CABINET
7 JULY 2015

ITEM NO. ....10.............

TREASURY MANAGEMENT ANNUAL REPORT AND OUTTURN PRUDENTIAL INDICATORS 2014/15

Responsible Cabinet Member - Councillor Stephen Harker
Efficiency and Resources Portfolio

Responsible Director -
Paul Wildsmith, Director of Neighbourhood Services and Resources

SUMMARY REPORT

Purpose of the Report

1. This report provides important information regarding the regulation and management of the Council's borrowing, investments and cash-flow. It is a requirement of the Council's reporting procedures and covers treasury activity for 2014/15. The report also seeks approval of the Prudential Indicators results for 2014/15 in accordance with the Prudential Code.

Summary

2. The financial year 2014/15 presented similar circumstances to 2013/14 with regard to treasury management. Investments continued to be made only where there was low risk, for Darlington Borough Council this manifested itself in the continuing reliance on internal borrowing (reducing external investments and using the money to pay for capital expenditure rather than borrowing). This in turn had a positive effect on the MTFP's financing costs as investment rates are lower than borrowing rates.

3. During 2014/15 the Council complied with its legislative and regulatory requirements. The need for borrowing was only increased for capital purposes.

4. At 31st March 2015, the Council's external debt was £124.161M which is £4.000M more than the previous year. The average interest rate for borrowing was up to 4.16% from 3.92% in 2013/14. Investments totalled £33.000M at 31st March 2015 (£31.743M at 31st March 2014) earning interest of 0.48% on short term investments and 0.90% on longer term investments.

5. Financing costs have been reduced during the year and a saving of £1.436M achieved from the original MTFP mainly as a result of reducing the statutory Minimum Revenue Provision from 4% to 2% in line with the Council report of 26th February 2015 (£1.196M) the remainder(£0.240M)as a result of a mixture of

reduced debt costs both principal and interest arising from the continued reliance on internal borrowing, the timing of capital expenditure and increased income from investments.

Recommendation

6. It is recommended that:

   (a) The outturn 2014/15 Prudential Indicators within this report and those in **Appendix 1** be noted.

   (b) The Treasury Management Annual Report for 2014/15 be noted.

   (c) This report to be forwarded to Council, in order for the 2014/15 Prudential Indicators to be noted.

Reasons

7. The recommendations are supported by the following reasons:

   (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities.

   (b) To inform members of the Performance of the Treasury Management function.

   (c) To comply with the requirements of the Local Government Act 2003.

Paul Wildsmith
Director of Neighbourhood Services and Resources

Background Papers
(i) Accounting Records
(ii) Annual Investment Strategy 2014/15
(iii) Prudential Indicators and Treasury Management Strategy Report 2014/15

Elaine Hufford : Extension 5404

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Well Being	There are no issues relating to health and wellbeing which this report needs to address
Carbon Impact	There are no issues relating to carbon impact
Diversity	There are no specific implications for diversity
Wards Affected	The proposals affect all wards
Groups Affected	The proposals do not affect any specific group
Budget and Policy Framework	The report does not change the Council's budget or Policy framework but needs to be considered by Council
Key Decision	This is not an Executive decision
Urgent Decision	This is not an Executive decision
One Darlington: Perfectly Placed	The proposals in the report support delivery of the Community Strategy through appropriate and effective deployment of the Councils Resources
Efficiency	The report outlines movements in the national economic outlook that has enabled officers to take advantage of changing interest rates to benefit the Revenue MTFP.

MAIN REPORT

Information and Analysis

8. This report summarises:

    (a) Capital expenditure and financing for 2014/15
    (b) The Council's underlying borrowing need
    (c) Treasury position at 31st March 2015
    (d) Prudential indicators and compliance issues
    (e) The economic background for 2014/15
    (f) A summary of the Treasury Management Strategy agreed for 2014/15
    (g) Treasury Management activity during 2014/15
    (h) Performance and risk benchmarking

9. Throughout this report a number of technical terms are used, a glossary of terms can be found at the end of this report.

