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PR.50 14/15
Policy and Resources Committee
19th February 2015

Subject: Budget and Treasury Management Monitoring – Quarter 3 2014/15

Report by:	Financial Services Manager (Deputy S151) Tracey Bircumshaw
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Purpose / Summary:	This report sets out the revenue, capital and treasury management activity during the period 3 April to 31 December 2014.

RECOMMENDATION(S):

a) **That Members accept the forecast out-turn position as at 31 December 2014**

b) **Members approve the amendments to the Capital and Revenue Budget.**

c) **Members note the property acquisitions to be added to the Asset Register.**

d) **That Members recognise the Treasury Management position for the nine months to 31 December 2014.**

e) **Accept the report, the treasury activity and movement in the prudential indicators.**

IMPLICATIONS

Legal: None arising as a result of this report.

Financial FIN/127/15 The revenue forecast out-turn position for 2014/15 is estimated to be a surplus of £484,106 at 31 December 2014 (£553,054 at 30 September), work will continue throughout the year to monitor the situation and to identify ongoing impacts on the Medium Term Financial Plan as part of the Budget Process.

The Capital forecast out-turn position for 2014/15 is estimated to be a £2,855,544 and reflects an underspend of £460,961 against the revised budget. A review of required carry forwards will be undertaken at the year end prior to financing the final out-turn position. However a request to bring back to 2014/15 £150k previously approved as a carry forward to 2015/16 relates to grant support to young persons accommodation now to be issued prior to the year end.

The Treasury Management activities during the reporting period are disclosed in the body of this report.

There were no breaches of Treasury and Prudential Indicators to report, and we again out-perform our benchmark in relation to investment yields.

Staffing: None arising as a result of this report.

Equality and Diversity including Human Rights: None arising as a result of this report.

Risk Assessment: This is a monitoring report only.

Climate Related Risks and Opportunities: This is a monitoring report only.

Title and Location of any Background Papers used in the preparation of this report:

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	x

Key Decision:

A matter which affects two or more wards, or has significant financial implications	Yes		No	x

Executive Summary

1. **Revenue Budget Monitoring Q3**

   The Revenue Budget is project to be in a surplus position of £484k by the end of the financial year.

2. **Capital Budget Monitoring Q3**

   The capital programme is progressing well and is expected to result in a £461k surplus. Most of this surplus will be subject of carry forward requests to this committee after the final out-turn is known and represents slippage on schemes, mainly the Property Assets Investment scheme which has awaited planning permission approval prior to any further costs being incurred and prior to any final decision being made.

   A request to bring back £150k of a previously approved carry forward to 2015/16 relating to the Strategic Housing scheme, as part of the grant payment to support young persons accommodation is likely to be made prior to the year end.

3. **Treasury Management Update**

   There have been no breaches of Prudential Indicators.

   Our traditional cash investments (MMFs, EMMFs, and fixed term deposits) are doing well and are above most returns in the population in addition to being above what is expected for credit risk and duration. (See Appendix 2)

   We currently have no deposits over 1 year, this is reflected in the low Weighted Average Maturity (WAM) and low Weighted Average Total Time (WATT). The fact that the average durations of our cash investments is fairly short is therefore reflected in the expected return (Model Weighted Average Rate of Return (WARoR) being 0.59%). The fact that we have managed to achieve 0.77% return on shorter duration investments should therefore be seen as a significant success and is above the 7 day Libid benchmark.

   In addition we have invested £2m in the Local Authority Property Asset Fund (circa 10% of our total portfolio) and it is performing well with interest rates above 5%m it is therefore a very important part of our investment strategy.

   Our overall investments portfolio has achieved a total yield of 1.038% for the first 3 quarters of the financial year.

