

## **HAMBLETON DISTRICT COUNCIL**

**Report To:** Cabinet  
11 February 2014

**Subject:** 2013/14 Q3 CAPITAL MONITORING AND TREASURY MANAGEMENT MID  
YEAR REVIEW REPORT

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

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### **1.0 PURPOSE AND BACKGROUND:**

- 1.1 The purpose of this report is to provide Members with the quarter 3 update at 31 December 2013 on the progress of the capital programme 2013/14 and the treasury management position. A full schedule of the capital programme 2013/14 schemes is attached at Annex A, together with the relevant update on progress of each scheme.
- 1.2 Capital expenditure is intrinsically linked with treasury management as the way that the capital programme is funded, directly effects the treasury management arrangements of the Council. This Council currently does not borrow for a capital purpose; instead capital expenditure is funded by grants, capital receipts and reserves. The use of the Council's funds affects the daily treasury management cash flow position, the requirement to investment these surplus funds and the income earned.

### **2.0 CAPITAL PROGRAMME SUMMARY:**

- 2.1 The capital programme for 2013/14 approved by Cabinet before the beginning of the financial year was £1,985,500. In July 2013, Cabinet approved the £709,364 capital schemes to be rolled forward from 2012/13 to be added to the 2013/14 capital programme, therefore totalling £2,694,864. At quarter 1, on 3 September 2013, Cabinet approved the revisions to the capital programme to £2,711,639 and at quarter 2 the 2013/14 capital programme approved by Cabinet on 3 December 2013 was revised down to £2,616,899.
- 2.2 At quarter 3, a net decrease to the capital programme of £136,299 is detailed that results in a revised capital programme budget of £2,480,600.
- 2.3 The net decrease of £136,299, to be approved in this report, is made up of:-  
(a) increase in expenditure of £2,700 to be supported from Council reserves;  
(b) decrease in scheme expenditure of £48,999.  
(c) reduction in scheme expenditure of £90,000, as works now completed by third party
- 2.2 Table 1 below outlines the variances reported against each portfolio area.

Portfolio	Current Approved Expenditure Q2 £	Revised projected Outturn Q3 £	Variance Increase/ (decrease) £	Budget Movement £	Request for additional funding £	Funding no longer required £
Housing, Planning and Waste Management	474,555	411,201	(63,354)	(19,000)		(44,354)
Leisure and Health	883,607	867,619	(15,988)	(15,000)		(988)
Customer Services and Asset Management	598,319	527,362	(70,957)	(71,000)	2,700	(2,657)
Support Services and Economic Development	660,418	659,418	(1,000)			(1,000)
Corporate	0	15,000	15,000	15,000		
<b>Total</b>	<b>2,616,899</b>	<b>2,480,600</b>	<b>(136,299)</b>	<b>(90,000)</b>	<b>2,700</b>	<b>(48,999)</b>

Table 1: Capital Programme Quarter 3 2013/14

2.3 To 31 December 2013 capital expenditure of £1,085,693 had been incurred or committed representing 42% of the revised quarter 3 capital programme position. Large schemes in the capital programme have been tendered during October / November, with capital works occurring during December 2013. Therefore, these schemes and other schemes are on target to complete during quarter 4 of 2013/14.

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

### 3.0 **FUNDING THE CAPITAL PROGRAMME:**

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

	£
Capital Receipts	4,567,306
Capital Grants	76,586
Capital Fund	<u>3,865,175</u>
Total 31 March 2013	8,509,070

3.2 For 2013/14, at quarter 3, the capital programme of £2,480,600 is being funded from £328,717 external grants/contributions and £2,151,883 from reserves. At year end in accordance with accounting practice the funds will be used from the capital receipts, unapplied grants or capital fund reserves.

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

	£
Total 10 Year Funding at 1 April 2013 (as above)	8,509,070
Add: 2013/14 anticipated capital receipts	560,000
Add: 2013/14 anticipated Capital Grants	328,717
Less: 2013/14 anticipated spend at Q2	<u>2,480,600</u>
Total 31 March 2014	6,917,187
Add: Future years capital receipts	2,222,000
Add: Future years grant income	1,668,000
Add: Future years revenue contribution	200,000
Add: Future Transfer from Council tax payers reserve to Repairs & maintenance & Computer Fund	5,981,022

Less: Repairs expenditure 2014/15 – 2023/24	5,013,155
Less: Capital Plan spend 2014/15 - 2023/24 (Approved Cabinet 3 December 2013)	<u>8,569,000</u>
Remaining Resources	3,406,054

3.4 The overall funding position continues to be closely monitored to ensure the overall capital programme remains affordable and sustainable over the 10 year approved capital plan. The 10 year capital plan 2014/15 to 2023/24 was approved by Cabinet on 3 December 2013.