The Council's Capital Expenditure and Financing 2014/15

10. The Council undertakes capital expenditure on long term assets, which is financed either,

    (a) immediately through capital receipts, capital grants, contributions and from revenue; or
    (b) by borrowing.

11. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cashflow, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost and then optimise performance.

12. Capital Expenditure forms one of the prudential indicators that are used to regulate treasury activity. Table 1 shows total capital expenditure and how this was financed, compared with what was expected to be spent and how this would have been financed. Actual expenditure was £6.897M less than planned. However the mix of funding differs from that that was expected as some schemes progressed quicker than others. This impacted on borrowing needed to fund expenditure resulting in £2.594M less borrowing need than expected at this time.

Table 1 – Capital Expenditure and Financing

	2013/14	**2014/15**		
	Outturn £m	**Revised Estimate £m**	**Outturn £m**	**Variance £m**
General Fund Capital Expenditure	23.431	36.418	30.868	-5.550
HRA Capital Expenditure	5.908	9.156	7.809	-1.347
Total Capital Expenditure	**29.339**	**45.574**	**38.677**	**-6.897**
Resourced by:				
Capital Receipts GF	1.936	1.437	1.300	-0.137
Capital receipts Housing		0.184	0.543	0.359
Capital Grants	11.776	17.628	16.497	-1.131
Capital Contributions	0.296	1.992	0.138	-1.854
Revenue	5.623	9.743	8.203	-1.540
Total Resources	**19.631**	**30.984**	**26.681**	**-4.303**
Borrowing needed to finance expenditure	**9.708**	**14.590**	**11.996**	**-2.594**

The Council's Underlying Borrowing Need

13. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The figure is a gauge for the Council's debt position. It represents 2014/15 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources.

14. The General Fund element of the CFR is reduced each year by a statutory charge to the revenue accounts called the Minimum Revenue Provision (MRP). The total CFR can also be reduced each year through a Voluntary Revenue Provision (VRP).

15. The Council's CFR for the year is shown in table 2 below, and represents a key prudential indicator. The CFR outturn for 2014/15 is £182.520M which is £2.172M below the approved because of the lower borrowing need than expected for 2014/15.

Table 2 - Capital Financing Requirement

	2013/14	2014/15		
	Outturn £m	Approved Indicator £m	31 March Actual £m	Variance £m
Opening Balance	150.834	156.033	156.033	0
Add Capital Expenditure financed by borrowing	9.708	14.590	11.996	-2.594
Adjustment to Financed by borrowing from previous year			0.433	0.433
Add adjustment for the inclusion of leases on the balance sheet under IFRS	20.287	18.780	18.780	0
Less MRP/VRP Housing and General Fund	-4.501	-3.399	-3.410	-0.011
Less MRP / VRP PFI and Leasing	-1.515	-1.312	-1.312	0
Closing balance	**174.813**	**184.692**	**182.520**	**-2.172**

Treasury Position at 31 March 2015

16. Whilst the measure of the Council's underlying need to borrow is the CFR, the Director of Neighbourhood Services and Resources can manage the Council's actual borrowing position by:

    (a) borrowing to the CFR level; or
    (b) choosing to utilise some temporary cash flows instead of borrowing ("under borrowing"); or
    (c) borrowing for future increases in CFR (borrowing in advance of need, the "over borrowed" amount can be invested).

17. The financial reporting practice that the Council is required to follow (the Statement of Recommended Practice (SORP)), changed in 2007/08. Financial instruments (borrowing and investments etc) must now be reported in the Statement of Accounts in accordance with national Financial Reporting Standards. The figures in this report are based on actual amounts borrowed and invested and so will differ from those in the Statement of Accounts.

18. The Council's total debt outstanding at 31st March 2015 was £124.161M. In addition to this, a liability of £17.468M relating to the PFI scheme and Finance Leases brings the total to £141.629M. The Council's revised CFR position was estimated to be £184.629M however the actual out turn position was lower at £182.520M. When comparing this to our actual borrowing of £141.629M this meant that the Council was "under borrowed" by £40.871M this "under borrowed" amount was financed by internal borrowing i.e. the amount that could have been invested

externally was reduced to cover this. The treasury position at the 31st March 2015, including investments compared with the previous year is shown in table 3 below.

