AUDIT COMMITTEE
5 JULY 2017

ITEM NO. ....

TREASURY MANAGEMENT ANNUAL REPORT AND OUTTURN PRUDENTIAL INDICATORS 2016/17

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 2016/17. The report also seeks approval of the Prudential Indicators results for 2016/17 in accordance with the Prudential Code.

Summary

2. The financial year 2016/17 presented similar circumstances to 2015/16 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 2016/17 the Council complied with its legislative and regulatory requirements. The need for borrowing was only increased for capital purposes.

4. At 31st March 2017 the Council's external debt was £127.161M which is £3.000M less than the previous year. The average interest rate for borrowing was up to 4.30% from 4.18% in 2015/16. Investments totalled £21.000M at 31st March 2017 (£32.000M at 31st March 2016) earning interest of 0.44% on short term investments and 0.79% on longer term investments.

5. Financing costs have been reduced during the year and a saving of £0.374M achieved from the original MTFP, mainly (£0.462M) as a result of further savings related Minimum Revenue Provision due to overprovision in previous years in line with the Council report of 25th February 2016. The remainder (-£0.088M) as a result of a mixture of higher interest rates paid on a variable LOBO debt of £27.250M and increased interest received from investments and reduced broker charges paid on new debt.

Recommendation

6. It is recommended that:

   (a) The outturn 2016/17 Prudential Indicators within this report and those in **Appendix 1** be noted.

   (b) The Treasury Management Annual Report for 2016/17 be noted.

   (c) This report to be forwarded to Cabinet and Council, in order for the 2016/17 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 2016/17
(iii) Prudential Indicators and Treasury Management Strategy Report 2016/17

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 have 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 2016/17
   (b) The Council's underlying borrowing need
   (c) Treasury position at 31st March 2017
   (d) Prudential indicators and compliance issues
   (e) The economic background for 2016/17
   (f) A summary of the Treasury Management Strategy agreed for 2016/17
   (g) Treasury Management activity during 2016/17
   (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 2016/17

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 cash flow, 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 £0.156M less than planned. However the mix of funding differs from that that was expected as some schemes progressed quicker than others. This impacted slightly on borrowing needed to fund expenditure, resulting in £0.707M more borrowing need than expected at this time.

Table 1 – Capital Expenditure and Financing

	2015/16	2016/17		
	Outturn £m	Revised Estimate £m	Outturn £m	Variance £m
General Fund Capital Expenditure	23.602	16.743	19.911	3.168
HRA Capital Expenditure	11.287	17.197	14.185	-3.012
Total Capital Expenditure	**34.889**	**33.940**	**34.096**	**0.156**
Resourced by:				
Capital Receipts GF	2.522	2.015	1.464	-0.551
Capital receipts Housing	0.344	0.000	0.641	0.641
Capital Grants	9.536	10.160	14.275	4.115
Capital Contributions	0.013	2.377	0.220	-2.157
Revenue	0.171	2.567	0.872	-1.695
Revenue (Housing)	10.578	12.647	11.743	-0.904
Total Resources	**23.164**	**29.766**	**29.215**	**-0.551**
Borrowing needed to finance expenditure	**11.725**	**4.174**	**4.881**	**0.707**

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 2016/17 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 usually 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 2016/17 is £195.186M which is £0.708M above the approved because of the higher borrowing need than expected for 2016/17 and no MRP repayments made on General Fund debt in line with the report to Council on 25th February 2016.

Table 2 - **Capital Financing Requirement**

	2015/16	2016/17		
	Outturn £m	Approved Indicator £m	31 March Actual £m	Variance £m
Opening Balance	164.829	175.916	175.917	0.001
Add adjustment for the inclusion of leases on the balance sheet under IFRS	17.467	16.230	16.230	0.000
Add Capital Expenditure financed by borrowing	11.725	4.174	4.881	0.707
Less MRP/VRP General Fund		0.0	0.0	
Less MRP/VRP Housing	-0.629	-0.629	-0.629	0.000
Less MRP/VRP PFI	-1.237	-1.213	-1.213	0.000
Less Other Movement (depreciation)	-0.009			
Closing balance	**192.146**	**194.478**	**195.186**	**0.708**