#### **4.0 TREASURY MANAGEMENT QUARTER 3 UPDATE 2013/14:**

4.1 The Treasury Management quarter 3 update 2013/14 is attached at Annex C and provides Members with an update on the:-

- (a) treasury management legislative requirement
- (b) economy and interest rates
- (c) investment strategy
- (e) borrowing position
- (f) Compliance with prudential and treasury indicators

4.2 The investment portfolio at quarter 3 was £26,330,000 with an average interest rate return of 0.77%. For surplus funds invested for 3 months or more, a return of 0.80% was achieved which was 0.40% greater than the 3 month benchmark at 0.40%.

4.3 The economic and interest rate environment, where the base rate continues to at an historic low of 0.5%, continues to result in interest rates being earned on the Council's surplus funds being relatively low. The income earned on surplus funds for 2013/14 is estimated at £300,000.

4.4 To ensure that the Council is proactive in the area of treasury management the Council has joined Capital Asset Services (the Council's investment advisors) regional benchmarking club. This compares Hambleton District Council's investment portfolio position to other District Councils. At the end of September, the average return on the Council's investment portfolio was 0.80%, this compares with an average for other District Council's of 0.78%. By the end of December 2013, comparative data from other Councils was not available at the time of writing the report and will be reported at the next available opportunity.

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

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

4.7 It should be noted that the Council's treasury management advisors changed their name from Sector to Capital Asset Services in September 2013. The contract between the Council and Capita Asset Services remains the same, with the contract arrangements to be reviewed in March 2015.

#### **5.0 LINK TO COUNCIL PRIORITIES:**

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

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

## 6.0 **RISK ASSESSMENT:**

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

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

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

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

## 7.0 **FINANCIAL IMPLICATIONS:**

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

## 8.0 **LEGAL IMPLICATIONS:**

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

## 9.0 **EQUALITY/DIVERSITY ISSUES:**

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

## 10.0 **RECOMMENDATIONS:**

10.1 It is recommended that Council:-

- (1) approve the net decrease of £136,299 in the capital programme to £2,480,600 and the detailed capital programme attached at Annex A;
- (2) approve the movements in the capital programme detailed in Annex B and below:-
  - (a) increase in expenditure of £2,700 to be supported from Council reserves;
  - (b) decrease in expenditure of £48,999, reduction in Council funding

- (c) reduction in scheme expenditure of £90,000, works completed by third party
- (3) approve the Capital Funding position and available reserve to support further capital schemes over the next 10 years at £3,406,054;
  - (4) approve the treasury management activity at Annex C and that there were no changes to the investment criteria at quarter 3;
  - (5) approve the prudential and treasury indicators at Annex E and that there were no changes at quarter 3

JUSTIN IVES

**Background papers:** None

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110214 201314 Q3 CapitalMonitoring+TreasuryManagement+AnnexesBCD