Table 3 – Summary of Borrowing and Investments

Treasury Position	31 March 201		31 March 2015	
	Principal £m	Average Rate %	Principal £m	Average Rate %
Fixed Rate Debt Market and Public Works Loan Board (PWLB)	120.161	3.92	124.161	4.16%
Total Debt	**120.161**	**3.92%**	**124.161**	**4.16%**
Cashflow Investments	27.743	0.59%	21.000	0.48%
Capital Investments	4.000	1.02%	12.000	0.98%
Total Investments	**31.743**		**33.000**	
Net borrowing position	**95.707**		**91.161**	

Prudential Indicators and Compliance Issues

19. Some prudential indicators provide an overview while others are specific limits on treasury activity. These indicators are shown below:

20. **Gross Borrowing and the CFR –** Over the medium term the Council's external borrowing, net of investments, must only be for capital purposes. Gross borrowing should not therefore, except in the short term, have exceeded the CFR for 2014/15 plus the expected changes to the CFR over 2015/16 and 2016/17. Table 4 highlights the Council's Gross borrowing position against CFR. The Council has complied with this prudential indicator.

Table 4 – Gross Borrowing Compared with CFR

	31 March 2014 Actual £m	31 March 2014 Approved Indicator £m	31 March 2014 Actual £m
Gross Borrowing Position	**120.161**	**130.000**	**124.161**
CFR Excluding PFI & leases	**156.034**	**167.224**	**165.052**
CFR	**174.813**	**184.692**	**182.520**

21. **The Authorised Limit –** The Authorised Limit is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council does not have power to borrow above this level.

22. **The Operational Boundary –** The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are both acceptable, subject to the Authorised Limit not being breached.

23. **Actual financing costs as a proportion of net revenue expenditure -** This indicator identifies the trend in the cost of capital (borrowing and other long term

obligation costs net of investment income) against the net revenue expenditure. The actual for this indicator has increased due to the overall level of Council revenue expenditure during 2014/15 falling from £85.591M to £78.400M

Table 5 – Key Prudential Indicators

	Actual 2013/14 £M	Original Approved Limits 2014/15 £M	Revised Approved Limits 2014/15 £M	Actual Total Liabilities Borrowing + PFI/ leases 2014/15 Maximum £M
Approved Indicator – Authorised Limit	**138.940**	**183.664**	**184.692**	**142.941**
Approved Indicator – Operational Boundary	**138.940**	**150.000**	**147.468**	**142.941**
Financing costs as a percentage of net revenue expenditure	**7.67%**	**7.77%**	**6.01%**	**6.56%**

24. At 31st March 2015 the total liabilities of £142.941M were below both the Authorised Limit and the Operational Boundary. The Operational Boundary is the point at which we expect borrowing to be, but it can be lower or higher. Borrowing cannot exceed the Authorised Limit.

25. A further six prudential indicators are detailed in **Appendix 1**.

Economic Background for 2014/15

26. A summary of the general economic conditions that have prevailed through 2014/15 provided by Capita Asset Services, the Council's treasury management advisors is attached at **Appendix 2.**

Summary of the Treasury Management Strategy agreed for 2014/15

27. The revised Prudential Indicators anticipated that during 2014/15 the Council would need to borrow £14.590M to finance part of its capital programme.

28. The Annual Investment Strategy stated that the use of specified (usually less than 1 year) and non-specified (usually more than 1 year) investments would be carefully balanced to ensure that the Council has appropriate liquidity for its operational needs. In the normal course of the Council's business it is expected that both specified and non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

29. Longer term instruments (greater than one year from inception to repayment) will only be used where the Council's liquidity requirements are safeguarded. An estimate of long term investments (over 1 year) were included in the report on the

Prudential Indicators update these were as follows £10M for 2014/15, £10M for 2015/16 and £10M for 2016/17. One investment of £5m was made for 2 years.

