ARGYLL AND BUTE COUNCIL	PERFORMANCE REVIEW AND SCRUTINY COMMITTEE
STRATEGIC FINANCE	26 FEBRUARY 2015

TREASURY MANAGEMENT MONITORING REPORT 31 DECEMBER 2014

1. EXECUTIVE SUMMARY

1.1 This report is for noting its sets out the Council's treasury management position for the period 1 November 2014 to 31 December 2014 and includes information on:

- Overall Borrowing Position
- Borrowing Activity
- Investment Activity
- Economic Background
- Interest Rate Forecast
- Prudential Indicators.

1.2 The Council has made one repayment of long term debt of £505k to PWLB during the period. Due to a reduced Capital Financing Requirement (CFR) of £256m at 31 March 2014 and a reduction of £17m in the forecast capital expenditure the estimated CFR for 31 March 2015 has reduced from £275m to £257m from that predicted in the budget at February 2014.

1.3 In respect of investment activity the level of investments have decreased by £1.9m from £53.5m at 31 October 2014 to £51.6m at 31 December 2014. The rate of return achieved was 0.725% which compares favourably with the target of 7 day LIBID which was 0.355%.

1.4 As part of a policy of increasing the diversification of investments during the period the Council opened two Money Market Funds:

- Insight Liquidity fund (Class3)
- Invesco AIM Short term investment

1.5 During the period the Council reduced its investments held in Handelsbanken by £5m, placed two tranches of £2.56m with Santander on a 95 Days deposit rate of bank+10bps (0.60%) Santander has a short term rating of A-1 and a long terms rating of A.

1.6 As the Council was closed over the festive period the limit on the amount of money which could be held with the Clydesdale Bank was temporarily increased to £10m due to the fact that the Council would receive Revenue Support Grant and Council Tax income. The balance on the Clydesdale Bank at the 4th of January 2015 was £8.48m this was reduced to £1.25m on the 5th of January when the limit reverted to £5m.

ARGYLL AND BUTE COUNCIL	**POLICY AND RESOURCES COMMITTEE**
STRATEGIC FINANCE	**5 FEBRUARY 2015**

TREASURY MANAGEMENT MONITORING REPORT 31 DECEMBER 2014

2. INTRODUCTION

2.1 This report summarises the monitoring as at 31 December 2014 of the Council's:

- Overall Borrowing Position
- Borrowing Activity
- Investment Activity
- Economic Background
- Interest Rate Forecast
- Prudential Indicators.

3. RECOMMENDATIONS

3.1 The treasury management monitoring report is noted.

4. DETAIL

Overall Borrowing Position

4.1 The table below details the estimated capital financing requirement (CFR) and compares this with the estimated level of external debt at the 31 March 2015. The CFR represents the underlying need for the Council to borrow to fund its fixed assets and accumulated capital expenditure.

	Forecast 2014/15 £000's	**Budget 2014/15 £000's**	**Forecast 2015/16 £000's**	**Forecast 2016/17 £000's**
CFR at 1 April	256,463	258,871	257,943	272,866
Net Capital Expenditure	19,921	34,809	26,707	2,440
Less Loans Fund Principal Repayments	(18,441)	(18,441)	(11,784)	(10,784)
Estimated CFR 31 March	**257,943**	**275,239**	**272,866**	**264,522**
Less Funded by NPDO	(79,603)	(79,603)	(78,055)	(76,507)
Estimated Net CFR 31 March	**178,340**	**195,636**	**194,811**	**188,015**
Estimated External Borrowing at 31 March	161,235	161,315	169,315	177,315
Gap	**17,105**	**34,321**	**25,496**	**10,700**

4.2 Borrowing is currently estimated to be below the CFR for the period to 31 March 2015. This reflects the approach taken to minimise surplus cash on deposit in order to avoid overdue exposure to investment / credit worthiness risks. However if it becomes clear that longer term interest rates are likely to increase significantly the position will be reviewed to ensure the Council locks in funding at low interest rates.

4.3 The Council's estimated net capital financing requirement at the 31 December 2014 is £180.445m. The table below shows how this has been financed. Whilst borrowing is less than the CFR there are substantial internal balances (mainly the General Fund) of which £51.6m is currently invested.

	Position at 31/10/2014 £000's	**Position at 31/12/2014 £000's**
Loans	161,236	161,242
Internal Balances	72,729	72,729
Less Investments & Deposits	(53,520)	(51,605)
Total	**180,445**	**182,366**

Borrowing Activity

4.4 The table below summarises the borrowing and repayment transactions in the period 1 November 2014 to 31 December 2014.