   AMOUNTS HELD IN ESCROW

   The Icelandic Government are due to hold an auction (10 February 2015) of ISK and are allowing creditors of Glitner and Landsbanki who have ISK currently held in Escrow accounts the opportunity to participate in the auction. This is to be a one bid rate auction, ie the Central Bank of Iceland will set the rate at which all ISK will be sold, and this will be in Euros. The auction is due to be held on 10 February 2015

The Icelandic Government have confirmed that this is likely to be a one and only opportunity for such creditors to release their funds, as it is unlikely that they will hold any future auctions of this kind, in addition there is likely to be a change in their capital controls which may result in the introduction of an exit tax being applied to accounts in the future.

The Director of Resources (S151), in consultation with the Leader and Chairman of Policy and Resources Committee has determined that we participate in the Auction and our bid rate has been submitted (subject to legal confidentiality at this time).

A verbal update will be provided at the meeting.

1. REVENUE BUDGET MONITORING Q3 (APRIL – DECEMBER 2014/15)

1.1 The revenue budget monitoring forecast out-turn as at the end of Quarter 3 reflects a surplus of £484,106 the Income and expenditure variances are shown in the table below;

	2014/15 Original Budget £	2014/15 Revised Budget £	2014/15 Actual to 31 Dec £	2014/15 Variance to Budget £	2014/15 Forecast Outturn £	2014/15 Outturn Variance £
Income						
Housing Benefit Govt Grants	-22,473,700	-22,473,700	-17,345,539	488,019	-22,509,000	-35,300
Service Specific Govt Grant	-836,400	-1,508,000	-1,402,140	857,825	-1,637,500	-129,500
Other Grants and Contributions	-447,500	-447,500	-415,278	84,103	-323,900	123,600
Customer and Client Receipts	-1,945,600	-2,381,900	-2,684,379	1,274,833	-3,060,043	-678,143
Interest and Investment Income	-200,000	-200,000	-585,991	435,971	-182,470	17,530
Revenue Support Grant	-3,065,700	-3,065,700	-1,609,495	-690,086	-3,096,700	-31,000
Non Specific Grants	0	-20,000	-98,612	98,612	-52,000	-32,000
Retained NNDR	-2,132,300	-2,132,300	-1,625,382	1,625,382	-2,132,300	0
New Homes Bonus	-1,548,800	-1,548,800	-1,170,807	9,052	-1,557,850	-9,050
Council Tax	-5,295,100	-5,295,100	-3,530,067	3,530,067	-5,295,100	0
Share of Council Tax Surplus	-125,800	-125,800	0	0	-125,800	0
Total Income	**-38,070,900**	**-39,198,800**	**-30,467,689**	**7,713,777**	**-39,972,663**	**-773,863**
Expenditure						
Employees	8,653,700	9,313,900	6,448,273	126,369	9,371,799	57,899
Premises	991,200	1,017,550	994,184	-214,340	1,185,450	167,900
Transport	1,174,500	1,198,800	938,516	-111,538	1,188,300	-10,500
Supplies and Services	2,432,800	2,739,545	2,180,952	-333,519	2,921,337	181,792
Third Party Payments	1,087,200	1,813,780	1,674,751	-977,955	1,700,070	-113,710
Transfer Payments	22,730,100	22,725,100	17,045,508	-14,796	22,745,800	20,700
Total Expenditure	**37,069,500**	**38,808,675**	**29,282,184**	**-1,525,779**	**39,112,756**	**304,081**
Services Controllable Total	**-1,001,400**	**-390,125**	**-1,185,505**	**6,187,998**	**-859,907**	**-469,782**
Corporate Accounting						
Parish Precepts	1,466,300	1,466,300	1,457,003	9,297	1,457,000	-9,300
Parish Council Tax Requirement	-1,466,300	-1,466,300	0	0	-1,466,300	0
Drainage Board Precept	310,000	310,000	328,604	-18,604	319,301	9,301
Statutory Accounting						
Capital Exp Charge to Gen Fund	2,071,200	1,972,200	0	0	1,972,200	0
Support Services	5,198,700	5,407,700	667	76,076	5,407,700	0
Recharges	-5,341,400	-5,341,400	-97,823	-608,469	-5,332,000	9,400
	2,238,500	**2,348,500**	**1,688,450**	**-541,699**	**2,357,901**	**9,401**
Movement in Reserves						
Transfer to from General Fund	834,100	367,920	893,319	-937,726	611,660	243,740
Transfer to from Spec Reserves	-2,071,200	-2,326,295	2,465	-2,465	-2,593,760	-267,465
Surplus for the Year	**0**	**0**	**1,398,730**	**4,706,107**	**-484,106**	**-484,106**