Treasury Position at 31 March 2017

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 2017 was £127.161M. In addition to this, a liability of £15.017M relating to the PFI scheme and Finance Leases brings the total to £142.178M. The Council's revised CFR position was estimated to be £194.478M however the actual out turn position was higher at £195.186M. When comparing this to our actual borrowing of £142.178M this meant that the Council was "under borrowed" by £53.008M this "under borrowed" amount was financed by internal borrowing i.e. the amount that could have been invested externally was reduced to cover this. An under borrowed position was maintained because this has the dual effect of reducing costs to the MTFP because borrowing costs are greater than investment returns and it reduces counterparty risk by reducing our exposure to banks and other financial institutions.

19. The treasury position at the 31st March 2017, including investments compared with the previous year is shown in table 3 below.

Table 3 – Summary of Borrowing and Investments

Treasury Position	31 March 2016		31 March 2017	
	Principal £m	Average Rate %	Principal £m	Average Rate %
Fixed Rate Debt Market and Public Works Loan Board (PWLB)	130.161	4.18%	127.161	4.30%
Total Debt	**130.161**	**4.18%**	**127.161**	**4.30%**
Cashflow Investments	22.000	0.57%	12.000	0.44%
Capital Investments	10.000	1.24%	9.000	0.79%
Total Investments	**32.000**		**21.000**	
Net borrowing position	**98.161**		**106.161**	

Prudential Indicators and Compliance Issues

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

21. **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 2016/17 plus the expected changes to the CFR over 2017/18 and 2017/18. 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 2016 Actual £m	31 March 2017 Approved Indicator £m	31 March 2017 Actual £m
Gross Borrowing Position	**130.161**	**127.161**	**127.161**
CFR Excluding PFI & leases	**179.916**	**178.877**	**180.169**
CFR	**192.146**	**194.478**	**195.186**

22. **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.

23. **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.

24. **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 reduced due to nil provision of MRP for the General Fund and other savings in the Financing Costs budget, but has risen from the previous year due to a reduction in the Councils overall budget.

Table 5 – Key Prudential Indicators

	Actual 2015/16 £M	Original Approved Limits 2016/17 £M	Revised Approved Limits 2016/17 £M	Actual Total Liabilities Borrowing + PFI/ leases 2016/17 Maximum £M
Approved Indicator – Authorised Limit	**149.628**	**242.710**	**194.479**	**142.178**
Approved Indicator – Operational Boundary	**149.628**	**202.017**	**150.017**	**142.178**
Financing costs as a percentage of net revenue expenditure	**2.82%**	**4.68%**	**4.33%**	**4.19%**

25. At 31st March 2017 the total liabilities were £142.178 which is below both the approved Authorised Limit and the approved 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.

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

Economic Background for 2016/17

27. A summary of the general economic conditions that have prevailed through 2016/17 provided by Capita Asset Services, the Council's treasury management advisors is attached at **Appendix 2.**

Summary of the Treasury Management Strategy agreed for 2016/17

28. The revised Prudential Indicators anticipated that during 2016/17 the Council would need to borrow £4.174M to finance part of its capital programme.

29. 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.

30. 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 2016/17, £10M for 2017/18 and £10M for 2017/18. One investment of £5m in the portfolio was made for 2 years this was fixed until September 2016 but has now been returned, no other investments over 1 year have been made.

Treasury Management Activity during 2016/17

Debt Position

31. **Borrowing –** this decreased during 2017/18 by £3.000M in total

	PWLB	Market Loans (other Local Authorities)	Total
	£M	£M	£M
New Loans taken	0.000	+2.000	+2.000
Loans Repaid	0.000	-5.000	-5.000
Total New Borrowing	0.000	-3.000	-3..000

32. The new borrowing of £2.000m was on a short term basis to cover short term borrowing being repaid.

33. **Rescheduling –** No loans were rescheduled during 2016/17

34. **Summary of Debt Transactions –**The consolidated rate of interest increased from 4.18% to 4.30% this was due to two market loans which are based on a variable rate which increased during the year.

Investment Position

35. **Investment Policy –** the Council's investment policy for 2016/17 is governed by the DCLG Guidance which has been implemented in the annual investment strategy for 2016/17 approved by Council on 25 February 2016.

