

Councillor / Officer	Capital Scheme	Total 2016/17		Qtr 1	Qtr 1 + 2016/17	Third Party Contn	Third Party Cont 1	Cost to the Council £	Expenditure at 30/06/16	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Explanation
		£	£	£	£	£		£	£	£	£	£	
Cllr Phillips	Environmental & Planning Services												
	Purchase of bins and boxes for refuse and recycling	60,000			60,000	10,000		50,000	22,851	60,000	0		Budget should be spent by Qtr3
	Disabled Facilities Grant	159,895	119,821		279,716	100,000	119,821	59,895	12,523	279,716	119,821		DFG £219,821 externally funded with £50,000 funded by capital receipts and £9,895 b/fwd funded by capital receipts
	Waste and Street Scene - Telematics	12,300			12,300			12,300		12,300	0		Demonstrations of the system to be scheduled for later on in the year
	Waste and Street Scene - Training Room	9,500			9,500			9,500	296	9,500	0		Out to tender and awaiting building regulations approval, planned start during August
	Central Depot - Additional Parking	9,187	6,569		15,756			15,756		15,756	6,569		Parking and sandbag storage areas complete, fence to screen sandbag area to install during Quarter 2. Additional £6,569 requested due to increased sandbag storage area
	Bedale Sweeper Shed	15,000			15,000			15,000		15,000	0		Options report being prepared for Management Team for consideration during July 2016
	Central and Stokesley Depot - Welfare Facilities Improvements	25,000			25,000			25,000		25,000	0		Scheme design for WASS approval, planned start September 2016
	Central Depot - HGV Full Roof Replacement	45,000			45,000			45,000		45,000	0		Scheme in preparation
	Total Scheme Value Environmental & Planning Services	335,882	126,390		462,272	110,000	119,821	232,451	35,670	462,272	126,390	6,569	
Mr Mrs Fortu	Customer & Leisure Services												
DG	Hambleton Leisure Centre - Fire Alarm System	16,040	(823)		15,217			15,217		15,217	(823)	(823)	This scheme will run alongside the gym project to be confirmed in Qtr2. £823.46 needs to be transferred to the HLC Air Handling Rotor Replacement Scheme
DG	Hambleton Leisure Centre - External Render	8,000			8,000			8,000		8,000	0		This scheme will run alongside the gym project to be confirmed in Qtr2
DG	Hambleton Leisure Centre - Pool Balustrades	15,000			15,000			15,000		15,000	0		This scheme will run alongside the gym project to be confirmed in Qtr2
DG	Hambleton Leisure Centre- Pool Changing Village	175,000			175,000			175,000		175,000	0		This scheme will run alongside the gym project to be confirmed in Qtr2
DG	Hambleton All Weather Pitch Refurbishment	14,291			14,291			14,291		14,291	0		Scheme nearly complete
DG	Hambleton Leisure Centre Improvement Scheme	275,005	(225,000)		50,005			50,005	0	50,005	(225,000)	(225,000)	Request £225,000 to roll forward to 2017/18 as work not planned to start until next year
DG	Hambleton Leisure Centre Cold Water Storage Tank	8,000			8,000			8,000		8,000	0		Work planned and order placed
DG	Hambleton Leisure Centre Sauna Replacement	12,000			12,000			12,000		12,000	0		This scheme will run alongside the gym project to be confirmed in Qtr2
DG	Hambleton Leisure Centre Air Handling Energy Saving	7,000	823		7,823			7,823		7,823	823	823	Work planned and order placed. Slight overspend of £823.46 will be transferred from Hambleton Leisure Centre Fire Alarm Scheme
DG	Hambleton Leisure Centre Wave Machine	30,000			30,000			30,000		30,000	0		This scheme will run alongside the gym project to be confirmed in Qtr2
DG	Bedale Leisure Centre Improvement Scheme	0	14,809		14,809			14,809	14,809	14,809	14,809	7,141	Scheme completed but overspent due to unforeseen remedial works required. £7,668 moved from Thirsk & Sowerby Leisure improvement scheme to offset some of the overspend. A further £71,41 requested for the rest of the overspend
DG	Stokesley Leisure Centre Improvement Scheme	0	0		0			0	0	0	0	0	Scheme complete. Request £7668 to be moved to Bedale Leisure Centre Improvement Scheme to offset some of the overspend
DG	Thirsk and Sowerby leisure centre improvement scheme	7,668	(7,668)		0			0	0	0	(7,668)	0	Currently planning timescales for delivery of scheme, will be confirmed in Qtr2
DG	Thirsk All Weather Pitch Refurbishment of Showers	10,000			10,000			10,000		10,000	0		Determined by S106 contributions
DG	Thirsk & Sowerby Sports Village	0			0			0	0	0	0	0	Dates for delivery of the scheme will be confirmed in Qtr2. Works are estimated to begin Sep/Oct16
DG	Stokesley Leisure Centre Sauna Replacement	8,000			8,000			8,000		8,000	0		Dates for delivery of the scheme will be confirmed in Qtr2. Works are estimated to begin Sep/Oct16
DG	Stokesley Leisure Centre Underfloor Pipework	12,000			12,000			12,000		12,000	0		Dates for delivery of the scheme will be confirmed in Qtr2. Works are estimated to begin Sep/Oct16
DG	Stokesley Leisure Centre Re-design of Reception Area	15,000			15,000			15,000		15,000	0		Dates for delivery of the scheme will be confirmed in Qtr2. Works are estimated to begin Sep/Oct16

