COUNCIL
21 JULY 2016

ITEM NO. 8 (b)

TREASURY MANAGEMENT ANNUAL REPORT AND OUTTURN PRUDENTIAL INDICATORS 2015/16

Responsible Cabinet Member -
Councillor Stephen Harker, Efficiency and Resources Portfolio

Responsible Director
Paul Wildsmith, Director of Neighbourhood Services and Resources

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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 2015/16. The report also seeks approval of the Prudential Indicators results for 2015/16 in accordance with the Prudential Code.

Summary

2. The financial year 2015/16 presented similar circumstances to 2014/15 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 2015/16 the Council complied with its legislative and regulatory requirements. The need for borrowing was only increased for capital purposes.

4. At 31st March 2016, the Council's external debt was £130.161M which is £6.000M more than the previous year. The average interest rate for borrowing was up to 4.18% from 4.16% in 2014/15. Investments totalled £32.000M at 31st March 2016 (£33.000M at 31st March 2015) earning interest of 0.57% on short term investments and 1.24% on longer term investments.

5. Financing costs have been reduced during the year and a saving of £3.384M achieved from the original MTFP, mainly (£3.247M) as a result of not providing the

Minimum Revenue Provision due to overprovision in previous years in line with the Council report of 25 February 2016, the remainder (£0.137M) as a result of a mixture of reduced interest costs 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 2015/16 Prudential Indicators within this report and those in **Appendix 1** be noted.

   (b) The Treasury Management Annual Report for 2015/16 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 2015/16
(iii) Prudential Indicators and Treasury Management Strategy Report 2015/16

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 changes in the provision for the repayment of debt to the benefit of the Revenue MTFP.

MAIN REPORT

Information and Analysis

8. This report summarises:

   (a) Capital expenditure and financing for 2015/16
   (b) The Council's underlying borrowing need
   (c) Treasury position at 31st March 2016
   (d) Prudential indicators and compliance issues
   (e) The economic background for 2015/16
   (f) A summary of the Treasury Management Strategy agreed for 2015/16
   (g) Treasury Management activity during 2015/16
   (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 2015/16

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. The revised estimate included £50.000M for loans to Registered Social Landlords however this did not materialise during 2015/16. Excluding these loans actual expenditure was £13.544M 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 £2.002M less borrowing need than expected at this time.

Table 1 – Capital Expenditure and Financing

	2014/15	**2015/16**		
	Outturn £m	**Revised Estimate £m**	**Outturn £m**	**Variance £m**
General Fund Capital Expenditure	30.868	35.892	23.602	-12.290
HRA Capital Expenditure	7.809	12.541	11.287	-1.254
Loans to registered Land lords		50.000	0	-50.000
Total Capital Expenditure	**38.677**	**98.433**	**34.889**	**-63.544**
Resourced by:				
Capital Receipts GF	1.300	2.594	2.522	-0.072
Capital receipts Housing	0.543	0.000	0.344	0.344
Capital Grants	16.497	19.806	9.536	-10.270
Capital Contributions	0.138	2.882	0.013	-2.869
Revenue	8.203	9.424	10.749	1.325
Total Resources	**26.681**	**34.706**	**23.164**	**-11.542**
Borrowing needed to finance expenditure	**11.996**	**63.727**	**11.725**	**-52.002**

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 2015/16 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 2015/16 is £192.146M which is £48.745M below the approved because of the lower borrowing need than expected for 2015/16 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

	2014/15	2015/16		
	Outturn £m	Approved Indicator £m	31 March Actual £m	Variance £m
Opening Balance	155.809	164.829	164.829	0.00
Add adjustment for the inclusion of leases on the balance sheet under IFRS	18.780	17.467	17.467	0.00
Add Capital Expenditure financed by borrowing	12.429	63.727	11.725	-52.002
Less MRP/VRP General Fund	-2.781	-3.266	0.00	3.266
Less MRP/VRP Housing	-0.629	-0.629	-0.629	0.00
Less MRP/VRP PFI	-1.312	-1.237	-1.237	0.00
Less Other Movement (depreciation)			-0.009	-0.009
Closing balance	**182.296**	**240.891**	**192.146**	**-48.745**

Treasury Position at 31 March 2016

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 2016 was £130.161M. In addition to this, a liability of £16.230M relating to the PFI scheme and Finance Leases brings the total to £146.391M. The Council's revised CFR position was estimated to be £240.891M however the actual out turn position was lower at £192.146M. When comparing this to our actual borrowing of £146.391M this meant that the Council was "under borrowed" by £45.755M 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 2016, including investments compared with the previous year is shown in table 3 below.

