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 Leisure and Environment – 9 schemes affect the capital programme at Quarter 2:

(a) Stokesley Leisure Centre – Underfloor Pipework – The scheme has been completed and was £1,543 over the budget. This will be covered by underspends in ICT and the Stokesley Leisure Centre Sub Circuit Distribution scheme.

(b) Stokesley Leisure Centre – Re-design of Reception Area – £15,000 to roll forward to 2018/19 as additional work is planned to improve Stokesley Leisure Centre reception area.

(c) Stokesley Leisure Centre – Sub Circuit Distribution – The scheme has been completed and was £735 underspent against the budget, this will offset the overspend in the Underfloor Pipework project.

(d) Thirsk All Weather Pitch – Refurbishment of Showers and Lighting – The scheme has been completed and £2,844 underspend is being returned to fund.

(e) Thirsk & Sowerby Leisure Centre Entrance Roof – The scheme has been requested to be rolled back from 2018/19 due to urgent Health and Safety issues.

(f) Thirsk & Sowerby Sports Village – £695,345 of S106 funding to roll forward to 2018/19 due to a decision regarding additional external funding from the Economic Regional Development Fund (ERDF) to be confirmed.

(g) Waste and Street Scene – Telematics – £12,050 to roll forward to 2018/19 as the scheme is on hold.

(h) Waste and Street Scene – Stokesley Depot Roller Shutter Doors – The scheme has been completed with an underspend of £240 to be returned to fund.

(i) Waste and Street Scene – Northallerton Depot Roller Shutter Doors – Urgent repair work at the Northallerton Depot of £8,910 for the Roller Shutter Doors is requested to be funded from the capital programme.

1.3 Economy and Planning – 2 schemes affect the capital programme at Quarter 2:

(a) Civic Centre Card Access system – additional funding has been added to the programme of £42,870 to enable the implementation of the physical infrastructure and a card access system to increase the security at the Civic Centre.

(b) Leeming Bar Business Park (Phase 4) – an additional £5,110 is required to complete the project of buying back land. The land has now been resold by the Council.

1.4 Finance and Resources – 2 schemes affect the capital programme at Quarter 2:

(a) ICT improvements 2017/18 - £38,640 is no longer needed and will be returned to Computer fund for future years spend. Additionally, £15,000 is to be rolled forward to 2018/19 in regards to telephony equipment since the asset has lasted for longer than expected.

(b) ICT Leisure Improvements - £808 has been transferred to cover overspend in the Stokesley Leisure Centre Underfloor Pipework scheme

1.5 Finance – 1 scheme affect the capital programme at Quarter 2:

(a) Loan to Third Party Housing Association; the local Housing Association has confirmed that it will be borrowing any further funds until March 2019 and therefore £8,800,000 is requested to be rolled forward to 2018/19.

1.6 Capital schemes are monitored on a monthly basis and reported to Cabinet quarterly, ensuring that the majority of schemes are held within budget or reported to Council at the earliest opportunity.

1.7 New Schemes added to the capital programme all have supporting Project Initiation Documentation to ensure projects are affordable, sustainable and prudent.

ANNEX C

TREASURY MANAGEMENT POSITION 2017/18 – MID YEAR REVIEW & QUARTER 2 UPDATE

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. Part 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. 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 Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by the Council.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Scrutiny committee:

This mid-year 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

1.6 The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by this Council on 21 February 2017, there are no policy changes to the TMSS.

1.7 The Council's capital expenditure plans at Quarter 2 are financed by external grants or contributions, capital receipts received in the year, capital reserves or borrowing.

1.8 The Council continues to have an underlying need to borrow for capital purposes and has external borrowing of £1,200,000 which was undertaken in September 2016 from the Public Works Loan Board at a rate of 1.05% over 5 years.

1.9 The capital financing requirement, which is the amount of borrowing required to support the capital expenditure programme, is set at £36,200,000. 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 capital expenditure programme.

1.10 The following table shows the treasury management position as at 30 September 2017:-

	30 Sept 17 £000's	Rate %
Capital Financing Requirement	36,200	
Borrowing	1,200	1.05
Investments	7,420	0.17

Table 1: Borrowing and Investment position at 30 September 2017

1.11 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 2017/18 – 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 2017/18, and includes the Annual Investment Strategy approved by Cabinet on 7 February 2017. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity;
- Yield

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

3.3 **Investments held by the Council** – The Council held £7,420,000 of investments as at 30 September 2017 and the investment portfolio yield for the first 6 months of the year is 0.17%.