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DG	Stokesley Leisure Centre Mererga Air Handling Unit	11,000		11,000			11,000		11,000	0	0	Dates for delivery of the scheme will be confirmed in Qtr2. Works are estimated to begin Sep/Oct16
DG	Stokesley Leisure Centre Sub Circuit Distribution	14,000		14,000			14,000		14,000	0	0	Dates for delivery of the scheme will be confirmed in Qtr2. Works are estimated to begin Sep/Oct16
DG	Leisure Centre Automatic Doors	30,000		30,000			30,000		30,000	0	0	Scheme of work to be agreed in liason with Design & Maintenance
DG	Forum - Capital Repairs	41,300		41,300			41,300		41,300	0	0	Awaiting the Forum Board to come back with a scheme of works, more info at Qtr2
DG	Sandbag Storage at Leisure Centres	0	10,000	10,000			10,000		10,000	10,000	10,000	Additional £10,000 requested for a sandbag storage scheme at the leisure centres
Cllr Wilkinson		0		0			0		0	0	0	
	CCTV Camera Replacement Programme / wireless network & up	62,987		62,987			62,987		62,987	0	0	Project nearing completion- work programmed for July, systems testing and snagging in August
	Workspaces Air Con Refurbishments	5,480		5,480			5,480		5,480	0	0	Ongoing scheme
	Workspaces Health and Safety Aspects	18,000		18,000			18,000		18,000	0	0	Ongoing scheme - JT working on programme
	Car Park Creation Leeming Bar LBFEC	4,660	0	4,660			4,660		4,660	0	0	Final works target - completion end Qtr2
DG	Springboard Car Park Resurface with Tarmac	12,500	0	12,500			12,500		12,500	0	0	Target completion - end of Qtr2
Total Scheme Value Customer & Leisure Services		812,931	(207,859)	605,072	0	0	605,072	14,809	605,072	(207,859)	(207,859)	
Cllr Knapton	Support Services											
DG	Public lighting replacement	54,965		54,965			54,965	0	54,965	0	0	Scheme in progress
DG	Public lighting energy reductions	799		799			799	158	799	0	0	Scheme substantially complete, final remedials being completed
DG	Public Lighting LED Lights	174,000		174,000			174,000	685	174,000	0	0	Scheme in progress
DG	Air Conditioning - Legislation requirement Corporate	44,779		44,779			44,779		44,779	0	0	Design & Maintenance to prioritise - implementation works during Quarter 2/3
DG	Civic Centre - Toilet Refurbishment	9,360	(8,705)	655			655	655	655	(8,705)	(8,705)	Civic suite toilets complete, remaining budget of £8,705 to carry forward to support phase 2 toilet refurbishment scheme
DG	Civic Centre - Disabled Access Doors and Ramp	20,014	0	20,014			20,014		20,014	0	0	Access doors complete, ramp design and quote documentation in progress
DG	Civic Centre Replacement of Computer Room Air Conditioning	19,500		19,500			19,500		19,500	0	0	Supplier identified, waiting for start date
DG	Civic Centre UPS and Fire Suppression Replacement Scheme	48,500		48,500			48,500		48,500	0	0	Supplier identified, waiting for start date
DG	Civic Centre Food Lab	6,000		6,000			6,000		6,000	0	0	Design to be approved - scheme completion by Quarter 3
DG	Civic Centre Refurbishment of Kitchensettes	10,000		10,000			10,000	950	10,000	0	0	Quotes returned - works due to start August. Completion of scheme linded to Food Lab scheme
DG	Civic Centre Toilets Part 2	75,000	8,705	83,705			83,705		83,705	8,705	8,705	Specification to be approved, start works in Nov. £8,705 added to scheme from previous Toilet Refurbishment Scheme
DG	ICT Improvements	245,198	0	245,198			245,198	0	245,198	0	0	Ongoing scheme
DG	ICT Server Room Civic Centre & Springboard	75,600	0	75,600			75,600	11,719	75,600	0	0	Springboard work in progress, Civic Centre out to tender start work in August
DG	ICT COA Upgrade V5.0	38,880	0	38,880			38,880	15,778	38,880	0	0	Upgrade complete in Quarter 1
DG	All Leisure Centres - Digital Transaction Software	5,900		5,900			5,900		5,900	0	0	New Chip & Pin installed in Quarter 1
DG	ICT Leisure Improvements	68,268		68,268			68,268	4,330	68,268	0	0	Ongoing scheme
DG	ICT Customer Excellence	68,050	0	68,050			68,050	4,155	68,050	0	0	Ongoing scheme
DG	ICT Customer Feedback	12,000		12,000			12,000		12,000	0	0	Scheme complete, awaiting invoice
DG	ICT Leisure Time Management System	12,150		12,150			12,150		12,150	0	0	Awaiting start date
DG	ICT Security Compliance	16,000		16,000			16,000		16,000	0	0	On-going scheme
DG	ICT Council Chamber	10,000		10,000			10,000		10,000	0	0	Scheme currently in progress
DG	ICT GIS Upgrade	8,500		8,500			8,500		8,500	0	0	Upgrade complete in Quarter 1, waiting for further work
DG	PC Screens (Planning)	0	10,765	10,765			10,765	10,765	10,765	10,765	10,765	PC screens for planning to be funded by the one off fund. Work complete
DG	Bid Software(Northgate)	0	13,400	13,400			13,400	13,400	13,400	13,400	13,400	Software for Northgate to be funded by the one off fund. Software installed wait for decision to go live
DG	Car Park Restatements	55,450		55,450			55,450	0	55,450	0	0	Scheme in preparation
DG	Car Park Upgrading Pay and Display Machines	8,000		8,000			8,000		8,000	0	0	Scheme complete, software upgraded during tariff change April 2016
DG	Adoptons - Electric Bollards - Thirsk & Northallerton	40,000		40,000			40,000		40,000	0	0	Scheme in preparation for late summer implementation