Table 3 – Summary of Borrowing and Investments

Treasury Position	31 March 2015		31 March 2016	
	Principal £m	Average Rate %	Principal £m	Average Rate %
Fixed Rate Debt Market and Public Works Loan Board (PWLB)	124.161	4.16%	130.161	4.18%
Total Debt	**124.161**	**4.16%**	**130.161**	**4.18%**
Cash flow Investments	21.000	0.48%	22.000	0.57%
Capital Investments	12.000	0.98%	10.000	1.24%
Total Investments	**33.000**		**32.000**	
Net borrowing position	**91.161**		**98.161**	

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 2015/16 plus the expected changes to the CFR over 2016/17 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 2015 Actual £m	31 March 2016 Approved Indicator £m	31 March 2016 Actual £m
Gross Borrowing Position	**124.161**	**201.881**	**130.161**
CFR Excluding PFI & leases	**165.052**	**224.661**	**175.916**
CFR	**182.520**	**240.891**	**192.146**

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 but it is higher than it might otherwise have been because of the reduced overall level of Council revenue expenditure during 2015/16 falling from £81.119M to £75.911M

Table 5 – Key Prudential Indicators

	Actual 2014/15 £M	Original Approved Limits 2015/16 £M	Revised Approved Limits 2015/16 £M	Actual Total Liabilities Borrowing + PFI/ leases 2015/16 Maximum £M
Approved Indicator – Authorised Limit	**142.941**	**238.388**	**240.891**	**149.628**
Approved Indicator – Operational Boundary	**142.941**	**201.881**	**201.881**	**149.628**
Financing costs as a percentage of net revenue expenditure	**6.56%**	**6.57%**	**6.37%**	**2.82%**

25. At 31st March 2016 the total liabilities were £146.391M 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 2015/16

27. A summary of the general economic conditions that have prevailed through 2015/16 provided by Capita Asset Services, the Council's treasury management advisors is attached at **Appendix 2.**

Summary of the Treasury Management Strategy agreed for 2015/16

28. The revised Prudential Indicators anticipated that during 2015/16 the Council would need to borrow £63.727M to finance part of its capital programme, this included £50.000m relating to loans to Registered Social Landlords however this did not materialise.

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 2015/16, £10M for 2016/17 and £10M for 2017/18. One investment of £5m in the portfolio was made for 2 years this is fixed until September 2016.

Treasury Management Activity during 2015/16

Debt Position

31. **Borrowing –** this increased during 2015/16 by £6.000M in total

	PWLB	Market Loans (other Local Authorities)	Total
	£M	£M	£M
New Loans taken	0.000	+19.000	+19.000
Loans Repaid	0.000	-13.000	-13.000
Total New Borrowing	0.000	+6.000	+6.000

32. The majority of the new borrowing £19.000m was on a short term basis to cover short term borrowing being repaid.

33. **Rescheduling –** No loans were rescheduled during 2015/16.

34. **Summary of Debt Transactions –**The consolidated rate of interest increased from 4.16% to 4.18% this was due to two market loans that had a low initial rate of interest but are now based on a variable ten rate which have led to an overall increase and some very short term debt has been replaced with longer term debt at a marginally increased rate of interest.

Investment Position

35. **Investment Policy –** the Council's investment policy for 2015/16 is governed by the DCLG Guidance which has been implemented in the annual investment strategy for 2015/16 approved by Council on 26 February 2015.

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.