Treasury Management Activity during 2014/15

Debt Position

30. **Borrowing –** this increased during 2014/15 by £4.000M in total

	PWLB	Market Loans (other Local Authorities)	Total
	£M	£M	£M
New Loans taken	0.000	+17.000	+17.000
Loans Repaid	0.000	-13.000	-13.000
Total New Borrowing	0.000	+4.000	+4.000

31. The majority of the new borrowing £12.000m was on a short term basis to cover short term borrowing being repaid. However one loan of £5.000m was taken for a period of 15 years this fits with the authority's debt maturity profile.

32. **Rescheduling –** No loans were rescheduled during 2014/15

33. **Summary of Debt Transactions –**The consolidated rate of interest increased from 3.92% to 4.16% this was due to two market loans that had a low initial rate of interest. These initial low interest rates have now come to an end and interest rates are now variable and at a higher rate based on 10 year interest rates.

Investment Position

34. **Investment Policy –** the Council's investment policy for 2014/15 is governed by the DCLG Guidance which has been implemented in the annual investment strategy for 2014/15 approved by Council on 27th February 2014.

35. The investment activity during the year conformed to the approved Strategy and the Council had no liquidity difficulties.

36. Investments held by the Council consist of temporary surplus balances, capital receipts and other funds.

Table 6 - Temporary Surplus Cash Balances

	Original Budget 2014/15	Approved Revised Budget 2014/15	Actual 2014/15
Monthly Average level of Investments	**£20.860M**	**£24.500M**	**£29.140M**
Average Rate of Return on Investment	**0.585%**	**0.50%**	**0.48%**
Interest Earned	**£122,100**	**£122,500**	**£140,000**

Table 7 - Capital Receipts and Funds

	Original Budget 2014/15	Approved Revised Budget 2014/15	Actual 2014/15
Monthly Average level of Investments	**£7.510M**	**£10.000m**	**£11.060m**
Average Rate of Return on Investment	**1.024%**	**0.90%**	**0.98%**
Interest Earned	**£76,900**	**£90,000**	**£108,000**

Performance and Risk Benchmarking

37. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance and these are shown in **Table 10**. Discrete security and liquidity benchmarks are relatively new requirements to the member reporting. These were first set in the Treasury Strategy report of the 25th February 2010.

38. The following reports the current position against the benchmarks originally approved.

39. Security – The Council's maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables was set as follows:

    0.077% historic risk of default when compared to the whole portfolio

40. **Table 8** shows there was an increase in the risk of default in October 2014 above the bench mark this relates to an investment with the Royal Bank of Scotland of £5.000m over 2 years. This calculated risk percentage has reduced as time passes towards the maturity date in September 2016. The investment portfolio is now again within its benchmark for the year.

41. The investment portfolio was maintained within this overall benchmark during this year as shown in **Table 8**.

Table 8

Maximum	Benchmark 2014/15	Actual June 2014	Actual October 2014	Actual December 2014	Actual March 2015
Year 1	0.077%	0.014%	0.106%	0.044%	0.035%

42. The counterparties that we use are all high rated therefore our actual risk of default based on the ratings attached to counterparties is virtually nil.

43. Liquidity – In respect of this area the Council set liquidity facilities/ benchmark to maintain

    (a) Bank Overdraft £0.100M
    (b) Liquid short term deposits of at least £3.000M available within a weeks notice.
    (c) Weighted Average Life benchmark is expected to be 0.4 years with a maximum of 1year.

44. Liquidity arrangements have been adequate for the year to date as shown in Table 9.

Table 9

	Benchmark	Actual June 2014	Actual October 2014	Actual Dec 2014	Actual March 2015
Weighted Average life	**0.4 to 1 years**	**0.16**	**0.76**	**0.73**	**0.50**

45. This benchmark now includes one investment for two years however the majority of fixed term investments are for up to 1 year with cashflow monies being invested in Money Market funds which can be accessed immediately.

46. Yield - In respect of this area performance indicators relating to interest rates for borrowing and investments were set with reference to comparative interest rates. For borrowing, the indicator is the average rate paid during the year compared with the previous year. Investment rates are compared with a representative set of comparative rates.