Capital Programme Schemes 2016/17

Annex A

Councillor / Officer	Capital Scheme	Total 2016/17	Qtr 1	Qtr 1 + 2016/17	Third Party Contn	Third Party Cont 1	Cost to the Council £	Expenditure at 30/06/16	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Explanation
DG	Bedale Cycle Scheme	392,035	0	392,035	335,000		57,035		392,035	0	0	Options appraisal work in on-going with Sustrans and NYCC
DG	Adoption of Roads - Leeming Bar	150,000	93,489	243,489			243,489		243,489	93,489	93,489	Scheme complete, works signed off by NYCC. Adoption certificate to be issued in July. The escalation in cost is due to remedial work extents as required by NYCC to adopt highway greater than originally planned
MAJ	Bedale Gateway Car Park	605,980	0	605,980			605,980	14,000	605,980	0	0	Scheme design in progress to enable submission of planning application in July 2016
DG	St Marys Closed Churchyard Boundary Wall Repairs	10,000	0	10,000			10,000		10,000	0	0	Scheme in preparation
	Total Scheme Value Support Services	2,284,928	117,654	2,402,582	335,000	0	2,067,582	76,595	2,402,582	117,654	117,654	
Cllr Wilkinson	Economic Development Fund											
DG	ED Improvement Infrastructure Central Northallerton	769,000	(156,681)	612,319			612,319		612,319	(156,681)	(156,681)	Demolition consultant work on-going
DG	Market Towns Investment Plans - Bedale	15,000	(10,000)	5,000			5,000		5,000	(10,000)	(10,000)	To be started, funding moved to revenue to fund VMT salary posts
DG	Market Towns Investment Plans - Easingwold	15,000	(9,000)	6,000			6,000		6,000	(9,000)	(9,000)	To be started, funding moved to revenue to fund VMT salary posts
DG	Market Towns Investment Plans - Northallerton	15,000	(5,000)	10,000			10,000		10,000	(5,000)	(5,000)	To be started, funding moved to revenue to fund VMT salary posts
DG	Market Towns Investment Plans - Stokesley	15,000	(5,000)	10,000			10,000		10,000	(5,000)	(5,000)	To be started, funding moved to revenue to fund VMT salary posts
DG	Market Towns Investment Plans - Thirsk	15,000	(5,000)	10,000			10,000		10,000	(5,000)	(5,000)	To be started, funding moved to revenue to fund VMT salary posts
DG	Industrial Park Review - Leeming	0	0	0	0	0	0		0	0	0	To be started
DG	Industrial Park Review - Dalton	0	0	0	0	0	0		0	0	0	To be started
DG	Industrial Park Review - Stokesley	0	0	0	0	0	0		0	0	0	To be started
DG	Industrial Park Review - Thirsk	0	0	0	0	0	0		0	0	0	To be started
DG	Industrial Park Review - Northallerton	0	0	0	0	0	0		0	0	0	To be started
DG	Industrial Estates/Employment land	75,000	0	75,000	25,000	25,000	50,000	1,200	75,000	0	0	Waiting for completion of Local Plan Employment Work on-going in Stokesley
DG	WIFI Market Towns	9,115	0	9,115			9,115	0	9,115	0	0	
DG	ED Improve Infrastructure North Northallerton	2,290	0	2,290	2,290	2,290	0	0	2,290	0	0	
DG	Industrial Park Review	0	150,000	150,000			150,000	3,926	150,000	150,000	150,000	Awaiting further direction on this scheme
DG	ED Improvement Infrastructure Dalton Bridge	1,561,003	180,573	1,741,576	20,000	20,000	1,721,576	66,873	1,741,576	180,573	180,573	Design work being currently being undertaken