Capital Programme Schemes 2013/14 (including 2012/13 schemes B/Fwd)											ANNEX A
Title:	Original Approved Expenditure 13/14 including Schemes Rolled Fwd from 2012/13	Current Approved Expenditure Q2	Third Party Contribution	Cost to the Council	Expenditure at 31/12/13	Anticipated Expenditure £	Variance	Change in Funding Taken/(Returned) to Capital Reserve	Estimated completion date	Explanation	
	£	£	£	£	£	£	£	£			
<b>Housing, Planning and Waste Management</b>											
Domestic Violence Refuge	121,000	120,928	0	120,928	120,928	120,928	0	0			
Purchase of bins and boxes for refuse and recycling	36,000	36,000	0	36,000	11,608	36,000	0	0	Ongoing	Orders have been placed. Budget to be spent by end of March	
Disabled Facilities Grants	183,910	242,627	158,717	83,910	70,075	198,273	-44,354	-44,354	Ongoing	Committed expenditure of £49,000 with a further commitment of £77,800., Delay in work due to staffing issues with the Home Improvement Agency.	
Depot wash bay	18,000	18,000	0	18,000	0	18,000	0	0	28/02/14	Design work in progress, works to complete by March 2014	
Central depot external lighting improvements	8,000	8,000	0	8,000	3,249	8,000	0	0	28/02/14	Orders placed, scheme ongoing.	
Central depot door improvements	15,000	15,000	0	15,000	12,688	15,000	0	0	17/09/13	Completed/Awaiting Invoices	
Vehicle workshop adaptations	25,000	25,000	10,000	15,000	11,210	15,000	-10,000	-10,000	28/02/14	Work commenced. Capital expenditure decreased by £10,000 as works on the capital projected to be completed by third party not by Hambleton District Council.	
Waste and Street Scene Clocking System		9,000		9,000	0	0	-9,000	-9,000	31/06/2014	Project approved at Q1 and currently ongoing. Specification and different system's being reviewed. Project to roll forward into 2014/15.	
<b>Total Scheme Value Housing, Planning and Waste Management</b>	<b>406,910</b>	<b>474,555</b>	<b>168,717</b>	<b>305,838</b>	<b>229,758</b>	<b>411,201</b>	<b>(63,354)</b>	<b>(53,354)</b>			
<b>Leisure and Health</b>											
Pool Filters SLC & BLC	125,000	109,271		109,271	0	90,271	-19,000		31/03/14	Work completed in December has come under budget by £19,000. (At Q2 Cabinet approved an under spend of £15,279 in accordance with tender documents). Therefore at Q3, £15,000 is to be used to fund overspend on Bedale Leisure Centre improvement scheme and £4,000 on Stokesley Leisure Centre.	
Pool Tank Tiles BLC	47,039	47,039		47,039	30,474	47,039	0	0	30/09/13	Work to be completed in March 2014	
HLC Plant Controls & Air Handling	26,807	26,807		26,807	26,807	26,807	0	0	30/09/13	Complete, overspend reported at Q2	
Combined Heat & Power Unit SLC / BLC / TSP	70,761	70,761		70,761	69,773	69,773	-988	-988	30/06/13	Complete, underspend to be returned to the reserve at Q3	
Gym equipment refresh	24,000	24,000	0	24,000	0	24,000	0	0	31/03/14	Orders placed, scheme ongoing	
Air conditioning - Legislative requirement	15,000	15,000	0	15,000	0	0	-15,000	0		Scheme Moved to Corporate Section Below	
Hambleton leisure centre dehumidifier	9,000	9,000	0	9,000	0	9,000	0	0	31/10/13	Work completed, awaiting invoices	
Hambleton and Stokesley leisure centres - changing room tiles	10,000	10,000	0	10,000	388	10,000	0	0	31/12/13	Work completed December 2013, awaiting invoices	
Thirsk and Sowerby leisure centre improvement scheme	250,000	250,000	160,000	90,000	2,000	250,000	0	0	31/12/13	Work completed December 2013, awaiting invoices	
Bedale leisure centre improvement scheme	240,000	120,000		120,000	5,497	135,000	15,000		31/03/14	Work to be carried out in February 2014. Works forecast to be overspent by £15,000, due to issues discovered when removing the floor. This is suggested to be covered by the underspend from the Bedale Leisure Centre Pool Filters. At Q2, Works to Flood lit pitch of £120,000 were approved to be rolled forward into 2014/15 as matched funding of £80,000 to be received next year. Work carried out in December. Overspend of £4,000 due to unforeseen works to be carried out to the floor, to be funded from underspend on Pool Filtration Scheme. At Q2, overspend of £15,729 reported and also funded from Pool Filtration Scheme under spend.	
Stokesley leisure centre improvement scheme	158,000	173,729	0	173,729	20,850	177,729	4,000	0	31/12/13		
Hambleton leisure centre PA system	8,000	8,000	0	8,000	0	8,000	0	0	31/12/13	Work completed, awaiting invoices	
Hambleton LC Improvement Scheme		20,000	0	20,000	2,465	20,000	0	0	Ongoing	Preliminary work on development of Hambleton Leisure Centre, partial scheme in 2014/15 b/fwd into 2013/14 at quarter 1	
<b>Total Scheme Value Leisure and Health Services</b>	<b>982,800</b>	<b>883,607</b>	<b>160,000</b>	<b>723,607</b>	<b>188,254</b>	<b>867,619</b>	<b>-15,988</b>	<b>-988</b>			
<b>Customer Services and Asset Management</b>											
Car Parks - Thirsk Cobbles	76,250	80,105	0	80,105	80,105	82,805	2,700	2,700	30/06/13	Complete - Overspend £3,855 reported and approved at Q1. In addition £2,700 in relation to retention to be paid in 2014/15 requires approval at Q3 to be taken from the capital reserve	
Car Parks - Thirsk Cobbles		25,000	0	25,000	0	25,000	0	0	31/03/14	Bring partial funding forward from 2014/15 capital programme to commence works in 2013/14, approved at Q2	
Car Parks - Reinstatements	47,890	51,000	0	51,000	51,000	51,000	0	0	30/06/13	Complete - Overspend of £3,110 reported and approved at quarter 1	
Car Parking Charges - Directional Signs	6,510	6,510	0	6,510	6,475	6,475	-35	-35	30/06/13	Work Completed, slight underspend to be returned to the capital reserve	
Adoptions - Northallerton Thurston Rd	130,037	129,490		129,490	129,490	129,490	0	0	31/07/13	Work Completed - no retention - adoption sent back to NYCC and underspend reported at Q2	
Ellerbeck Court, Stokesley Adoption Works	73,645	73,645		73,645	9,800	73,645	0	0	31/03/14	Work on-site complete, NYCC have confirmed works are satisfactory, await adoption certificate from NYCC. At this time invoices will be paid	
Car Park tariff changes	15,500	15,500	0	15,500	14,639	14,639	-861	-861	31/10/13	Work Complete, underspend returned to the capital reserve	



