans during the first six months 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 0.20% (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	1.49%	2.87%	3.66%	4.30%	4.28%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.26%	2.12%	2.76%	3.39%	3.29%

Table 3: Public Works Loan Board (PWLB) certainty rates, half year ended 30 September 2015

4.4 **Treasury Borrowing** – the Council undertook no external borrowing for cash flow purposes or capital financing purposes in the first six months of 2015/16.

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

4.6 **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 Council on 24 February 2015 and are in compliance with the Council's Treasury Management Practices.

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

5.3 The Chief Financial Officer – Executive Director & Deputy Chief Executive - can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2015.

ANNEX 'D'

1.0 ECONOMIC UPDATE

1.1 Economic performance to date and outlook

1.1.1 U.K.

UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, Quarter 1 of 2015 was weak at +0.4% though there was a rebound in Quarter 2 to +0.7%. The Bank of England's August Inflation Report included a forecast for growth to remain around 2.4 – 2.8% over the next three years. However, the subsequent forward looking Purchasing Manager's Index, (PMI), surveys in both September and early October for the services and manufacturing sectors showed a marked slowdown in the likely future overall rate of Gross Domestic Product (GDP) growth to about +0.3% in Quarter 4 from +0.5% in Quarter 3. This is not too surprising given the appreciation of Sterling against the Euro and weak growth in the European Union, China and emerging markets creating headwinds for UK exporters. Also, falls in business and consumer confidence in September, due to an increase in concerns for the economic outlook, could also contribute to a dampening of growth through weakening investment and consumer expenditure. For this recovery to become more balanced and sustainable in the longer term, the recovery still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly over the last few years although it has now ticked up recently after the Chancellor announced in July significant increases planned in the minimum (living) wage over the course of this Parliament.

The Monetary Policy Committee has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. It has therefore been encouraging in 2015 to see wage inflation rising significantly above Consumer Price Index inflation which slipped back to zero in June and again in August However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn. The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. Despite average weekly earnings ticking up to 2.9% y/y in the three months ending in July, (as announced in mid-September), this was unlikely to provide ammunition for the Monetary Policy Committee to take action to raise Bank Rate soon as labour productivity growth meant that net labour unit costs appeared to be only rising by about 1% y/y. However, at the start of October, statistics came out that annual labour cost growth had actually jumped sharply in Quarter 2 from +0.3% to +2.2%: time will tell if this is just a blip or the start of a trend.

There are therefore considerable risks around whether inflation will rise in the near future as strongly and as quickly as previously expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets. On the other hand, there are also concerns around the fact that the central banks of the UK and US have few monetary policy options left to them given that central rates are near to zero and huge Quantitative Easing is already in place. There are therefore arguments that they need to raise rates sooner, rather than later, so as to have ammunition to use if there was a sudden second major financial crisis. But it is hardly likely that they would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has therefore progressively been pushed back during 2015 from Quarter 4 2015 to Quarter 2 2016 and increases after that will be at a much slower pace, and to much lower levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20.

1.1.2 U.S.

Gross Domestic Product (GDP) growth in 2014 of 2.4% was followed by first Quarter 2015 growth depressed by exceptionally bad winter weather at only +0.6% (annualised). However, growth rebounded very strongly in Quarter 2 to 3.9% (annualised) and strong growth was initially expected going forward. Until the turmoil in financial markets in August caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. might start to increase rates in September. However, the Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, and due to a 20% appreciation of the dollar which has caused the Fed to lower its growth forecasts. Since then the nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to significantly weaken. This has pushed back expectations of the first rate increase from 2015 into 2016.

1.1.3 Eurozone

The European Central Bank fired its big bazooka by announcing a massive €1.1 trillion programme of quantitative easing in January 2015 to buy up high credit quality government debt of selected Eurozone 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 Gross Domestic Product (GDP) growth rate which hit 0.4% in Quarter 1 2015 (1.0% y/y) and +0.4%, (1.5% y/y) in Quarter 2 Gross Domestic Product (GDP). The European Central Bank (ECB) has also stated it would extend its Quantitative Easing programme if inflation failed to return to its target of 2% within this initial time period.

1.1.4 Greece.

During July, Greece finally capitulated to European Union demands to implement a major programme of austerity and is now cooperating fully with European Union demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to Gross Domestic Product (GDP). However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to European Union demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the Euro may only have been delayed by this latest bailout.

1.1.5 China and Japan

Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth. In Quarter 2 2015 growth was -1.6% (annualised) after a short burst of strong growth of 4.5% in Quarter 1. During 2015, Japan has been hit hard by the downturn in China. This does not bode well for Japan as the Abe government has already fired its first two arrows to try to stimulate recovery and a rise in inflation from near zero, but has dithered about firing the third, deregulation of protected and inefficient areas of the economy, due to political lobbies which have traditionally been supporters of Abe's party.

As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market. Many commentators are concerned that recent growth figures around that figure, could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much bank lending to corporates and local government during the post 2008 credit expansion period and whether the bursting of a bubble in housing prices is drawing nearer. Overall, China is still expected to achieve a growth figure that the European Union would be envious of. However, concerns about whether the Chinese cooling of the economy could be heading for a hard landing, and the volatility of the Chinese stock market, have caused major volatility in financial markets in August and September such that confidence is, at best, fragile.

1.1.6 Emerging countries

There are considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in western currency denominated debt since the financial crisis, caused by western investors searching for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields (due to Quantitative Easing), and near zero interest rates, into emerging countries, there is now a strong current flowing to reverse that flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields. This change in investors' strategy and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US and UK, has helped to cause the dollar and sterling to appreciate. In turn, this has made it much more costly for emerging countries to service their western currency denominated debt at a time when their earnings from commodities are depressed. There are also going to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates, if available at all.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by sovereign wealth funds of countries highly exposed to falls in commodity prices which, therefore, may have to liquidate investments in order to cover national budget deficits.

1.2 Interest rate forecasts

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused Public Works Loan Board (PWLB) rates to fall below the above forecasts for Quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in Quarter 2 of 2016.

Despite market turbulence since late August causing a sharp downturn in Public Works Loan Board (PWLB) rates, the overall trend in the longer term will be for gilt yields and Public Works Loan Board (PWLB) rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of Quantitative Easing. 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.

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.

The disappointing US nonfarm payrolls figures and UK Purchasing Managers Index services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge Quantitative Easing in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

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

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.

- UK economic growth turns significantly weaker than we currently anticipate.

- Weak growth or recession in the UK's main trading partners - the European Union, US and China.

- A resurgence of the Eurozone sovereign debt crisis.

- Recapitalisation of European banks requiring more government financial support.

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Federal rate increases, causing a flight to safe havens

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 European Union.

- The European Central Bank severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the Euro Zone.

- The commencement by the US Federal Reserve of increases in the Federal Funds Rate 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 European Union 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 £10,000,000. In the Strategy, the agreement was to invest with Broadacres £35,000,000 by either using surplus funds or borrowing from the Public Works Loan Board. Therefore in the table below, the Original Budget Prudential Indicators are calculated on the Council borrowing £35,000,000 from the Public Works Loan Board (PWLB) but at Quarter 2 it shows that no borrowing will occur as the £10,000,000 will be provided to Broadacres Housing Association by using surplus funds for the investment.

The capital Financing Requirement has therefore been reduced to £10,000,000.

1. PRUDENTIAL INDICATORS	**2015/16**	**2015/16**
Extract from budget and rent setting report	**Original Budget**	**Actual Q2**
	£'000	**£'000**
Capital Expenditure	37,937	17,195
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	0
Capital Financing Requirement 31 March 2015	35,000	10,000
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%