38. Table 6 - Temporary Surplus Cash Balances up to 1 year

	Original Budget 2015/16	Revised Budget 2015/16	Actual 2015/16
Monthly Average level of Investments	**£13.005M**	**£16.000M**	**£28.300M**
Average Rate of Return on Investment	**0.60%**	**0.60%**	**0.572%**
Interest Earned	**£0.078M**	**£0.096**	**£0.162M**

Table 7 – Longer Term 1 to 5 years

	Original Budget 2015/16	Revised Budget 2015/16	Actual 2015/16
Monthly Average level of Investments	**£8.00M**	**£10.00M**	**£10.60M**
Average Rate of Return on Investment	**0.85%**	**0.85%**	**1.238%**
Interest Earned	**£0.068M**	**£0.085**	**£0.131M**

Performance and Risk Benchmarking

39. 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.

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

41. 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

42. **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.

43. 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 2015	Actual October 2015	Actual January 2016	Actual March 2016
Year 1	0.077%	0.021%	0.029%	0.016%	0.019%

44. 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.

45. 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.

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

Table 9

	Benchmark	Actual June 2015	Actual October 2015	Actual January 2016	Actual March 2016
Weighted Average life	**146days to 1 years**	**206 days**	**191 days**	**146 days**	**138days**

47. 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.

48. 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	**2014/15 4.16%**	**2015/16 4.18%**
Investments		**DBC 2014/15**	**DBC 2015/16**
Short term	Cash flow investment rate returned against comparative average rate	0.48%	**0.57%**
Long term	Capital investment rate returned against comparative average rates	0.90%	**1.24%**
Comparative rates used to compare DBC performance: -		**Short Term Investments**	**Long Term Investments**
Comparative Rates			
Overnight Rate Offer		0.48%	-
London Interbank offer (LIBOR)7 day rate		0.49%	-
LIBOR 6 month rate		-	0.73%
LIBOR12 month rate		-	1.02%
7 day London Interbank Bid LIBID Rate		0.36%	0.36%
Average		**0.44%**	**0.70%**

49. 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

50. 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.

51. 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.

52. 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

53. 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) 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 2015/16

	£M	£M
Original Treasury Management Budget 2015/16	**3.230**	
Add Budget from Departments relating to Prudential Borrowing	**2.297**	**5.527**
Less Reduced Repayment of Principal (MRP)		**-3.247**
Less Reduced interest payments made on debt		**-0.032**
Less increased net interest from Investments		**-0.107**
Add increased broker charges on debt		**0.002**
Outturn Treasury Management Budget 2014/15		**2.143**

54. Previously budgets relating to departmental prudential borrowing, such as borrowing for assets that would have in the past been leased i.e. refuse vehicles etc. and prudential borrowing taken on a spend to save basis where capital spent produced ongoing savings in the revenue budget, have been shown in those revenue budgets so that services show the true costs. These budgets have now been brought together, to enable the reduction in costs, due to the non-payment on MRP, to be measured in one place. The reduced repayment of Principal shown above relates to the non-payment of MRP due to over provision in previous years, this is in line with the Council report of 25 February 2016. Increased interest received relates to larger investment balances than expected rather than increased interest rates.

Conclusion

55. The Council's treasury management activity during 2015/16 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 £3.384M 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

56. No formal consultation has been undertaken regarding this report but it was presented to the Audit Committee for their examination in June 2016.

Additional Prudential Indicators not reported in the body of the report

		2014/15 Actual	2015/16 Approved Indicator	2015/16 Outturn
1	**Incremental impact of capital investment decisions on the Band D Council tax**	**£3.02**	**£0.66**	**£1.74***
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%**	**79%**
4	**Upper limits on variable interest rates (*against maximum position*)**	**23%**	**40%**	**21%**
5	**Maturity structure of fixed rate borrowing (*against maximum position*)**			
	Under 12 months	**11%**	**25%**	**3.8%**
	12 months to 2 years	**0%**	**40%**	**0%**
	2 years to 5 years	**0%**	**60%**	**11.5%**
	5 years to 10 years	**5.5%**	**80%**	**5.2%**
	10 years and above	**83.5%**	**100%**	**79.5%**
6	**Maximum Principal funds invested greater than 364 days**	**£5.0M**	**£10M**	**£5.0M**

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

The Economy and Interest Rates

1. Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

2. These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

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 materially. These rates continued at very low levels during 2015/16.