**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 Housing, Planning and Waste Management – 2 schemes require adjustments at Quarter 3:-
  - (a) Disabled Facilities Grant – This scheme has been revised down at quarter 3 to spend £198,273 using a Government grant of £158,717. The under spend is due to staffing issues at the home improvement agency and therefore £44,354 of funding will be returned to the Council's reserve.
  - (b) Vehicle Workshop Adaptations - £10,000 of capital expenditure is to be completed and paid for by a third party. Therefore the Capital expenditure of the scheme will decrease from £25,000 to £15,000 but there is no change in the funding position as the third party was always a contributor.
  - (c) Waste and Street Scene Clocking System - £9,000 is to be transferred into 2014/15 at the end of the financial year. A variety of systems are being reviewed to achieve the optimal solution for the Council and the tender specification is being finalised.
- 1.3 Leisure & Health – 5 schemes have changed at Quarter 3:-
  - (a) Pool Filters at Stokesley and Bedale Leisure Centres – The works completed on this scheme in December 2013 have resulted in a further under spend of £19,000 to £90,271. It should be noted that £15,000 is to be used to fund the over spend for the Bedale Leisure Centre improvement scheme and £4,000 for the improvement scheme at Stokesley Leisure Centre. Details are below. (At quarter 2 the scheme was reduced by £15,729 to £109,271 due to the tender receive having lower costs than estimated).
  - (b) Combined Heat & Power Units at Stokesley, Bedale and Thirsk Leisure Centres – The scheme has completed on time and under budget by £988. These funds will be returned to the capital reserve.
  - (c) Air Conditioning Legislative Requirement – This scheme is in the capital programme on an ongoing basis. In 2013/14 it was planned to complete works in Leisure Services, however urgent works were completed elsewhere. This scheme covers all 4 portfolio areas and therefore a new Corporate area of the Capital programme has been created. Further details are seen below at paragraph 1.6(a).
  - (d) Bedale Leisure Centre Improvement Scheme – The Scheme at £120,000 is estimated to overspend by £15,000 due to issues that were discovered when the floor was removed. The increase expenditure is proposed to be funded from part of the under spend from the Pool Filters schemes as detailed above in 1.4(a).
  - (e) Stokesley Leisure Centre Improvement Scheme – The scheme at £173,729 is estimated to overspend by £4,000 due to unforeseen works to be carried out to the floor. It is proposed that the required funds of £4,000 be transferred from the under spend on the Stokesley Leisure Centre Pool Filters scheme, as described above in 1.4(a).
- 1.4 Customer Services and Asset Management – 4 schemes require to be adjusted at quarter 3:-