	Actual £000's
External Loans Repaid 1st November 2014 to 31st December 2014	505
Borrowing undertaken 1st November 2014 to 31st December 2014	511
Net Movement in External Borrowing	**6**

4.5 No Local Bonds were repaid in the period 1 November 2014 to 31 December 2014.

4.6 One new local bond was taken out in the period 1 November 2014 to 31 December 2014.

4.7 The table below summarises the movement in level and rate of temporary borrowing at the start and end of the period. Owing to the levels of internal balances and surplus cash temporary borrowing has been minimal.

	£000s	**% Rate**
Temp borrowing at 31st October 2014	1,365	0.30%
Temp borrowing at 31st December 2014	1,358	0.30%

Investment Activity

4.8 The average rate of return achieved on the Council's investments to 31st December 2014 was 0.725% compared to the average LIBID rate for the same period of 0.355% which demonstrates that the Council is achieving a reasonable rate of return on its cash investments. At the 31 December 2014 the Council had

£51.6m of short term investment at an average rate of 0.757%. The table below details the counterparties that the investments were placed with, the maturity date, the interest rate and the credit rating applicable for each of the counterparties.

Counterparty	**Maturity**	**Amount £000s**	**Interest Rate**	**Rating**
Bank of Scotland	Instant Access	50	0.40%	Short Term A-1, Long Term A
Bank of Scotland	07/01/2015	5,000	0.95%	
Bank of Scotland	23/01/2015	5,000	0.95%	
Bank of Scotland	31/10/2015	5,000	1.00%	
Royal Bank of Scotland	Instant Access	50	0.25%	Short Term A-2, Long Term A-
Clydesdale Bank	Instant Access	5,005	0.50%	Short Term A-2, Long Term BBB+
Goldman Sachs	05/02/2015	5,000	0.745%	Short Term A-1, Long Term A
Handelsbanken	35 Day Notice	5,000	0.65%	Short Term A-1+, Long Term AA-
Santander	Instant Access	50	0.40%	Short Term A-1, Long Term A
DZ Bank	14/09/2015	5,000	0.92%	Short Term A-1+, Long Term AA-
Deutsche Bank	65 Day Notice	5,000	0.633%	Short Term A-1, Long Term A
Santander	95 Day Notice	2,500	0.600%	Short Term A-1, Long Term A
Santander	96 Day Notice	2,500	0.600%	Short Term A-1, Long Term A
MMF - BNP Paribas	Instant Access	1,500	0.457%	AAA
MMF - Federated	Instant Access	0	0.448%	AAA
MMF - Ignis	Instant Access	5,000	0.471%	AAA
Total		**51,655**		

4.9 All investments and deposits are in accordance with the Council's approved list of counterparties and within the limits and parameters defined in the Treasury Management Practices. The counterparty list is constructed based on assessments by leading credit reference agencies adjusted for additional market information available in respect of counterparties.

4.10 As part of a policy of increasing the diversification of investments during the period the Council opened two Money Market Funds:

- Insight Liquidity fund (Class3)
- Invesco AIM Short term investment

4.11 On 11th November the Council placed £2.5m with Santander in a 95 Day Notice (no partial withdrawals) account at a rate of 0.60% (base+10bpts). Santander has a short term rating of A-1 and long term rating of A

4.12 On 13th November the Council placed a second £2.5m with Santander in a 95 Day Notice (no partial withdrawals) account at a rate of 0.60% (base+10bpts). Santander has a short term rating of A-1 and long term rating of A

4.13 The current market conditions have made investment decisions more difficult as the number of counterparties which meet the Council's parameters has reduced making it harder to achieve reasonable returns while limiting the exposure to any one institution.

4.14 In response to the low investment returns available in the market and the reduced likelihood of increases in base rate it has been decided to place fixed deposits with the part nationalised and highly rated banks for periods up to 12 months to increase returns without significantly increasing the risks associated with the investments.

4.15 As the Council was closed over the festive period the limit on the amount of money which could be held with the Clydesdale Bank was temporarily increased to £10m due to the fact that the Council would receive Revenue Support Grant and Council Tax income. The balance on the Clydesdale Bank at the 4th of January 2015 was £8.48m this was reduced to £1.25m on the 5th of January when the limit reverted to £5m.

Economic and Interest Rate Forecasts

4.16 The economic background at 31 December 2014 is shown in appendix 1 with the interest rate forecast in appendix 2.

Prudential Indicators

4.17 The prudential indicators for 2013-14 are attached in appendix 3.

5. CONCLUSION

5.1 The Council has taken new long term borrowing of £511k and made repayments of £505k during the two months to 31 December 2014. The investment returns were 0.725% which is above the target of 0.355%.