	Total Scheme Value EDF	2,491,408	139,892	2,631,300	0	47,290	2,584,010	71,959	2,631,300	139,892	139,892	
Cllr Wilkinson	Finance											
	Loan to Third Party Housing Association	15,000,000		15,000,000			15,000,000	15,000,000	15,000,000	0	0	Loan to Housing Association to support the delivery of affordable housing in the district
	Total Scheme Value Loan to Housing Association	15,000,000	0	15,000,000	0	0	15,000,000	15,000,000	15,000,000	0	0	
	Total Capital Programme 2016/17	20,925,149	176,077	21,101,226	445,000	167,111	20,489,115	15,199,073	21,101,226	176,077	56,256	

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 – 2 schemes affect the Capital Programme at Quarter 1:
 - (a) Disabled Facilities Grant – An additional £119,821 external funding has been received from the Better Care Fund and therefore this scheme has been increased.
 - (b) Central Depot – Additional Parking – The increased sandbag storage area has resulted in an additional £6,569 being required to provide a larger and improved surface specification and a screen fence to improve the appearance of the storage area.
- 1.3 Customer & Leisure Services – 6 schemes affect the Capital Programme at Quarter 1:
 - (a) Hambleton Leisure Centre – Fire Alarm System - £823.46 is to be transferred from this scheme to Hambleton Leisure Centre Air Handling Rotor Replacement Scheme
 - (b) Hambleton Leisure Improvement Scheme – The majority of the work for this scheme will not be done until 2017/18 therefore £225,000 is to be rolled forward.
 - (c) Hambleton Leisure Centre Air Handling Energy Saving – The cost of this scheme is more than originally anticipated due to inflation being added to the original quote. As a result of this £823 will be transferred from the Hambleton Leisure Centre Fire Alarm Scheme.
 - (d) Bedale Leisure Centre Improvement Scheme – £7,668 is to be moved from Thirsk & Sowerby Leisure Centre Improvement Scheme as this is now complete. An additional £7,141 is required for the rest of the over spend. The scheme was overspent due to unforeseen remedial works that were required.
 - (e) Thirsk and Sowerby Leisure Centre Improvement Scheme – this scheme is now completed and £7,668 is to be moved to Bedale Leisure Centre Improvement Scheme to offset some of the over spend.
 - (f) Sandbag Storage at Leisure Centres is a new scheme - £10,000 is required for a sandbag storage scheme at the leisure centres to provide improved weather tight storage which will prevent premature deterioration of the sandbags. This provision will support the Council's emergency response role under the Civil Contingency Act 2004.
- 1.4 Support Services – 5 schemes affect the Capital Programme at Quarter 1:
 - (a) Civic Centre Toilet Refurbishment – Civic Suite toilets is now complete, the remaining budget of £8,705 is to be transferred to support phase 2 of the toilet refurbishment scheme.
 - (b) Civic Centre Toilets Part 2 - £8,705 is to be transferred from phase 1 of the toilet refurbishment scheme.