4. The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

5. The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

6. As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

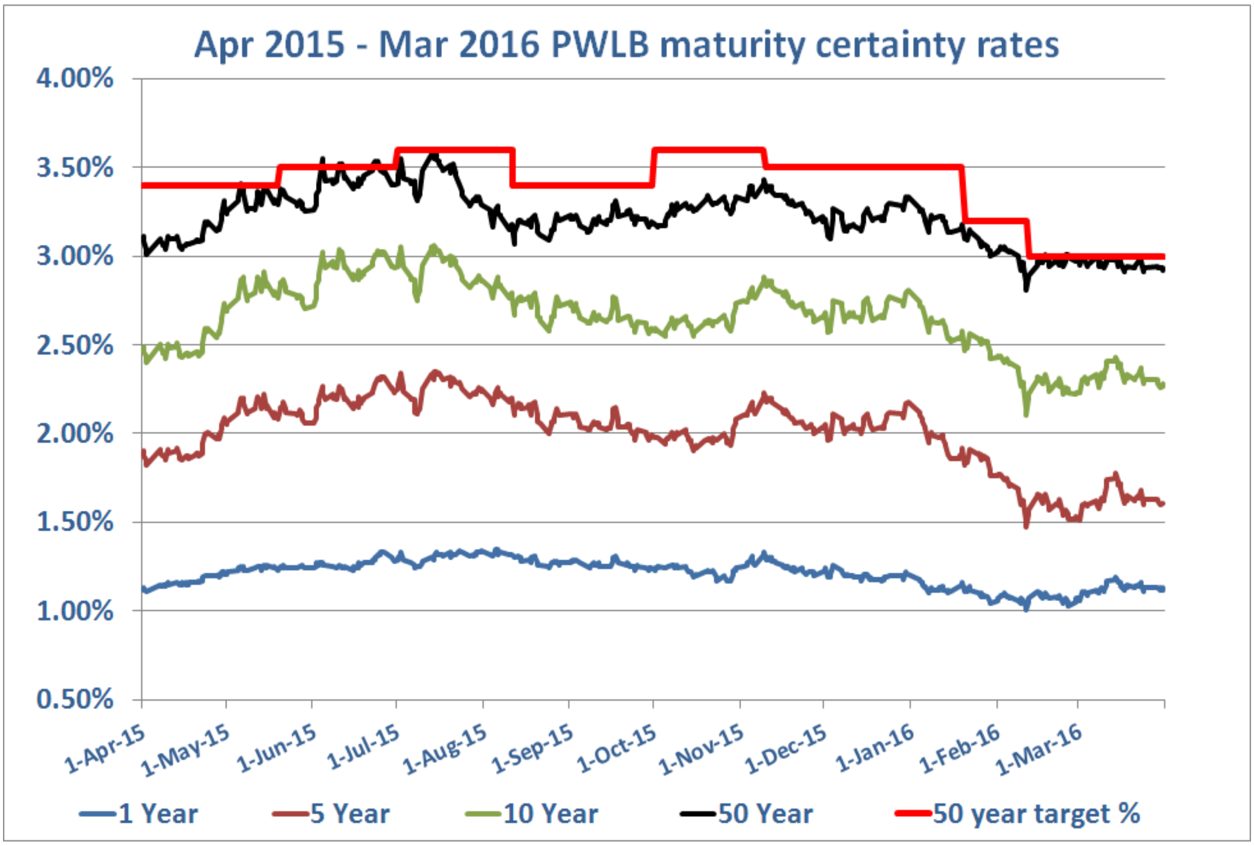
7. On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The

Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.