5.2 During the period the Council further diversified its investments by opening two Money Market Funds and placing funds with Santander.

6. IMPLICATIONS

6.1	Policy –	None.
6.2	Financial -	None
6.3	Legal -	None.
6.4	HR -	None.
6.5	Equalities -	None.
6.6	Risk -	None.
6.7	Customer Service -	None.

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Appendix 1 – Economic Background
Appendix 2 – Interest Rate Forecast
Appendix 3 – Prudential Indicators

Appendix 1

Economic background:

- During the quarter ended 31st December 2014:
    - Indicators pointed to another quarter of strong GDP growth;
    - Further robust increases in household spending;
    - Jobs growth and real wages picked up;
    - CPI inflation fell to 1%;
    - Further dovish signals from the MPC;
    - The trend in public finance finally started to improve; and
    - The ECB was still struggling to stimulate demand in the euro-zone.
- Following healthy quarterly GDP growth of 0.7% in Q3 of 2014, indicators suggest that growth should broadly maintain this pace in the fourth quarter. On the basis of past form, the CIPS/Markit business surveys point to a quarterly increase in GDP of around 1% in Q4. Admittedly, this indicator has proved to be overly optimistic in recent months. But others, such as the Bank of England's Agents' score and the EC Economic Sentiment Indicator, also suggest that the recovery remained strong in Q4. What's more, the trade deficit narrowed to £2bn in October following a sharp drop in the value of oil imports, reflecting recent falls in the oil price.
- Meanwhile, the recovery in consumer spending appears to have gathered pace in Q4 as real wages continued to rise and consumers' discretionary spending power was boosted by the drop in oil prices. Retail sales volumes rose by an annual 4.6% and 6.4% in October and November respectively. Granted, December's sales volumes are likely to be weaker as a result of sales brought forward into November by heavy "Black Friday" discounting. But the underlying picture for Q4 as a whole continues to look strong.
- What's more, non-high street spending remained robust too. Annual growth in new car registrations averaged around 11% in October and November. While the Bank of England's Agents' measure of consumer services turnover has weakened a touch, it still points to healthy growth in spending in the fourth quarter.
- The consumer recovery has been supported by further improvements in the labour market. Employment rose by 114,000 in the three months to October, and surveys suggest that jobs growth could have strengthened even further in the remaining months of the quarter. Granted, the headline ILO (three month average) unemployment rate in October did not manage

to fall any further from September's 6%. But based on the strength of survey measures of firms' employment plans and the 26,900 monthly fall in the claimant count in November, the headline unemployment rate looks likely to have dropped further over the remainder of the quarter. However, the most encouraging news on the labour market has been the sustained recovery in real wage growth. Annual growth in earnings (excluding bonuses) reached 1.8% in October and so exceeded CPI inflation of 1.3% in the same month.

- Meanwhile, inflation eased further below the 2% target to just 1.0% in November as a result of lower petrol prices, a drop in food prices and competitive pressures which have forced retailers to pass on recent falls in import prices to consumers.
- Accordingly, it is perhaps not surprising that the two hawks that emerged at August's MPC meeting have yet to convince other members to join them in voting for rate hikes. Indeed, the minutes of December's MPC meeting acknowledged "promising" signs that pay growth had strengthened by more than it had anticipated. However, it also noted that a recent modest recovery in productivity meant that "domestic cost growth remained lower than would be consistent with the inflation target", suggesting that the first rate hike remains a few months away yet.
- Meanwhile, November's borrowing figures finally brought some good news on public finances. Borrowing in the year to date on the "PSNB excluding public sector banks" measures fell below last year's equivalent figure for the first time this year. Nonetheless, in order to meet the target set out in the 2014 Budget for borrowing to be 6% lower this year, it would need to be a chunky £5.6bn or 27% lower in the remaining four months of the fiscal year than it was in 2013/14.
- The housing market has continued to cool over the final quarter of 2014. According to Nationwide, house prices rose by only 0.3% in November. What's more, the more stable 3m/3m growth rate eased to 0.9%, the lowest reading since June 2013. Moreover, mortgage approvals fell to a sixteen-month low of 59,426 in October. The continued slowdown in the housing market seems to have been primarily driven by weaker demand. Indeed, the sustained weakness in approvals is in line with other measures, such as the RICS housing market survey, that show new buyer demand easing rapidly.
- Internationally, the 231,000 increase in US non-farm payrolls in November provided another encouraging sign on the strength of the recovery. And November's 1.3% monthly rise in industrial production also added to the positive story on the US economy's strength. Meanwhile, the latest statement from the US Fed dropped the language that it would be a "considerable time" before it began to raise rates from near-zero and

replaced it with the assessment that it “can be patient in beginning to normalise the stance of monetary policy”, giving the Fed more flexibility to move sooner on interest rates if necessary. However, in her post-meeting press conference, Fed Chair Janet Yellen stressed that while everything would come down to the strength of economic data, as things stand now, the FOMC was “unlikely to begin the normalisation process for at least the next couple of meetings”.