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

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

Table 6 - Temporary Surplus Cash Balances up to 1 year

	Original Budget 2016/17	Revised Budget 2015/16	Actual 2016/17
Monthly Average level of Investments	**£10.00M**	**£10.00M**	**£17.47M**
Average Rate of Return on Investment	**0.90%**	**0.46%**	**0.44%**
Interest Earned	**£0.090M**	**£0.046M**	**£0.078M**

Table 7 – Longer Term 6 months to 5 years

	Original Budget 2016/17	Revised Budget 2016/17	Actual 2016/17
Monthly Average level of Investments	**£2.00M**	**£15.00M**	**£16.00M**
Average Rate of Return on Investment	**1.15%**	**0.80%**	**0.79%**
Interest Earned	**£0.023M**	**£0.120M**	**£0.126M**

Performance and Risk Benchmarking

38. 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.

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

40. 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

41. **Table 8** shows that there has been a reduction in the historic levels of default over the year. This is mainly due to some longer term investments actually being made for shorter terms i.e. up to six months rather than I year as these investments were

better value than longer term investments and were also a better fit with how the council was expecting to utilise investments. It also shows more emphasis being placed on counterparties with a higher credit rating.

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

Table 8

Maximum	Benchmark 2015/16	Actual June 2016	Actual October 2016	Actual January 2017	Actual March 2017
Year 1	0.077%	0.013%	0.013%	0.007%	0.007%

43. 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.

44. 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 146 days with a maximum of 1year.

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

Table 9

	Benchmark	Actual June 2016	Actual October 2016	Actual January 2017	Actual March 2017
Weighted Average life	**146days to 1 years**	**132 days**	**103 days**	**111 days**	**83days**

46. This benchmark includes one investment for two years in the first half of 2016/17 however the majority of fixed term investments are for up to 1 year with cash flow monies being invested in Money Market funds which can be accessed immediately.

47. 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	**2015/16 4.18%**	**2016/17 4.30%**
Investments		**DBC 2015/16**	**DBC 2016/17**
Short term	Cash flow investment rate returned against comparative average rate	0.57%	**0.44%**
Long term	Capital investment rate returned against comparative average rates	1.24%	**0.79%**
Comparative rates used to compare DBC performance: -		**Short Term Investments**	**Long Term Investments**
Comparative Rates			
Overnight Bid Rate Overnight		0.19%	-
London Interbank Bid Rate 7 day		0.20%	-
London Interbank Bid Rate 1 month		0.22%	
London Interbank Bid rate 3 months			0.32%
London Interbank Bid rate 6 months			0.46%
London Interbank Bid rate 12 months			0.70%
Average External Comparators		**0.20%**	**0.49%**

48. 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

49. 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 2016/17).

(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.

50. 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.

51. 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

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

(a) Long Term capital investments interest earned – a cash amount of around £10M which earns interest and represents the Council's revenue and capital balances, unused capital receipts, reserves and provisions.

(b) Cash flow interest earned – since becoming a unitary council in 1997, the authority has consistently had positive cash flow. 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 2016/17

	£M	£M
Original Treasury Management Budget	**1.668**	
Less Reduced repayment of Principal		**-0.462**
Add Increased interest payments made on debt		**0.222**
Less increased net interest from Investments		**-0.117**
Less reduced broker charges on debt		**-0.017**
Outturn Treasury Management Budget 2016/17		**1.294**

53. Repayment of Principal has reduced due to further savings in the Minimum Revenue Provision. The interest payable has increased mainly due to increased interest rates on variable LOBO debt of £27.250M. Interest earned increased because higher interest rates were paid on investments and balances invested were larger. Savings in broker charges were made due to less new debt taken than expected.