1.2 The major variances of note are detailed below;

INCOME

Grant income - £113,250 surplus

Additional Government grants have been received for;
Rural Efficiency Grant £43,000
Community Right to Challenge -New Burdens £8,000
Assets of Community Value - New Burdens £8,000
New Homes Bonus returned funding grant of £9,050
Council Tax Localisation - New Burdens £76,000

The Rural Efficiency Grant will be rolled into RSG in 2015/16, in terms of New Burdens Grants, it has yet to be announced whether all of these grants will be received in future years.

Housing Benefits Admin Grant offset by increased costs of grants awarded £35,300

Service Specific Grants which will be expended during the year £53,000.

Customer and Client Receipts - £678,143 surplus

Planning Fee income to date totals £833,000 against the annual budget of £460,500, therefore it is estimated that an additional £490,000 above budget, will be received before the year end based on current levels of applications. However there is a need for additional temporary resources to meet the current demand. This is a highly volatile area and will be monitored closely for the remainder of the year.

Trinity Arts Centre performance have scheduled more events and anticipate an additional income in box office and theatre takings of £27,000, this is offset by the costs of the events totalling £10,000.

£38,000 contribution from the Police Authority towards the cost of a secondee.

£20,000 income from solar energy

Investment Income - £17,530 deficit

Investment rates have remained low throughout the year, against a budget which predicted an increase in rates. However we continue to exceed the 7 day LIBID benchmark. Additional interest has been generated from the Loan advance to support High Speed Rural Broadband, and the investment in the Local Authority Property Asset Fund is returning a rate of 5%+.

EXPENDITURE

Employees - £57,899 deficit

Net employee costs, i.e. vacancy savings, pay award not yet determined, and requirement for temporary staffing resources e.g. additional workloads in the Planning Service, interim support for vacant posts and project delivery.

Premises - £167,900 deficit

Works to the Guildhall reception area prior to the new joing customer hub being opened. This deficit will be funded from a contribution from the JCP and earmarked reserves.

Transport - £10,500 surplus

Savings in mileage costs £1,700 and fuel savings due to reduced prices and a trade waste vehicle currently not in service £8,800

Supplies and Services £181,792 deficit

£97,140 relating to the approved Community Grant scheme which will be drawn from Earmarked Reserves (below)

Increased cost of virtual mail service £21,800
IT Server SAN maintenance costs bill for 2013/14 service £23,800

Additional performance costs at Trinity Arts Centre £10,000 which are offset by income detailed within Customer and Client Receipts above.

£15,000 saving on the printing contract

Third Party Payments - £113,710 surplus

£44,000 for support with strategic asset management, Land and Property investment programme projects and the support for the decommissioning of MoD sites.

The remainder of the surplus represents project or grant payments where the budget surplus will require carrying forward to 2015/16 ie E-Accessibility, Mr Big, Community Grant scheme etc. These are reflected in the movement on the General Fund balance below.

Transfer Payments - £20,700 deficit

Housing benefit payments which will be offset by a reduction in Housing benefit subsidy grant.

Statutory Accounting - £9,401 deficit

Levies raised exceed estimated budget provision

General Fund Balance – £243,740 deficit

Relates to previously approved carry forwards or grants which have not been fully expended by the year end.

Use of Earmarked Reserves - £267,465 surplus

Where pressures which have been identified above, are to be managed by the use of Earmarked Reserves

CHANGES TO THE ORGANISATION STRUCTURE

Changes to the establishment are made under Corporate Delegation by the Chief Executive and S151 Officer;

The following changes to the establishment have been made,

Increase to full time a corporate support officer. Total Costs of £13,500

The costs of this post will be contained within existing budgets.