- (a) Car Parks – Thirsk Cobbles – The scheme has completed and £2,700 will potentially be paid in 2014/15 for retention related costs. Funds need to be approved from the capital reserve.
  - (b) Car Parks – Reinstatements – This scheme has come under budget by £35 and will be returned to the capital reserve.
  - (c) Car Park Tariff Changes – This scheme has come under budget by 5% and £861 will be returned to the capital reserve.
  - (d) CCTV Control Room Upgrade – This scheme has completed 17% under budget and £1,761 will be returned to the capital reserve.
  - (e) CCTV Control Room Upgrade – Wireless Network - £71,000 is to be transferred into 2014/15 at the end of the financial year. The business case continues to be developed and cost proposals are waited to be received.
- 1.5 Support Services and Economic Development – 1 scheme has changed at quarter 3:  
(a) Thirsk New Tourist Information Centre (TIC) – £2,000 has been paid for retention works after discussion with the third party, thereby returning £1,000 to the capital reserve.
- 1.6 Corporate scheme – 1 scheme has been included at quarter 3:-  
(a) Air Conditioning Legislative Requirement – This scheme is in the capital programme on an ongoing basis. In 2013/14 it was planned to complete works in Leisure Services, however due to urgent works required in ICT, the £15,000 of funding has been used for this purpose at a cost of £14,467. The scheme has been moved to a new Corporate area as this capital project covers all 4 portfolio areas. The works in Leisure Services may commence later in this financial year when further funding will be brought forward from 2014/15. Therefore the scheme remains estimated to expend £15,000 this year.
- 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.

## TREASURY MANAGEMENT POSITION 2013/14 – QUARTER 1

### **1.0 LEGISLATIVE REQUIREMENT:**

- 1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (Treasury Management Strategy Statement, Annual and Mid-year reports, as well as quarterly updates). This report therefore ensures this Council is implementing best practice in accordance with the Code.
- 1.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This quarter 3 report therefore updates Members on the current treasury management position
- 1.3 The Council's capital expenditure plans at quarter 3 continue to be financed by either external grants or contributions, capital receipts received in the year or capital reserves. The changes in the capital expenditure plans as detailed in the first half of this report are not financed by borrowing and therefore there is no affect on the Council's underlying need to borrow.
- 1.4 In 2013/14 the Council's treasury position (excluding finance leases) is to continue to be debt free. No borrowing has been taken in 2013/14 to date.
- 1.5 The capital financing requirement, which is the amount of borrowing required to support the capital expenditure programme, is zero for this Council. All capital expenditure as detailed in the paragraphs above is supported from grants, contributions and reserves. The following table shows the treasury management position as at 31 December 2013:-

	<b>31 Dec 13 £m</b>	<b>Rate %</b>
<b>Capital Financing Requirement</b>	0	0.0
<b>Borrowing</b>	0	0.0
<b>Investments</b>	26.330	0.77

Table 1: Borrowing and Investment position at 31 December 2013

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

### **2.0 THE ECONOMY, INTEREST RATES AND TREASURY MANAGEMENT STRATEGY:**

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

### **3.0 ANNUAL INVESTMENT STRATEGY 2013/14 –QUARTER 3:**

- 3.1 **Investment Policy** – the Council's investment policy is governed by the Department for Communities and Local Government guidance, which was implemented in the Treasury Management Strategy Statement (TMSS) for 2013/14, and includes the Annual Investment Strategy approved by Cabinet on 19 March 2013. This Policy sets out how surplus funds are invested and placed with highly credit rated financial institutions, using 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 Capita Asset Services .

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

- Security of capital;
- Liquidity; and
- Yield

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

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

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

3.6 The average level of funds available for investment purposes during quarter 3 was £30,704,291. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council held core cash balances of £26,000,000 and £330,000 cash flow movement balances. Total investment balance at 31 December 2013 was £26,330,000.

3.7

<b>Benchmark</b>	<b>Benchmark Return</b>	<b>Council Performance</b>	<b>Investment Interest Earned</b>
<b>7 day</b>	0.35%	0.65%	£29,848
<b>3 month</b>	0.40%	0.80%	£207,598

Table 2: Investment performance for quarter 3 – latest information 31 December 2013

3.8 The table shows that the Council monitors its core cash against 3 month LIBID – London Inter bank Investment Rates – and its cash flow investments against the 7 day rate. The Council outperformed the 3 month benchmark by 0.40% and the 7 day benchmark by 0.30%.