Conclusion

54. The Council's treasury management activity during 2016/17 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 £0.374M 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

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

Additional Prudential Indicators not reported in the body of the report

		2015/16 Actual	2016/17 Approved Indicator	2016/17 Outturn
1	**Incremental impact of capital investment decisions on the Band D Council tax**	**£1.74**	**£0.17**	**1.97***
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*)**	**79%**	**100%**	**79%**
4	**Upper limits on variable interest rates (*against maximum position*)**	**21%**	**40%**	**21%**
5	**Maturity structure of fixed rate borrowing (*against maximum position*)**			
	Under 12 months	**3.8%**	**25%**	**5.5%**
	12 months to 2 years	**0%**	**40%**	**7.9%**
	2 years to 5 years	**11.5%**	**60%**	**3.7%**
	5 years to 10 years	**5.2%**	**80%**	**1.6%**
	10 years and above	**79.5%**	**100%**	**81.3%**
6	**Maximum Principal funds invested greater than 364 days**	**£5.0M**	**£10M**	**£0M**

*****Relates to additional Capital spend released throughout the year

The Economy and Interest Rates

1. The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23rd June and the election of President Trump in the USA on 9th November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4th August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

2. In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

3. **USA**. Quarterly growth in the US has been very volatile during 2016 but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates. Overall growth in 2016 was 1.6%.

4. **EU**. The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and been doing major quantitative easing purchases of debt during 2016-17 in order to boost growth from consistently weak levels, and to get inflation up from near zero towards its target of 2%. These purchases have resulted

in depressed bond yields in the EU, but, towards the end of 2016, yields rose, probably due at least in part to rising political concerns around the positive prospects for populist parties and impending general elections in 2017 in the Netherlands, France and Germany. The action taken by the ECB has resulted in economic growth improving significantly in the eurozone to an overall figure of 1.7% for 2016, with Germany achieving a rate of 1.9% as the fastest growing G7 country.

5. On the other hand, President Trump's election and promise of fiscal stimulus, which are likely to increase growth and inflationary pressures in the US, have resulted in Treasury yields rising sharply since his election. Gilt yields in the UK have been caught between these two influences and the result is that the gap in yield between US treasuries and UK gilts has widened sharply during 2016/17 due to market perceptions that the UK is still likely to be two years behind the US in starting on an upswing in rates despite a track record of four years of strong growth.

6. **Japan** struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017. It is also struggling to get inflation up to its target of 2%, only achieving an average of -0.1% in 2016, despite huge monetary and fiscal stimulus, though this is currently expected to increase to around 1% in 2017. It is also making little progress on fundamental reform of the economy.

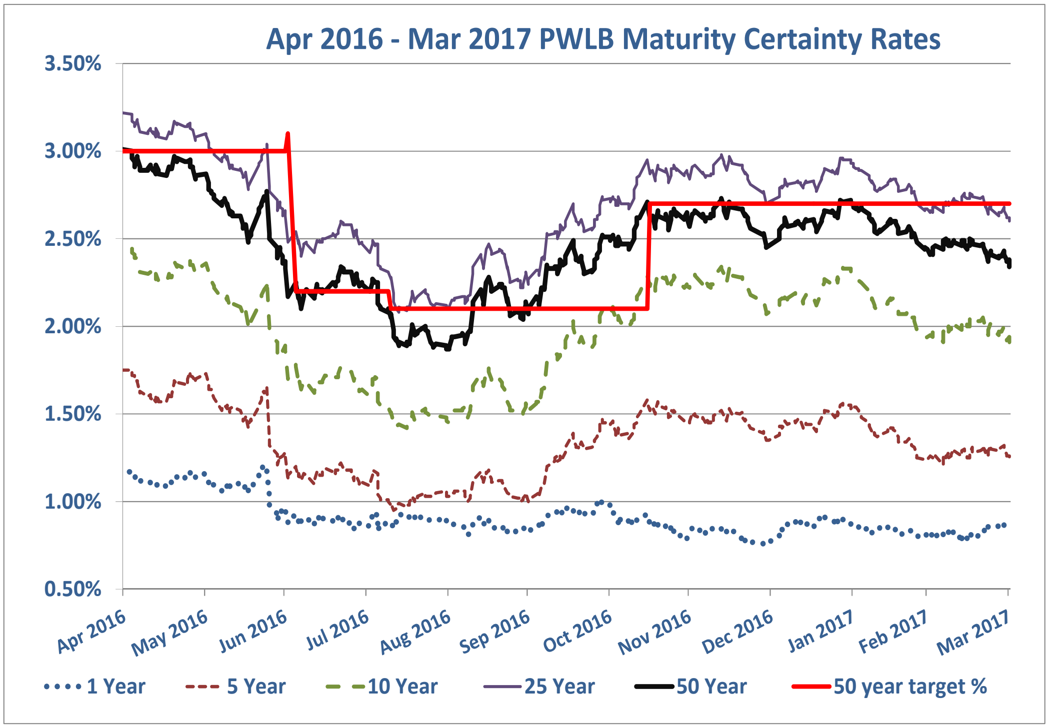
7. **China and emerging market counties**. At the start of 2016, there were considerable fears that China's economic growth could be heading towards a hard landing, which could then destabilise some emerging market countries particularly exposed to a Chinese economic slowdown and / or to the effects of a major reduction in revenue from low oil prices. These fears have largely subsided and oil prices have partially recovered so, overall, world growth prospects have improved during the year.