CAPITAL BUDGET MONITORING Q3 (APRIL-DECEMBER 2014/15)

1.3 The Capital Programme 2014/15 was approved at Council on 3rd March 2014 and totalled £4.566m.

1.4 The revised Capital budget of £3.346m incorporates both carry forwards approved from 2013/14 and those approved to be carried forward to 2015/16 in addition to any amendments to the Capital Programme previously approved by this Committee. It also includes the following amendments to the Capital Programme which are subject to approval by this Committee

£10,000 - Flood Defence scheme. DEFRA are supporting a Flood Alleviation Grant Scheme. The Council has received one request to for the construction of a flood defence wall for 2 properties in Susworth. The grant will be fully recoverable from DEFRA.

£15,000 – Customer Self Service Pod. The purchase of a self-service pod is an integral part of the E-Accessibility project and customer service hub. There is budgetary provision within the current year revenue budget, however this expenditure has been deemed as capital.

£350,000 – Loan support to John Coupland Hospital. The value of this Loan is based on the purchase of up to 9 endoscopy scopes at a cost of circa £39,000 each

The CCG/Trust would like to increase the endoscopy service from JCH and provide an improved service so that local residents do not have to travel (they currently travel to Lincoln or further afield and can experience significant waiting times). The monies would be used to purchase new Endoscopy scopes which would allow this to happen. This is a key area of focus to make JCH more sustainable.

Key consideration are that the trust requires certainty from the CCG on patient numbers, that there would be a back-up operator for the service and that a key piece of hospital equipment can be funded by NHS PropCo (this affects lots of services not just this one).

Due diligence and a formal loan agreement would be arranged prior to any loan advance.

The Council will benefit from interest receiveable and recovery of the principle amount.

Reduced revised budget £46,000 – Trade Waste Pilot The costs associated with this scheme have been below the deminimis for capital expenditure, therefore this capital budget is no longer required, however, **approval to increase the revenue budget by £46,000 will be required, this expenditure will be funded from Earmarked Reserves.**

Increase revised budget £150,000 – Strategic Housing. Grant support for young persons accommodation is now likely to happen prior to the year end.

1.5 The Forecast Out-turn position of £2,855,554 reflects the amounts expected to be expended during the year, the out-turn position and requirement for any other carry forward request will be considered as part of the year end process.

1.6 **Acquisitions** during the period have included;

Asset	Market Value £	Purchase Price £	Cost of Works Estimate £	Future Value £	Future Net Yield %
22 Clinton Terrace, Gainsborough	25,000	24,000	16,650	45,000	6.11

1.7 Capital Receipts of £209,006 were received in May relating to our agreement with ACIS for shares of future Right To Buy Receipts subsequent to the transfer of our housing stock. There have been no capital receipts received in Q3.