- By contrast, activity indicators for the euro-zone suggest that the region has continued to struggle. December’s flash euro-zone PMI survey suggested that the euro-zone economy probably lost steam in the fourth quarter, following lacklustre quarterly GDP growth of just 0.2% in Q3. Meanwhile, headline inflation has remained dangerously weak, falling from 0.4% in October to 0.3% in November, leaving it well below the ECB’s target of “below, but close to, 2%”. Meanwhile, the latest figures show that the ECB’s efforts to revive the euro-zone have so far proved rather ineffective. Banks borrowed just €130bn of a possible €317bn in the ECB’s second Targeted Longer-Term Refinancing Operation (TLTRO). The ECB remains some way from its target to expand its balance sheet by £1tn, strengthening our view that a full-blown QE programme, including sovereign bonds, will be required.
- In the UK, equities continued to underperform other major advanced markets despite the UK’s strong growth prospects. The FTSE 100 has ended the fourth quarter broadly where it started it at about 6,600. The underperformance seems to primarily reflect falls in the oil price and continued weak earnings, potentially as a result of sterling’s strength. Meanwhile, 10-year gilt yields have edged down from 2.31% at the end of Q3 to 1.88% at present. And finally, sterling has fallen slightly against the euro, from €1.28 at the end of Q3 to €1.27. And rising interest rate expectations in the US relative to the UK have pushed cable down, with the pound falling from $1.62 to $1.55 over the same period.

Appendix 2

Interest Rate Forecast:

Our treasury management advisers, Capita Asset Services have provided us with the following update to their interest rate forecasts.

Change in market sentiment and outlook

- The plunge in the price of oil has been the major surprise of the last three months. This will reduce inflation and stimulate the economies of oil importing countries.
- There is a downside to the plunge in oil prices in terms of a sharp increase in the risk of emerging country debt default and emerging country oil producing corporate defaults. This could have a knock on effect on western banks who have lent to these areas and to hedge, pension and investment funds which have been wrong footed by holding debt or equities in these areas.
- Greece: the anti EU and anti austerity party Syriza is likely to be the strongest party in the January 25 general election. However, the Eurozone has put in place sufficient firewalls that a Greek exit would have little direct impact on the rest of the EZ and the Euro. The indirect effect is more problematic to quantify as such an election result would be likely to strengthen support for anti EU and anti austerity political parties in many EU countries. Italy is the greatest risk as it has the third biggest debt mountain in the world and has shown little progress so far in undertaking fundamental reforms to improve the competitiveness of the economy.
- UK GDP growth forecasts have recently been more subdued although growth will still remain strong, but not as strong as previously expected.
- The political risks around the UK general election in May 2015 have increased with the likely result now being very hard to predict.
- A combination of the above factors has caused us to put back the start of increases in Bank Rate from Q2 2015 to Q4 with knock on delays on increases in following years.
- We have also had to bring our short term PWLB forecasts down to reflect current abnormally low levels which are unsustainably low. However, how quickly or slowly they will unwind is very hard to predict.

The one area of resoundingly good news over the last three months has been that the American economy is well on track to making a full recovery from the financial crash. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and

5.0% have been stunning and hold great promise for strong growth going forward and further falls in unemployment. It is therefore confidently predicted that the Fed. will start on the first increase in the Fed. rate by the middle of 2015. In contrast, the surge in UK growth during 2014 appears to have diminished (Q1 0.7%, Q2 0.9%, Q3 0.7%) and the year on year rate has subsided from 3.2% in Q2 to 2.6% in Q3. Forward indicators are also revealing some cooling of prospects going forward, though lets still keep hold of the fact that this remains strong growth by UK standards, but not as strong as previously forecast.