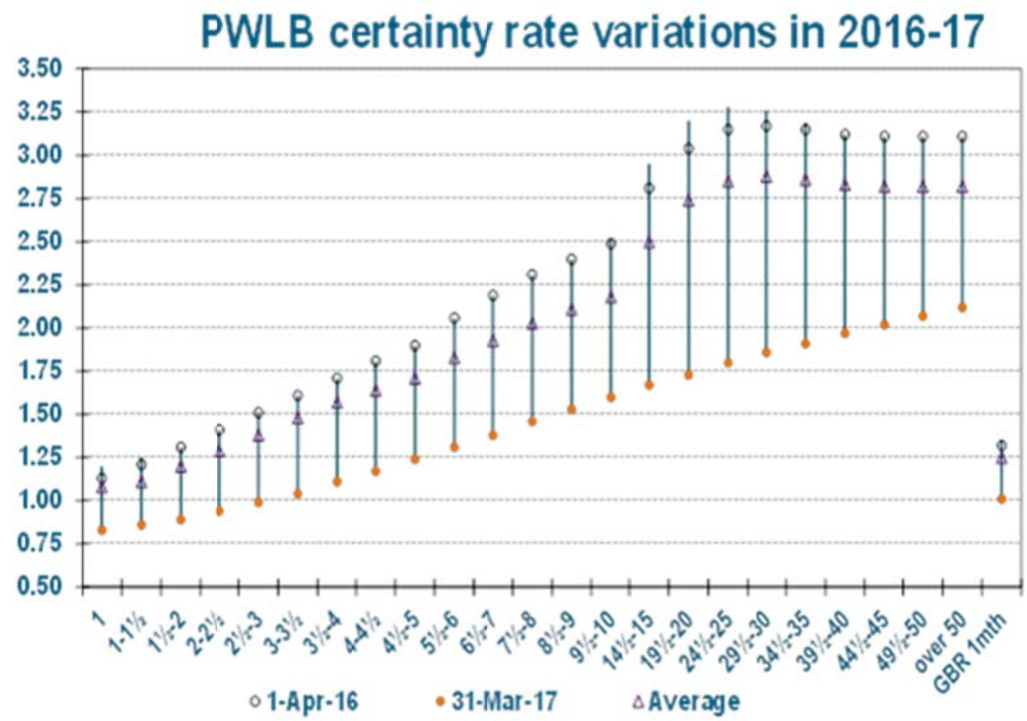
8. **Equity markets**. The result of the referendum, and the consequent devaluation of sterling, boosted the shares of many FTSE 100 companies which had major earnings which were not denominated in sterling. The overall trend since then has been steeply upwards and received further momentum after Donald Trump was elected President as he had promised a major fiscal stimulus to boost the US economy and growth rate.

Borrowing Rates in 2016/17

PWLB certainty maturity borrowing rates

9. During 2016-17, PWLB rates fell from April to June and then gaining fresh downward impetus after the referendum and Bank Rate cut, before staging a partial recovery through to December and then falling slightly through to the end of March. The graphs and table for PWLB rates below and in appendix 3, 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.