3.4 The average level of funds available for investment purposes during Quarter 2 – 30 September 2017 - was £6,262,568. 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 £7,420,000 cash flow movement balances on 30 September 2017 due to the numerous capital projects that are currently ongoing within the council.

3.5

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.11%	0.17%	£5,193

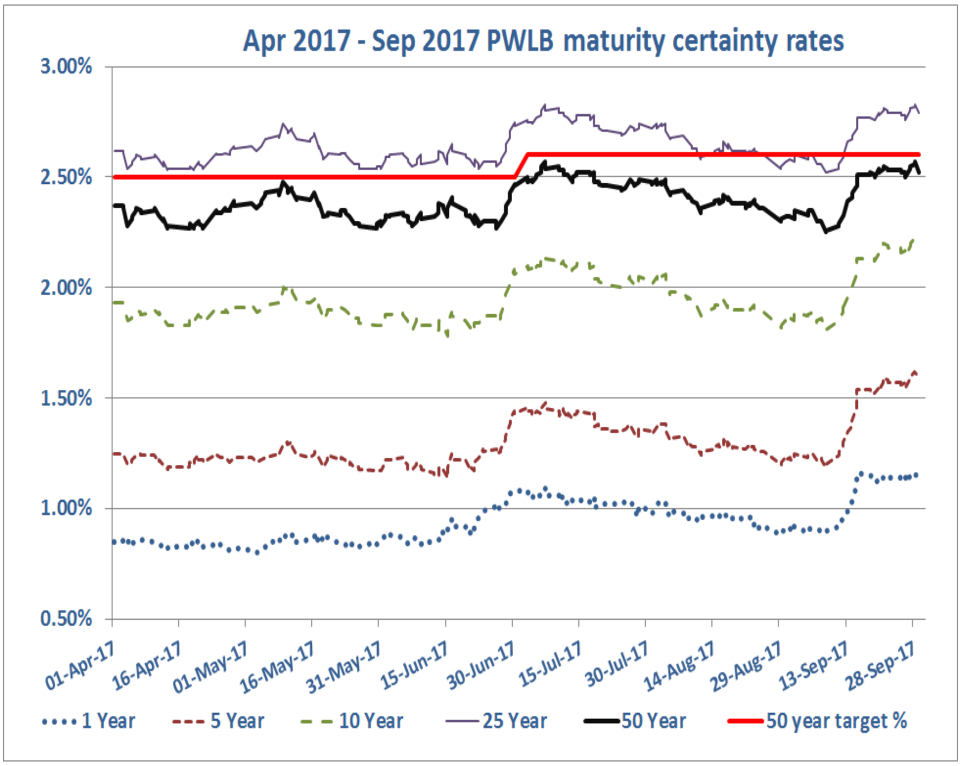
Table 2: Investment performance for Quarter 2 at 30 September 2017

3.6 The table shows that the Council monitors its cash flow investments against the 7 day rate. The Council outperformed the 7 day benchmark by 0.06%.

3.7 The Council's budgeted investment return for 2017/18 was approved at £19,000. This was reduced by £13,000 in Quarter 1 to £6,000. This was due to very low interest rates available to the Council for investment.

4.0 BORROWING 2017/18 – Mid Year Review & Quarter 2 Update

4.1 The graph and table below show the movement in Public Works Loan Board certainty rates for the first six months of the year to date:



Graph 1: Public Works Loan Board (PWLB) Interest rates for Quarter 2 of 2017/18

4.2 The table below shows the Public Works Loans Board interest rates which were available for loans during Quarter 2 of 2017/18. 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	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.16%	1.62%	2.22%	2.83%	2.57%
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.9408%	1.2981%	1.9470%	2.6475%	2.3917%

Table 3: Public Works Loan Board (PWLB) certainty rates, quarter ended 30 September 2017

4.3 **Treasury Borrowing** – Due to the overall financial position and the underlying need to borrow for capital purposes, external borrowing of £1,200,000 was undertaken in September 2016 from the Public Works Loan Board at a rate of 1.05% over 5 years. The Council did not undertake any new borrowing during Quarter 2, 2017/18.

4.4 It is anticipated that further borrowing will be required in Quarter 4 of 2017/18 to support the overall Capital Programme.