- (c) PC Screens (Planning) - £10,765 will be funded from the One-off Fund for the PC screens for Planning because the new screens would be better to integrate with their software.
- (d) Bid Software (Northgate) – £13,400 will be funded from the One-off Fund for the software required for Business Improved District (BID). Cabinet approved on 1 September 2015 that the Council would find the cost of the bid.
- (e) Adoption of Roads – Leeming Bar - Additional £93,489 as required by NYCC to adopt a highway greater than originally planned, this was outside the Council's control.

1.5 Economic Development Fund – 2 schemes affect the Capital Programme at Quarter 1:

- (a) Improvement Infrastructure Dalton Bridge - £25,000 is required for the preparation of legal agreements.
- (b) Market Towns Investment Plans - £34,000 is no longer required for capital and can be moved to Vibrant Market Towns in revenue to fund salary posts.

1.6 A review of the Economic Development Fund shows that part of the Economic Development Fund is used to support revenue projects and part capital projects. The funding can be allocated to either support revenue or capital projects where required. In 2016/17 funding from the Economic Development Fund previously used to support revenue projects has been transferred to fund capital allocations at £149,340. Table 1 below shows the position of the Capital Economic Development Fund:

Expenditure allocated	£
Expenditure already allocated from 2015/16	2,056,298
Expenditure allocated 2016/17	584,000
Dalton Bridge. Cabinet 7 th June 2016	25,000
Vibrant Market Towns adjustment to fund salary posts in revenue. Cabinet 7 th June 2016	(34,000)
Total Expenditure 2016/17	2,631,298
Finance by	£
Capital Economic Development Fund	2,434,668
External Funding	47,290
Adjustment between revenue and capital	149,340
Total Funding 2016/17	2,631,298

Table 1: Position of the Economic Development Fund at Quarter 1 - 30 June 2016

- 1.7 The table above demonstrates that the Economic Development Fund capital budget has been fully allocated. Further funding will become available when funds are returned from the Dalton Bridge Business Improvement District project and the Central Northallerton development of the prison site project in future years.
- 1.8 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.
- 1.9 New Schemes added to the Capital Programme all have supporting Project Initiation Documentation to ensure projects are affordable, sustainable and prudent.

TREASURY MANAGEMENT POSITION 2016/17 – 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 1 report therefore updates Members on the current Treasury Management position and is presented to Cabinet and also Audit, Governance and Standards Committee.
- 1.3 The Council's Treasury Management position is based on its requirement to fund the Capital Programme and its operational cash flow need. The Council looks to balance the requirement to borrow from external sources with the surplus funds that are available.
- 1.4 The capital financing requirement, which is the amount of borrowing required to support the capital expenditure programme, is set at £35,000,000. The capital expenditure of the Council is mainly supported by grants, contributions and reserves. The capital financing requirement refers to the amount of borrowing that could be taken to support the loan to the local Housing Association of £25,000,000 at Quarter 1 or the loan to the Dalton Bridge Business Improvement District project of £1,200,000
- 1.5 At Quarter 1, in May 2016 the Council supported the loan to the local Housing Association from short term borrowing at £15,000,000. The short term loan will be repaid in July 2016 Quarter 2 and the Council will then use surplus funds to fund the expenditure for the foreseeable future in 2016/17. The position will be reviewed in Quarter 4.
- 1.6 The following table shows the Treasury Management position as at 30 June 2016:-

	30 June 16	Rate
	£000's	%
Capital Financing Requirement	35,000	
Borrowing	15,000	0.50
Investments	15,790	0.60

Table 1: Borrowing and Investment position at 30 June 2016

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

2.0 THE ECONOMY, INTEREST RATES AND TREASURY MANAGEMENT STRATEGY:

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

3.0 ANNUAL INVESTMENT STRATEGY 2016/17 – Quarter 1:

3.1 **Investment Policy** – the Council's investment policy is governed by the Department for Communities and Local Government guidance, which was implemented in the Treasury Management Strategy Statement (TMSS) for 2016/17, and includes the Annual Investment Strategy approved by Cabinet on 9 February 2016. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity;
- Yield

3.2 The Council's priority is security of its surplus funds when investing with financial institutions. However the Council will always aim to achieve the optimum return (yield) on investments in line with its risk appetite and which is commensurate with proper levels of liquidity and security. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months. Investments are placed with highly credit rated financial institutions, using the Council's Treasury Management advisers – Capita Asset Services - suggested creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita Asset Services.