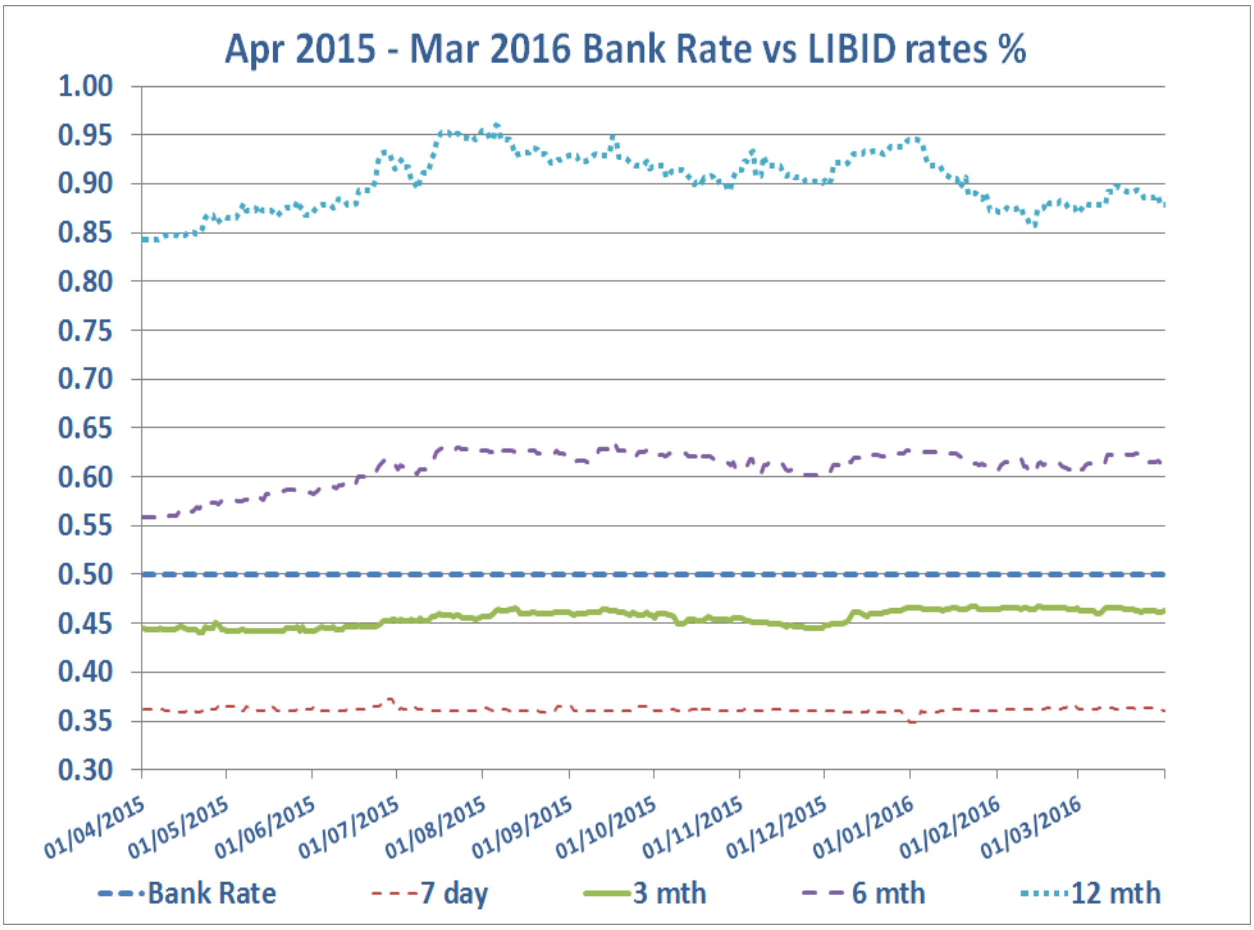
8. The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