4.5 **Rescheduling of Borrowing** – the Council had no debt that could be rescheduled in Quarter 2 of 2017/18 under the regulations.

4.6 **Repayment of Borrowing** – the Council did not have any borrowing to repay during Quarter 2 of 2017/18

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 21 February 2017 and are in compliance with the Council's Treasury Management Practices. No changes have been made or are required to be made in the first six months of 2017/18 to the Prudential and Treasury Indicators that were set prior to the beginning of the financial year.

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 September 2017.

6.0 OTHER

6.1 Revised CIPFA Codes:

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

6.2 Markets in Financial Instruments Directive II (MIFID II)

The European Union has now set a deadline of 3 January 2018 for the introduction of regulations under Markets in Financial Instruments Directive II (MIFID II). These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this Council apart from having to fill in forms sent by each institution dealing with the Council and for each type of investment instrument used, apart from for cash deposits with banks and building societies. The Council has been advised by Capita Asset Services that the requirements have been met and that the Council can apply for professional status. Opting up to a professional status allows the Council access to a broader range of financial instruments.

ANNEX D

Economic Update

United Kingdom. After the United Kingdom economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; Quarter 1 came in at only +0.3% (+1.7% y/y) and Quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of Gross Domestic Product, has seen weak growth as consumers cut back on their expenditure.

However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the European Union, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of Gross Domestic Product so expansion in this sector will have a much more muted effect on the average total Gross Domestic Product growth figure for the United Kingdom economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise.

The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected Consumer Price Index inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting Monetary Policy Committee. This marginal revision can hardly justify why the Monetary Policy Committee became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the Monetary Policy Committee took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the United Kingdom labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of United Kingdom labour. However, the Bank was also concerned that the withdrawal of the United Kingdom from the European Union would effectively lead to a decrease in such globalisation pressures in the United Kingdom, and so would be inflationary over the next few years.

It therefore looks very likely that the Monetary Policy Committee will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the Monetary Policy Committee would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

European Union Economic growth in the European Union, (the United Kingdom's biggest trading partner), has been lack lustre for several years after the financial crisis despite the European Central Bank eventually cutting its main rate to -0.4% and embarking on a massive programme of Quantitative Easing. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. Gross Domestic Product growth was 0.5% in Quarter 1 (2.0% y/y) and 0.6% in Quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

USA Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with Quarter 1 coming in at only 1.2% but Quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

INTEREST RATE FORECAST

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Table 4: Interest Rate Forecasts

Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in Monetary Policy Committee policy at that meeting. However, the Monetary Policy Committee meeting of 14 September revealed a sharp change in sentiment whereby a majority of Monetary Policy Committee members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. 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 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 Authorised Limit and the Operational Boundary - as detailed below. The Council approved the Treasury and Prudential Indicators (affordability limits), for the 2017/18 financial year at Council on 21 February 2017 in the Treasury Management Strategy Statement.

The main purpose of the indicators is to control how much a Council needs to borrow.
In 2017/18, The Treasury Management Strategy Statement approved the capital financing requirement at £36.2 million which gives the Council the ability to either use surplus funds to support the capital expenditure requirement or to take external borrowing.

The Prudential and Treasury Indicators are detailed below as approved at Council prior to the beginning of the 2017/18 financial year – Original Budget - and at Q2 Actual:

1. PRUDENTIAL INDICATORS	**2017/18**	**2017/18**
Extract from budget and rent setting report	**Original Budget**	**Actual Q2**
	£'000	**£'000**
Capital Expenditure	14,886	7,364
Ratio of financing costs to net revenue stream	Nil	Nil
Net borrowing requirement General Fund		
brought forward 1 April	10,200	1,200
carried forward 31 March	24,690	1,200
in year borrowing requirement	14,490	0
Capital Financing Requirement 31 March 2018	36,200	36,200
Incremental impact of capital investment decisions	£	£
Increase in Council Tax (band D) per annum	Nil	Nil

2. TREASURY MANAGEMENT INDICATORS	**2017/18**	**2017/18**
	Original Budget	**Actual Q2**
	£'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	£24,690	£1,200

Upper Limit on fixed interest rates based on net debt	104%	104%
Upper Limit on variable interest rates based on net debt	-4%	-4%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£1,000	£1,000

Maturity structure of fixed rate borrowing during 2017/18	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%**