1.8 There are no schemes requiring funding release;

CAPITAL INVESTMENT PROGRAMME 2014/15	Original Budget	Revised Budget	Actual to 31 Dec 2014	Commit-ments to 31 Dec 2014	Budget to Period	Variance To Period	Forecast Outturn	Outturn Variance	Reason
SCHEME	**2014/15**	**2014/15**	**2014/15**	**2014/15**	**2014/15**	**2014/15**	**2014/15**	**2014/15**	
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**	
CURRENT PROGRAMME									
Replacement Refuse Freighters	53,270	78,270	18,500	0	20,000	-1,500	**78,270**	0	Replacement freighter to be purchased as per Vehicle Replacement Strategy
Strategic Housing - Empty Homes	595,370	520,003	181,338	122,966	277,536	26,768	**504,183**	-15,820	7 remaining properties to be refurbished and let before March 15. Additional CPO costs of £62k included. Additional property purchases in the pipeline to ensure that all carry forward is also spent. Wider empty homes project being rescoped for 15/16. Grant release of £100k re support for Youth Accommodation
Private Sector Renewal - DFG's	410,454	410,454	295,297	85,162	307,879	72,580	**410,454**	0	The total DFG budget will be spent in year. Funding carried forward from 13/14 hs been spent within this. Spend for 15/16 is scheduled to be at the same level.
Independent Living	0	75,000	37,003	31,496	56,256	12,244	**75,000**	0	The grant scheme to support the independent living project will be fully expended in the financial year.
Property Assets - investment strategy developed	1,500,000	1,040,000	40,001	0	50,000	-9,999	**600,000**	-440,000	The Corringham Road Project is planned to commence in 2014/15 with completion of the works running into 2015/16. the projected cost is circa £1,630,000. no other projects are currently planned to commence in 2014/15.
Rural Broadband	555,000	0	0	0	0	0	**0**	0	This scheme is being led by Lincolnshire County Council, our contribution is likely to be requested during 2015/16
Caistor Townscape Heritage Scheme	0	0	0	0	0	0	**0**	0	The scheme is essentially closed, we are waiting for one building to rectify some works before we can get HLF's sign off of the project and attract an additional £65k of funding. Officers and Members are doing what we can to speed up the works which due to financial trouble have stalled massively.
Financial Ledger Suite	42,156	52,777	20,088	0	21,000	-912	**52,777**	0	Implementation of HR/Payroll system phase 1 completed. Further system development projects re Payroll costing and bank reconciliation are currently being appraised.
Trade Waste	170,000	0	0	0	0	0	**0**	0	Capital costs of trade waste project have been below £10k so classed as revenue. Costs to be met from EMR in revenue.
Capital Enhancements to Council Owned Assets incl Energy Efficiency Measures	480,000	288,046	141,660	35,202	131,267	45,595	**282,900**	-5,146	Condition survey works - monies to be carried forward into 2015/16 as data may not be available in time to procure and deliver necessary works within financial year. Trinity Arts Roof - majority of monies to be carried forward into 2015/16 as it is recommended that works are untaken in fair weather.
Gainsborough Growth Fund	200,150	49,995	0	0	37,505	-37,505	**50,000**	5	6 schemes proposals received to date, 2 of which will be presented at the Jan GGF Panel. Its difficult to predict at this moment the timescale for the other schemes as it will depend on how quickly EOIs will be turned into full applications and be presented at monthly panels
Desktop Refresh/SAN and SQL replacement	60,000	61,960	14,636	780	46,477	-31,061	**61,960**	0	All scheduled replacements are due to take place before the end of March
Rural Broadband (Quickline)	500,000	395,000	325,000	0	243,784	81,216	**395,000**	0	Expect 2 of the 5 Tranche 3 payments to be made before year end (£35k each) as a result of Quickline achieving coverage of 2 postcode areas specified in the loan agreement
Flood Defence Grant	0	10,000	0	0	0	0	**10,000**	0	Flood defence wall for 2 properties in Susworth, costs will be reclaimed from DEFRA
John Coupland Hospital	0	350,000	0	0	0	0	**350,000**	0	Loan to support the purchase of Endoscopy machine
Customer Self Service Pod	0	15,000	0	15,000	0	0	**15,000**	0	The pod is due for deliveryand installation during February 2015
Total Investment	**4,566,400**	**3,346,505**	**1,073,524**	**290,606**	**1,191,704**	**157,426**	**2,885,544**	**-460,961**	

Treasury Management Update
Quarter Ended 31st December 2014

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.

1. Economic Background

- After strong UK GDP growth in 2013 at an annual rate 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

- Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.
- The U.S. Federal Reserve ended its monthly asset purchases in October 2014. 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. It is therefore confidently predicted that the first increase in the Fed. rate will occur by the middle of 2015.
- The Eurozone is facing an increasing threat from deflation. In November the inflation rate fell to 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB did take some rather limited action in June and September to loosen monetary policy in order to promote growth and is currently expected to embark on quantitative easing early in 2015 to counter this threat of deflation and to stimulate growth.