3.3 The recent post referendum changes in the UK sovereign rating (downgraded one notch by two ratings agencies in late-June) have no direct impact on the Council's ability to invest, as the UK has been excluded from the sovereign rating criteria overlay. This means that the Council will continue to invest with UK Banks, as they remain above the minimum suggested criteria suggested by our Treasury Management Advisor, Capita Asset Services. The UK sovereign rating has been placed on negative outlook, with the possibility of a further downgrade if the economic position for the UK deteriorates, therefore the Council will continue to monitor the situation closely with support from Capita Asset Services. We will ensure that Members remain fully informed, if the position changes later in the year. In addition, to ensure the security of the Council's surplus funds, the individual investment counterparties are still reviewed to ensure that they meet stringent criteria as laid out in the current investment strategy.

3.4 **Investments held by the Council** – As set out in Annex D, investment rates available in the market were broadly stable during the first half of the quarter but then took a slight downward path in the second half concluding with a significant drop after the referendum on a sharp rise in expectations of an imminent cut in Bank Rate and lower for longer expectations thereafter.

3.5 The average level of funds available for investment purposes during Quarter 1 – 30 June 2016 - was £19,244,505. 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 £11,000,000 at Quarter 1 and £4,790,000 cash flow movement balances. Total investment balance at 30 June 2016 was £15,790,000.

3.6

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.36%	0.45%	£9,218

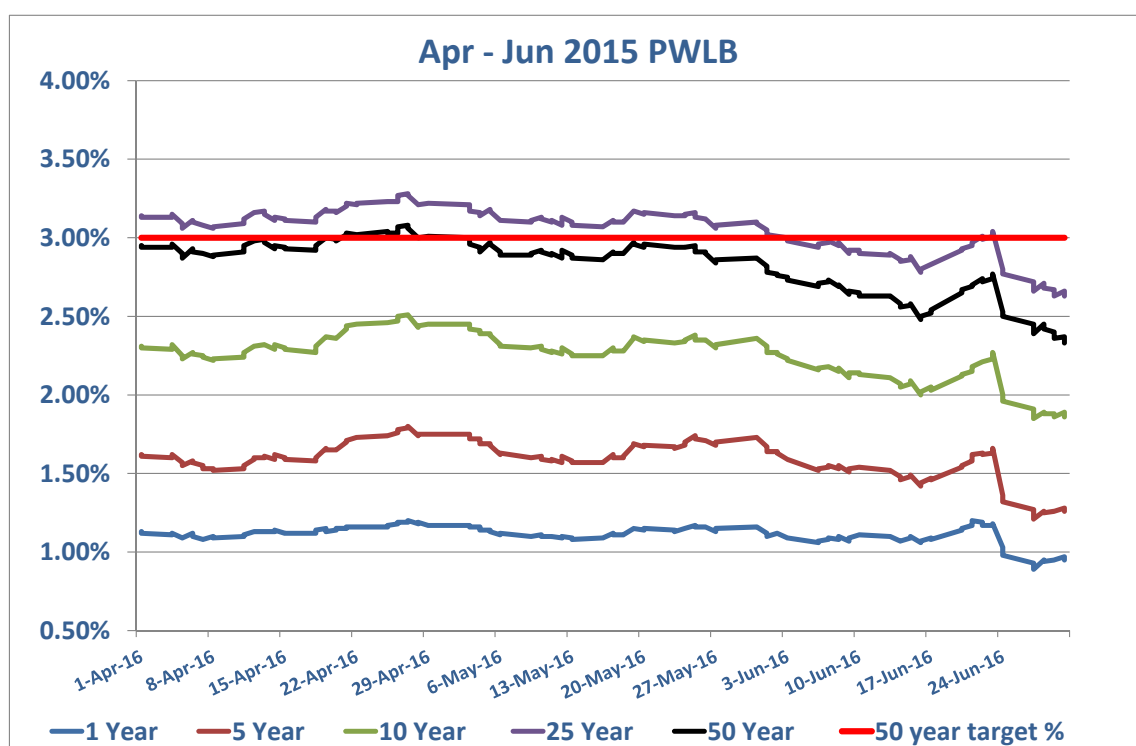
3 month	0.46%	0.72%	£19,663
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Table 2: Investment performance for quarter 1 at 30 June 2016

- 3.7 The table shows that the Council monitors its core cash against 3 month LIBID – London Inter Bank Investment Rates – and its cash flow investments against the 7 day rate. The Council outperformed the 3 month benchmark by 0.26% and the 7 day benchmark by 0.09%.
- 3.8 The Council's budgeted investment return for 2016/17 was approved at £94,500. This will be closely monitored as if the expected Bank of England Base Rate is reduced, the rates available to the Council will also be affected. In Quarter 1 budget monitoring the Interest anticipated to be received through the Council's investment funds will be reduced by £51,330. This is as a result of the loan to the Housing association happening earlier than thought, resulting in less investment funds.