Table 10 – Performance Compared With Indicators

Borrowing	Average overall rate paid compared to previous years	**2013/14 3.92%**	**2014/15 4.16%**
Investments		**DBC 2013/14**	**DBC 2014/15**
Short term	Cash flow investment rate returned against comparative average rate	0.59%	0.48%
Long term	Capital investment rate returned against comparative average rates	1.02%	0.90%
Comparative rates used to compare DBC performance: -		**Short Term Investments**	**Long Term Investments**
Comparative Rates			
Overnight Rate Offer		0.47%	
London Interbank offer (LIBOR)7 day rate		0.47%	
LIBOR 6 month rate			0.68%
LIBOR12 month rate			0.99%
7 day London Interbank Bid LIBID Rate		0.35%	0.35%
Average		**0.43%**	**0.67%**

47. Part way through 2014/15 investment rates for Local Government stopped being collated by the financial media/ institutions so for our benchmarking these rates have been replaced by LIBOR rates, which are the most widely used point of reference for short-term investment interest rates. As can be seen from the table, the actual investment rate achieved for both short and longer term investments exceeds the average of comparative rates.

Risk

48. The Council’s treasury management activities are regulated by a variety of professional codes, statutes and guidance:-

(a) The Local Government Act 2003(the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity.

(b) The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2013/14).

(c) Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act.

(d) The SI requires the Council to undertake any borrowing activity with regard to the CIFPA Prudential Code for Capital Finance in Local Authorities.

(e) The SI also requires the Council to operate the overall treasury function with regard to the CIPFA code of Practice for Treasury Management in Public Services.

(f) Under the Act the Department for Communities and Local Government has issued Investment Guidance to structure and regulate the Council's investment activities.

(g) Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

49. The Councils Treasury Management function has complied with all of the relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low risk approach.

50. Officers of the Council are aware of the risks of passive management of the treasury portfolio and, with the support of Capita Asset Services, the Council's advisers, have proactively managed the debt and investments over the year.

Treasury Management Budget

51. There are three main elements within the Treasury Management Budget :-

(a) Long Term capital investments interest earned – a cash amount of around £11M which earns interest and represents the Council's revenue and capital balances, unused capital receipts, reserves and provisions.

(b) Cashflow interest earned – since becoming a unitary council in 1997, the authority has consistently had positive cashflow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipts of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.

(c) Debt servicing costs – This is the principal and interest costs on the Council's long term debt to finance the capital programme.

Table 11 Changes to the Treasury Management Budget 2014/15

	£M	£M
Original Treasury Management Budget 2014/15		**4.428**
Less Reduced Repayment of Principal	**-1.224**	
Less Reduced interest payments made on debt	**-0.173**	
Less increased net interest from Investments	**-0.102**	
Add increased broker charges on debt	**+0.002**	
Outturn Treasury Management Budget 2014/15		**2.931**

52. The reduced repayment of Principal above includes the reduction of statutory principal (MRP) from 4% to 2% which amounts to £1.196M this is in line with the Council report of 26th February 2015.

Conclusion

53. The Council's treasury management activity during 2014/15 has been carried out in accordance with Council Policy and within legal limits. Financing costs have been reduced during the year and a saving of £1.497M achieved from the original MTFP this is as a result of a number of actions taken throughout the year to manage the financing costs in the changing economic climate.

Outcome of Consultation

54. No formal consultation has been undertaken regarding this report.

APPENDIX 1

Additional Prudential Indicators not reported in the body of the report

		2013/14 Actual	2014/15 Approved Indicator	2014/15 Outturn
1	**Incremental impact of capital investment decisions on the Band D Council tax**	**£1.52**	**0.66**	**3.02***
2	**Incremental impact of capital investment decisions on the housing rent levels**	**Nil**	**Nil**	**Nil**
3	**Upper limits on fixed interest rates (*against maximum position*)**	**77%**	**100%**	**77%**
4	**Upper limits on variable interest rates (*against maximum position*)**	**23%**	**40%**	**23%**
5	**Maturity structure of fixed rate borrowing (*against maximum position*)**			
	Under 12 months	**11%**	**25%**	**11%**
	12 months to 2 years	**2%**	**40%**	**0%**
	2 years to 5 years	**0%**	**60%**	**0%**
	5 years to 10 years	**5%**	**80%**	**5.5%**
	10 years and above	**82%**	**100%**	**83.5%**
6	**Maximum Principal funds invested greater than 364 days**	**£0.0M**	**£10M**	**£5.0M**