In consequence, it is now the US which is most likely to be putting central rates up before the UK. The prospects for the UK are somewhat mixed. The hoped for rebalancing of the economy towards greater reliance on exports is not happening and the UK faces an uphill struggle with its main trading partner, the EU now expected to resort to full blown quantitative easing (QE) early in 2015 in order to stimulate the economy to rise above near stagnation. However, UK consumer confidence is still buoyant although the housing market looks as if it is also cooling with house price rises and new mortgage approvals both subsiding. UK consumers are obviously benefiting from the fall in the oil price with overall inflation falling to 1.0% in November, the lowest rate since September 2002. It is also forecast to stay around the same level for the best part of a year.

Nevertheless, the beneficial effect of the fall in oil prices will fall out after twelve months, so inflation will rise as a result after then, although it is still expected to remain at or near 2%. What this does mean, however, is that average wage increases are likely to exceed inflation for the coming year and so increase the disposable income of consumers. This, in turn, will underpin domestic demand and support GDP growth. Looking further forward, whichever political party or coalition comes to power after the general election in May 2015 will still have to decide what balance of government spending cuts and / or tax increases will be needed to bring the public sector net borrowing deficit down. This will likely mean an erosion of overall consumer disposable income although further falls in unemployment will counteract some of this effect. The Bank of England therefore faces an incredibly delicate task of balancing the pros and cons of when to start on increasing Bank Rate, especially knowing that many consumers are still heavily indebted and very vulnerable to increases in borrowing rates.

A further factor affecting financial markets and the confidence of UK producers is the increase in political risk. The UK faces a general election where the outcome looks very hard to predict as to the knock on effects on the UK economy.

As for the MPC, their last minutes appeared to show a consolidation of support for holding off on increasing Bank Rate due to the fall in inflation caused by the fall in oil prices. They will also be focusing in 2015 on how quickly wage inflation increases and said it needed to pick up further in order to meet the 2% inflation target. This resulted in financial market investors pushing back their bets on the timing of the next interest rate hike to late 2015 / early 2016. Our view has also shifted in this forecast to a first increase in Q4 2015 rather than Q2 2015.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- Fears generated by the potential impact of Ebola around the world.

- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after the strong surge in growth in the first half of 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalisation of European banks requiring more government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face major challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti-austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows into bonds.
- There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years,

plus the huge QE measures which remain in place (and likely to be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This is a return to a similar environment to the one which led to the 2008 financial crisis.

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

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ. (It should be noted that the Bundesbank and most German politicians have been very opposed to the concept of QE.)
- A sudden reversal of Russian policy on military intervention in eastern Ukraine caused by the likelihood of, or actual, severe damage done to the Russian economy by a prolonged depression in oil prices and by sanctions.
- A sudden reversal of Iranian policy on developing militarised nuclear capability caused by the likelihood of, or actual, severe damage done to the Iranian economy by a prolonged depression in oil prices and by sanctions.
- The commencement by the US Fed. of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

We would, however, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

APPENDIX 3 : PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2014/15	2014/15	2015/16	2016/17
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT				
	Original Estimate	Forecast Outturn	Forecast Outturn	Forecast Outturn
Capital Expenditure	£'000	£'000	£'000	£'000
Non - HRA	50,185	38,732	42,822	14,353
TOTAL	50,185	38,732	42,822	14,353
Ratio of financing costs to net revenue stream				
Non - HRA	10.98%	10.98%	8.24%	7.96%
Net borrowing requirment				
brought forward 1 April *	258,871	258,871	254,823	269,746
carried forward 31 March *	275,239	254,823	269,746	261,402
in year borrowing requirement	16,368	(4,048)	14,923	(8,344)
In year Capital Financing Requirement				
Non - HRA	16,368	(4,048)	14,923	(8,344)
TOTAL	16,368	(4,048)	14,923	(8,344)
Capital Financing Requirement as at 31 March				
Non - HRA	275,239	254,823	269,746	261,402
TOTAL	275,239	254,823	269,746	261,402
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	69.61	36.77	58.44	5.33

PRUDENTIAL INDICATOR	2014/15	2015/16	2016/17
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000
Authorised limit for external debt -			
borrowing	203,000	220,000	205,000
other long term liabilities	81,000	80,000	78,000
TOTAL	284,000	300,000	283,000
Operational boundary for external debt -			
borrowing	198,000	215,000	200,000
other long term liabilities	78,000	77,000	75,000
TOTAL	276,000	292,000	275,000
Upper limit for fixed interest rate exposure			
Principal re fixed rate borrowing	195%	190%	190%
Upper limit for variable rate exposure			
Principal re variable rate borrowing	60%	60%	60%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£20m	£20m	£20m

Maturity structure of new fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	80%	0%