3.9 The Council's budgeted investment return for 2013/14 was revised at quarter 2 and approved in the Q2 Revenue Monitoring report to £300,000. Performance for investments interest earned at quarter 3 for the first nine months of 2013/14 was £237,446. This return at quarter 3 2013/14 is in line with the revised budget.

#### **4.0 BORROWING 2013/14 –QUARTER 3:**

4.1 The following borrowing information is provided to ensure Members are updated with the interest rates available for borrowing and are kept informed with regards to the current position. Capita Asset Services – the Council’s treasury management advisers – 25 year Public Works Loans Board (PWLB) target rate for new long term borrowing for the quarter remained at 4.40%.

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

	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
Low	1.08%	2.23%	3.35%	4.16%	4.18%
Date	17/12/2013	31/10/2013	31/10/2013	30/10/2013	18/07/2013
High	1.23%	2.78%	3.90%	4.47%	4.43%
Date	27/12/2013	30/12/2013	30/12/2013	27/12/2013	27/12/2013
Average	1.13%	2.43%	3.59%	4.32%	4.31%

Table 3: Public Works Loan Board (PWLB) certainty rates, quarter ended 31 December 2013

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

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

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

#### **5.0 COMPLIANCE WITH PRUDENTIAL AND TREASURY INDICATORS:**

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

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

5.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31 December 2013.

## **ECONOMIC BACKGROUND, INTEREST RATE FORECAST AND SUMMARY OUTLOOK**

### **ECONOMIC BACKGROUND**

- After strong UK growth of 0.7% in quarter 2 and 0.8% in quarter 3, it appears that UK Gross Domestic product (GDP) is likely to have grown at an even faster pace in quarter 4 of 2013. Forward surveys are also very encouraging in terms of strong growth and there are positive indications that recovery is broadening away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the Monetary Policy Committee (MPC) before it said it would consider any increases in Bank Rate, than it expected last August when that threshold was initially set. Accordingly, markets are expecting a first increase in early 2015 though recent comments from Monetary Policy Committee (MPC) members have emphasised they would want to see strong growth well established, and an increase in real incomes, before they would consider raising Bank Rate.
- Also encouraging has been a sharp fall in inflation (Consumer Prices Index (CPI)) to 2.1% in November and forward indications are that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and fostered optimism for achieving a balance in the cyclically adjusted budget within five years, a year earlier than previously forecast.
- The big news in financial markets was that the Federal Reserve, in December, felt sufficiently confident that the premise for strong growth had been established in America that it could start to taper its asset purchases by reducing them by \$10bn per month from January 2014. These encouraging growth scenarios in the USA and UK led to a sharp jump up, in December, in short dated gilts; this, accordingly, impacted 5 and 10 year Public Works Loans Board (PWLB) rates.

### **INTEREST RATE FORECAST**

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

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
5yr PWLB rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%

Capita Asset Services undertook a review of its interest rate forecasts in late November, after the Bank of England's latest quarterly Inflation Report. This latest forecast now includes a first increase in Bank Rate in quarter 2 of 2016 (previously quarter 3) and reflects greater caution as to the speed with which the Monetary Policy Committee (MPC) will start increasing Bank Rate than the current expectations of financial markets.

## Summary Outlook

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below Consumer Prices Index (CPI) inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. Labour productivity must improve significantly before increases in pay rates are warranted. With regard to the US, the main world economy, it faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although labour force participation rates remain lower than ideal.

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

### Prudential and Treasury Management Indicators - Quarter 3

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

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

<b>1. PRUDENTIAL INDICATORS</b>	<b>2013/14</b>	<b>2013/14</b>
<b>Extract from budget and rent setting report</b>	<b>Original Budget</b>	<b>Actual Q3</b>
	<b>£'000</b>	<b>£'000</b>
<b>Capital Expenditure</b>	1,907	2,561
<b>Ratio of financing costs to net revenue stream</b>	N/A	N/A
<b>Net borrowing requirement General Fund</b>		
brought forward 1 April	Nil	Nil
carried forward 31 March	Nil	Nil
in year borrowing requirement	Nil	Nil
<b>Capital Financing Requirement 31 March 2103</b>	Nil	Nil
<b>Incremental impact of capital investment decisions</b>	£	£
Increase in Council Tax (band D) per annum	£5.28	£5.28

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

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