*****Includes additional expenditure agreed during the year

The Economy and Interest rates

1. The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

2. Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

3. The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.

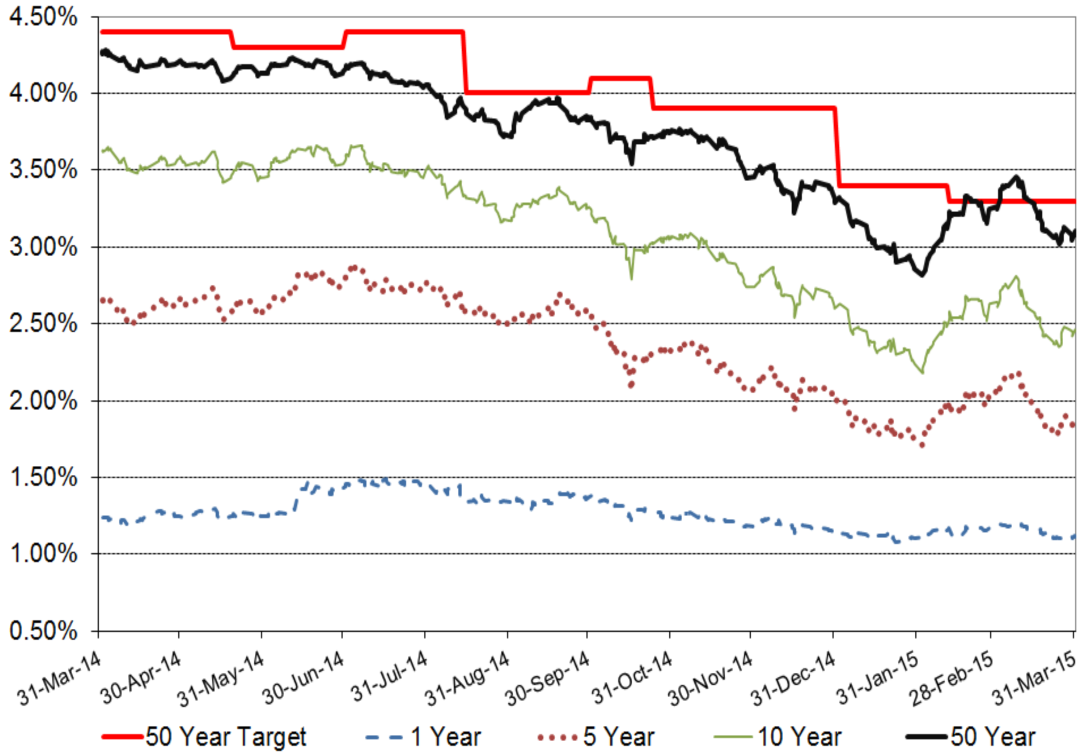
4. The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.

5. The EU sovereign debt crisis had subsided since 2012 until the Greek election in January 2015 sparked a resurgence of fears. While the UK and its banking system has

little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to their banks.