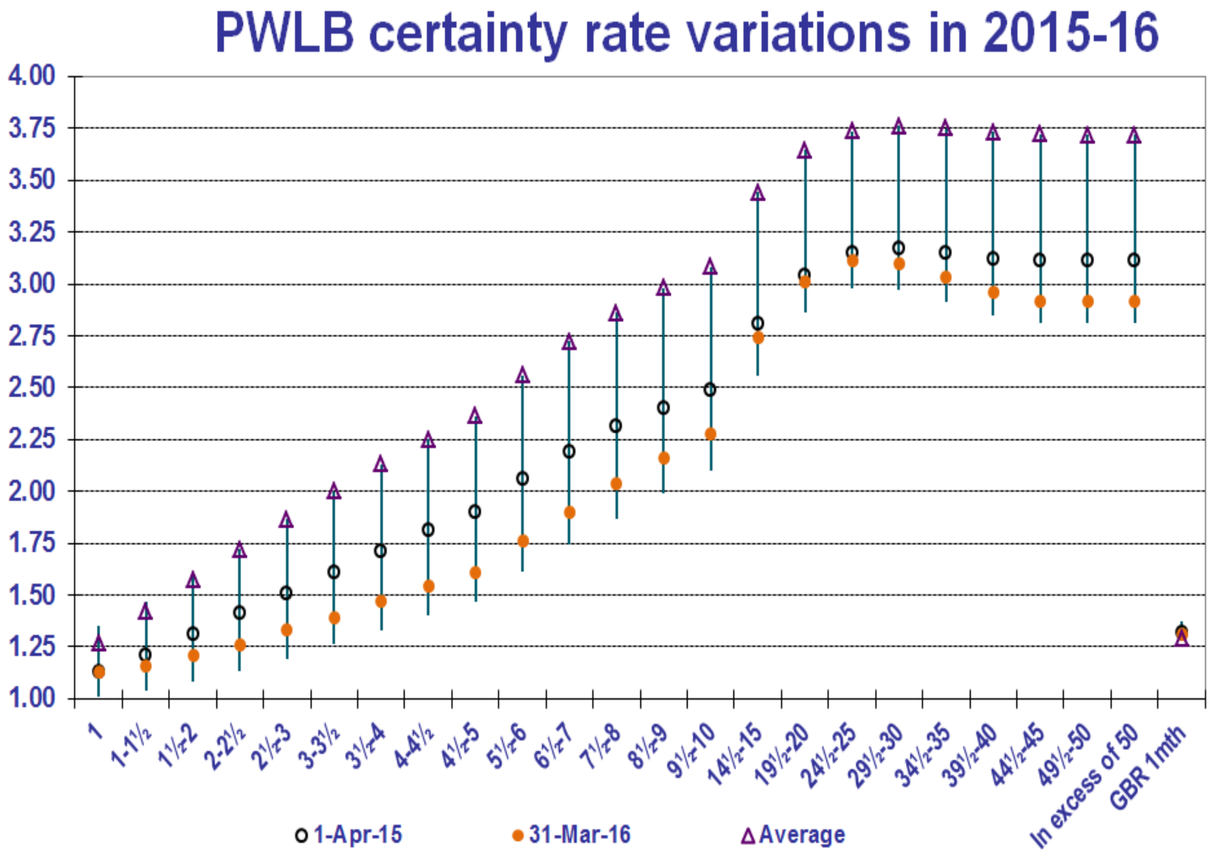
Borrowing Rates in 2015/16

9. PWLB certainty maturity borrowing rates - the graphs for PWLB rates below show, 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.



Borrowing and Investment rates





	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
1/4/15	1.130%	1.210%	1.510%	1.710%	1.900%	2.490%	3.150%	3.110%	1.320%
31/3/16	1.130%	1.160%	1.330%	1.470%	1.610%	2.280%	3.110%	2.920%	1.310%
High	1.350%	1.470%	1.860%	2.120%	2.350%	3.060%	3.660%	3.580%	1.370%
Low	1.010%	1.040%	1.190%	1.330%	1.470%	2.100%	2.980%	2.810%	1.310%
Average	1.212%	1.302%	1.608%	1.814%	2.004%	2.653%	3.348%	3.216%	1.336%
Spread	0.340%	0.430%	0.670%	0.790%	0.880%	0.960%	0.680%	0.770%	0.060%
High date	05/08/2015	06/08/2015	02/07/2015	15/07/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015	30/10/2015
Low date	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016	21/03/2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/15	1.13%	1.90%	2.49%	3.15%	3.11%
31/3/16	1.13%	1.61%	2.28%	3.11%	2.92%
Low	1.01%	1.47%	2.10%	2.98%	2.81%
Date	11/02/2016	11/02/2016	11/02/2016	11/02/2016	11/02/2016
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.21%	2.00%	2.65%	3.35%	3.22%

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 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.