2. Interest Rate Forecast

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

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
5yr PWLB rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%

Capita Asset Services undertook a review of its interest rate forecasts on 5 January 2015 after a proliferation of fears in financial markets around the plunge in the price of oil had caused a flight from equities into bonds and from exposure to the debt and equities of emerging market oil producing countries to safe havens in western countries. These flows were compounded by further fears that Greece could be heading towards an exit from the Euro after the general election on January 25 and financial flows generated by the increasing likelihood that the ECB would soon be starting on full blown quantitative easing (QE) purchase of Eurozone government debt. In addition, there has been a sharp increase in confidence that the US will start increasing the Fed. rate by the middle of 2015 due to the stunning surge in GDP growth in quarters 2 and 3 of 2014. This indicated that the US is now headed towards making a full recovery from the financial crisis of 2008.

The result of the combination of the above factors is that we have seen bond yields plunging to phenomenally low levels, especially in long term yields. These falls are unsustainable in the longer term but just how quickly these falls will unwind is hard to predict. In addition, positive or negative developments on the world political scene could have a major impact in either keeping yields low or prompting them to recover back up again. We also have a UK general election coming up in May 2015; it is very hard to predict what its likely result will be and the consequent impact on the UK economy, and how financial markets will react to those developments.

This latest forecast includes a move in the timing of the first increase in Bank Rate from quarter 2 of 2015 to quarter 4 of 2015 as a result of the sharp fall in inflation due to the fall in the price of oil and the cooling of the rate of GDP growth in the UK, albeit, that growth will remain strong by UK standards, but not as strong as was previously forecast. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only currently increasing marginally as a result of wage inflation now running slightly above the depressed rate of CPI inflation, though some consumers will not have seen that benefit come through for them. In addition, whatever party or coalition wins power in the next general election, will be faced with having to implement further major cuts in expenditure and / or increases in taxation in order to eradicate the annual public sector net borrowing deficit.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2014/15, which includes the Annual Investment Strategy, was approved by the Council on 3 March 2014. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31st December 2014.
Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. The average level of funds available for investment purposes during the quarter was £22.38m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds £17.3m core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for quarter ended 31st December 2014

Benchmark	Benchmark Q1	Actual Q1	Interest Earned Q1 £	Benchmark Q2	Actual Q2	Interest Earned Q2 £	Benchmark Q3	Actual Q3	Interest Earned Q3 £
Overnight	0.34%	0.37%	6,686	0.35%	0.38%	17,808	0.36%	0.42%	29,016
7 day	0.34%	-	-	0.35%	-	-	0.36%	1.02%	3,594
1 month	0.36%	-	-	0.37%	-	-	0.38%	-	-
3 months	0.40%	0.60%	16,466	0.42%	0.60%	26,486	0.43%	0.60%	27,080
6 months	0.51%	0.71%	3,649	0.55%	0.71%	8,060	0.56%	0.71%	9,556
12 months	0.82%	0.99%	3,915	0.88%	0.99%	11,317	0.87%	0.99%	31,513
Other	-	5.10%	4,191	-	6.02%	19,375	-	5.07%	40,756
Total			**34,907**			**83,046**			**141,515**

As illustrated, the Council continues to outperform the benchmark. The Council's budgeted investment return for 2014/15 is £0.200m, and performance for the year to date is in line with the budget.

The Council held £19.886m (£19.560m Q2 & £21.290m Q1) of investments as at 31st December 2014 and the investment portfolio yield for the quarter is 1.038% (0.90% Q2 & 0.70% Q1), the improvement reflects the investment in the Local Authority Property Fund.

The annualised weighted average rate of interest for Q3 is 0.89% (0.80 Q2 & 0.69 Q1) has been achieved and compares to the benchmark 7 day libid of 0.35% (0.35% Q2 & 0.34% Q1). The above figures exclude monies currently held in the Escrow account which currently stands at £0.212m.