PWLB Borrowing Rates in 2014/15

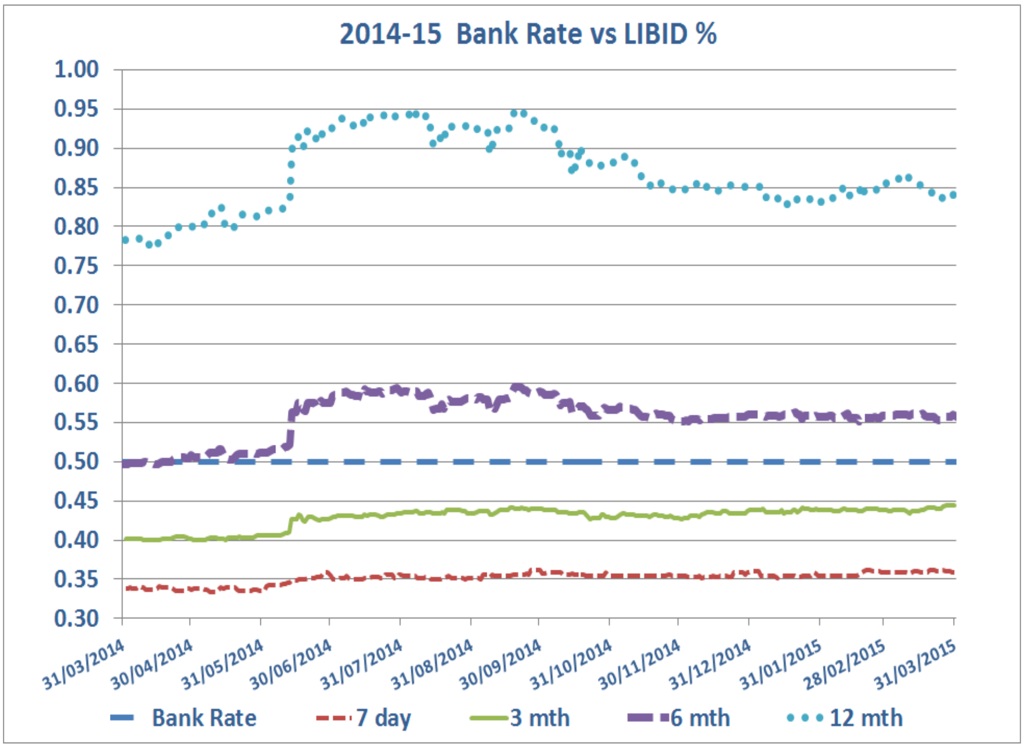
6. PWLB certainty maturity borrowing rates **-** the graphs and table for PWLB rates below, show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



Investment Rates in 2014/15

7. Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.

Money market investment rates 2014/15					
	7 day	1 month	3 month	6 month	1 year
1/4/14	0.338	0.362	0.402	0.497	0.783
31/3/15	0.358	0.378	0.445	0.559	0.841
High %	0.362	0.384	0.445	0.596	0.951
Low %	0.334	0.360	0.400	0.496	0.772
Average %	0.352	0.374	0.429	0.556	0.868
Spread %	0.028	0.024	0.045	0.100	0.180
High date	26/3/15	26/9/14	27/3/15	19/9/14	5/8/14
Low date	8/5/14	4/4/14	9/4/14	14/4/14	14/4/14



Glossary of Terms

Capital Financing Requirement (CFR)	This is the Councils underlying need to borrow which can be traced back to the Councils Balance Sheet and the value of the Councils assets which have yet to be paid for.
Call	Investments that can be returned without a period of notice
Specified Investments	Investments in Banks and Building Societies with a high credit rating for periods of less than 1 year
Non-Specified Investments	Investments in un rated Building Societies and any investments in Banks and Building Societies for more than 1 year.
Operational Liquidity	Working Cashflow
Authorised Limit	Maximum amount of borrowing that could be taken in total.
Operational Boundary	The expected amount of borrowing assumed in total.
PWLB	Public Works Loan Board. The Governments lending body to Local Authorities
Discount	Amount payable by the PWLB when loans are repaid if the current loan rate is less than the rate borne by the original debt
Yield Curve	Is a graph that shows the relationship between the interest rate paid and length of time to repayment of a loan.
Gilts	Government Borrowing Bonds
Spreads	The difference between the highest rate of interest and the lowest rate of interest earned/charged on any one particular maturity period ie 1 year, 2 year 5 year etc.
LIBID	London Interbank Bid Rate. The average rate at which a bank is willing to borrow from another bank.
LIBOR	London Interbank Offer Rate. The average rate at which a bank is willing to lend to another bank. LIBOR is always higher than the corresponding bid rate and the difference between the two rates is known as the spread.