4.0 **BORROWING 2016/17 – Quarter 1**

- 4.1 As depicted in the graph below, there has been significant volatility in PWLB rates during Quarter 1 culminating in a progressive fall in rates during the first three weeks in June as confidence rose that the polls were indicating an 'IN' result for the referendum. This was followed by a sharp rise in the run up to the referendum day as the polls swung the other way and then a sharp fall in rates has occurred to the end of the month in anticipation that there is likely to be further quantitative easing purchases of gilts in the coming months.



Graph 1: Public Works Loan Board (PWLB) Interest rates for Quarter 1 of 2016/17

- 4.2 During Quarter 1, the 50 year PWLB target rate for new long term borrowing was 3%. However, the target rate was cut to 2.20% on 4 July 2016 due to the sharp fall in gilt yields after the referendum. Therefore all borrowing undertaken at the present time should be at or below 2.20%. Capital Asset Services – the Council's Treasury Management advisers – review this rate on a regular basis and therefore this will be closely monitored in the coming weeks with regards to the general volatility on the market.

- 4.3 The table below shows the Public Works Loans Board interest rates which were available for loans during Quarter 1 of 2016/17. The Public Works Loans Board is the mechanism by which the Government allows local authorities to borrow at slightly lower interest rates than are available to other institutions. Certainty rates, as detailed in the table, are interest rates available to local authorities if they inform the Government of their borrowing requirements at the beginning of the financial year and are 0.02% (or 20 basis points) below Public Works Loans Board rates. This was introduced by the Government in October 2012.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.89%	1.21%	1.85%	2.63%	2.33%
Date	27/06/2016	27/06/2016	27/06/2016	29/06/2016	30/06/2016
High	1.20%	1.80%	2.51%	3.287%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	1.11%	1.59%	2.25%	3.05%	2.83%

Table 3: Public Works Loan Board (PWLB) certainty rates, quarter ended 30 June 2016

- 4.4 **Treasury Borrowing** – the Council borrowed £15,000,000 in Quarter 1 2016/17 in relation to the capital financing requirement to support the loan to the local Housing Association. The interest rate was 0.5% and the borrowing was taken from a local authority and not the Public Works Loan Board. This enabled a lower rate of interest to be achieved than the Public Works Loan Board could offer as the loan was short term from 9 May 2016 to 26 July 2016.
- 4.5 **Rescheduling of Borrowing** – the Council had no debt that could be rescheduled in Quarter 1 of 2016/17 under the regulations.

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 25 February 2016 and are in compliance with the Council's Treasury Management Practices.
- 5.2 During the financial year to date the Council has operated within the Treasury and Prudential Indicators approved which are attached at Annex E.
- 5.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2016.

Economic Update**1.1 ECONOMIC BACKGROUND**

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. However, the 2015 growth rate finally came in at a disappointing 1.8% so this shows that growth had slowed down, though it still remained one of the leading rates among the G7 countries.

Growth improved in Quarter 4 of 2015 from +0.4% to 0.7% but fell back again to +0.4% (2.0% y/y) in Quarter 1 of 2016. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the Brexit referendum.

However, since the peak in November 2015, sterling has fallen against the Euro by 14% which will help to make British goods and services much more competitive and will increase the value of overseas earnings by multinational companies based in the UK. In addition, the Chancellor has announced that the target of achieving a budget surplus in 2020 will have to be eased in order to help the economy recover from the expected slowing of growth during the second half of 2016.

The Bank of England May Inflation Report included a forecast for growth for 2016 of 2.0% and 2.3% for 2017 on the assumption that the referendum result was a vote to remain. The Governor of the Bank of England, Mark Carney, warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market.

In his 30 June and 1 July speeches, Carney indicated that the Monetary Policy Committee (MPC) would be likely to cut Bank Rate and would consider doing further quantitative easing purchasing of gilts, in order to support growth. However, he did also warn that the Bank cannot do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation).