Apr 2016 - Mar 2017 PWLB Maturity Certainty Rates
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
Apr 2016
May 2016
Jun 2016
Jul 2016
Aug 2016
Sep 2016
Oct 2016
Nov 2016
Dec 2016
Jan 2017
Feb 2017
Mar 2017
1 Year
5 Year
10 Year
25 Year
50 Year
50 year target %

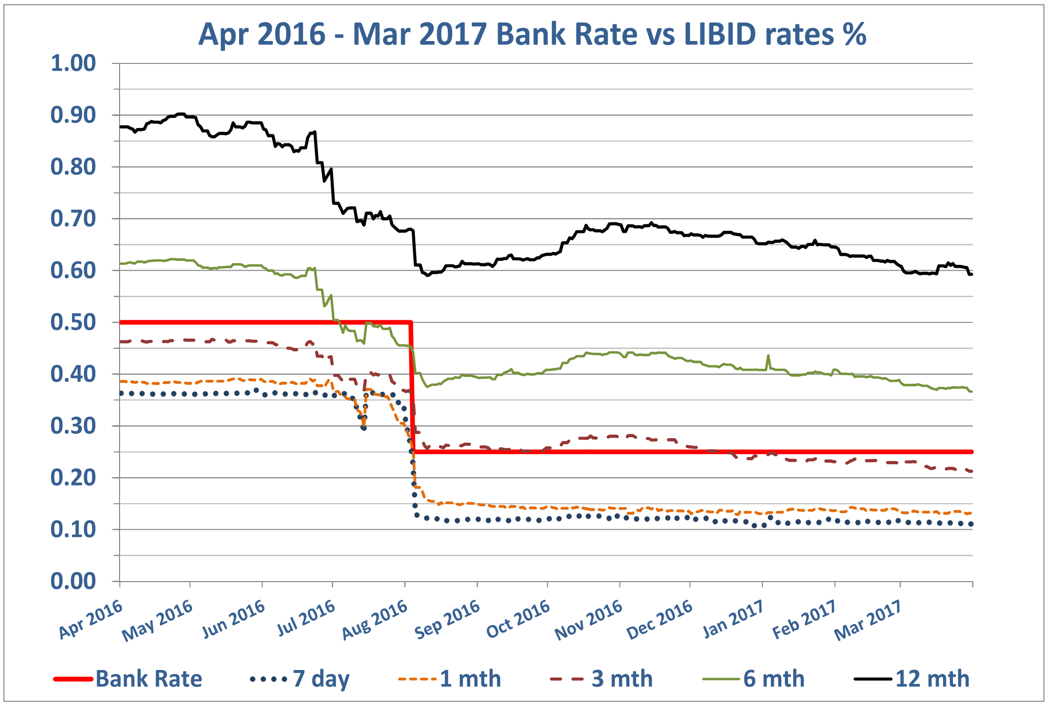


	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/16	1.130%	1.160%	1.330%	1.470%	1.620%	2.310%	3.140%	2.950%	1.310%
31/3/17	0.830%	0.860%	0.990%	1.110%	1.240%	1.600%	1.800%	2.070%	1.010%
High	1.200%	1.250%	1.460%	1.630%	1.800%	2.510%	3.280%	3.080%	1.350%
Low	0.760%	0.800%	0.840%	0.880%	0.950%	1.420%	2.080%	1.870%	1.040%
Average	0.928%	0.961%	1.104%	1.226%	1.361%	2.007%	2.724%	2.494%	1.150%
Spread	0.440%	0.450%	0.620%	0.750%	0.850%	1.090%	1.200%	1.210%	0.310%
High date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	20/05/2016
Low date	20/12/2016	15/03/2017	10/08/2016	10/08/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016	30/11/2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.60%	1.80%	2.07%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.93%	1.36%	2.01%	2.72%	2.49%

Money market investment rates 2016/17

	7 day	1 month	3 month	6 month	1 year
1/4/16	0.363	0.386	0.463	0.614	0.877
31/3/17	0.111	0.132	0.212	0.366	0.593
High	0.369	0.391	0.467	0.622	0.902
Low	0.107	0.129	0.212	0.366	0.590
Average	0.200	0.220	0.315	0.462	0.702
Spread	0.262	0.262	0.255	0.256	0.312
High date	27/5/16	21/6/16	10/5/16	22/4/16	26/4/16
Low date	28/12/16	21/12/16	30/3/17	31/3/17	10/8/16



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.
Minimum Revenue Provision (MRP)	Monies set aside from the revenue budget to repay accumulated debt.
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 Cash flow
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 i.e. 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.