The May 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. However, the falls in the price of oil and food twelve months ago will be falling out of the calculation of CPI during 2016 and in addition, the recent 10% fall in the value of sterling is likely to result in a 3% increase in CPI over a time period of 3-4 years. There is therefore likely to be acceleration in the pace of increase in inflation which could make life interesting for an MPC which wants to help promote growth in the economy by keeping Bank Rate low.

The American economy had a patchy 2015 – Quarter 1 0.6% (annualised), 3.9% in Quarter 2, 2.0% in Quarter 3 and 1.4% in Quarter 4, leaving growth in 2015 as a whole at 2.4%. Quarter 1 of 2016 came in at +1.1% but forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote has caused a re-emergence of caution over the timing and pace of further increases. It is likely there will now be only one more increase in 2016.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016. In response to a continuation of weak growth, at the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases.

At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose by 0.6% in Quarter 1 2016 (1.7% y/y) and is expected to continue growing but at only a modest pace. The ECB is also struggling to get inflation up from near zero towards its target of 2%.

1.2 INTEREST RATE FORECAST

The Council's Treasury Advisor, Capita Asset Services, has provided the following forecast:

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	1.00%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.30%
10yr PWLB rate	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.80%	1.90%
25yr PWLB rate	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
50yr PWLB rate	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%

Capita Asset Services undertook a quarterly review of its interest rate forecasts on 4 July 2016 after letting markets settle down somewhat after the Brexit result of the referendum on 23 June.

It is generally agreed that this outcome will result in a slowing in growth in the second half of 2016 at a time when the Bank of England has only limited ammunition in its armoury to

promote growth by using monetary policy. We therefore expect that Bank Rate will be cut by 0.25%, probably at the 14 July MPC meeting but possibly at its quarterly Inflation Report meeting on 4 August when it has a greater opportunity to report in depth on its research and findings. Bank Rate could even be cut to 0% or 0.10% over this period.

Thereafter, we do not expect the MPC to take any further action on Bank Rate in 2016 or 2017 as we expect the pace of recovery of growth to be weak during a period of great uncertainty as to the final agreement between the UK and the EU on arrangements after Brexit.

However, the MPC may also consider renewing a programme of quantitative easing; the prospect of further purchases of gilts in this way has already resulted in 10 year gilt yields falling below 1% for the first time ever.

We do not expect Bank Rate to start rising until Quarter 2 2018 and for further increases then to be at a slower pace than before. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and for some consumers, who have had no increases in pay, could be non-existent (other than through some falls in prices).

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits – the Authorised Limit and the Operational Boundary - as detailed below. The Council approved the Treasury and Prudential Indicators (affordability limits), for the 2016/17 financial year at Council on 23 February 2016 in the Treasury Management Strategy Statement.

The main purpose of the indicators is to control how much a Council needs to borrow. In 2016/17, The Treasury Management Strategy Statement approved the capital financing requirement at £25 million which gives the Council the ability to either use surplus funds to support the capital expenditure for the loan to a local Housing Association or to take external borrowing. Therefore in the table below, the 'Original Budget' calculates the Prudential Indicators on the Council borrowing £25 million and at Q1 this shows that £15 million had been borrowed. This was a short term loan from May 2016 to July 2016 and further information is detailed in the body of the report.

The Prudential and Treasury Indicators are detailed below as approved at Council prior to the beginning of the 2016/17 financial year – Original Budget - and at Q1 Actual:

1. PRUDENTIAL INDICATORS	2016/17	2016/17
Extract from budget and rent setting report	Original Budget	Actual Q1
	£'000	£'000
Capital Expenditure	20,530	21,101
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	25,000	15,000
in year borrowing requirement	25,000	15,000
Capital Financing Requirement 31 March 2017	25,000	15,000
Incremental impact of capital investment decisions	£	£
Increase in Council Tax (band D) per annum	Nil	Nil

2. TREASURY MANAGEMENT INDICATORS	2016/17	2016/17
	Original Budget	Actual Q1
	£'000	£'000
Authorised Limit for external debt -		
borrowing	£35,000	£35,000
other long term liabilities	£1,000	£1,000
TOTAL	£36,000	£36,000
Operational Boundary for external debt -		
borrowing	£29,000	£29,000
other long term liabilities	£600	£600
TOTAL	£29,600	£29,600

Actual external debt	£0	£0
Upper Limit on fixed interest rates based on net debt	106%	106%
Upper Limit on variable interest rates based on net debt	-6%	-6%
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	Lower limit	Upper limit
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	20%
40 years to 50 years	0%	20%