Investment in Local Authority Property Fund

The Council now has £2m invested the CCLA Property Fund. Interest is receivable on a quarterly basis. Interest received can be seen in the table above in the section marked 'other'.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2014/15.

Treasury Officers continue to mitigate investment risk in accordance with Treasury Management Practices.

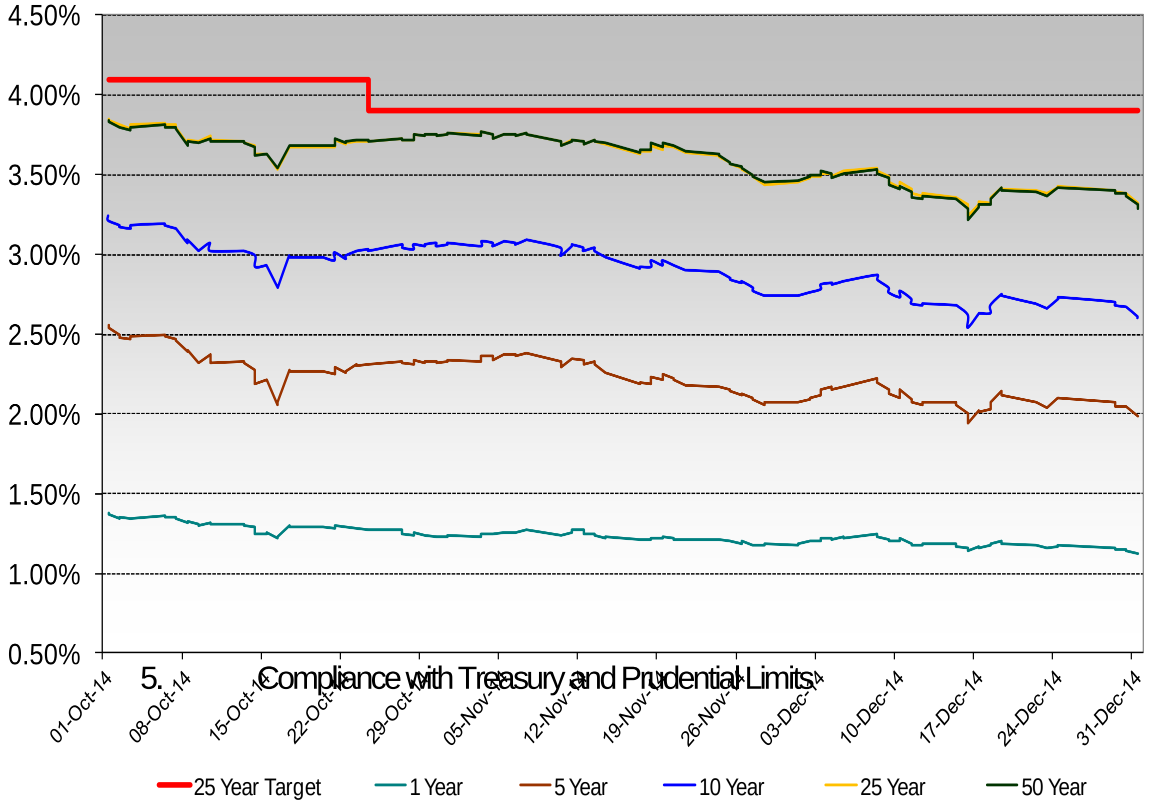
4. New Borrowing

The 25 year PWLB target (certainty) rate for new long term borrowing for the quarter fell from 4.10% to 3.9% in late October

During the nine months to 31 December, no borrowing – either long or short term was undertaken. However, credit arrangements such as finance leases are classified as borrowing under the capital control arrangements for local authorities. The Council procures replacement vehicles and certain other assets (printers, fuel tanks) through finance lease arrangements which count as credit arrangements. The liability to pay the finance leases are disclosed as other long term liabilities in the Council's accounts. The operational limit that has been approved for 2014/15 is £0.303m (relates to finance lease principal).

PWLB certainty rates, quarter ended 31st December 2014
(Please note that the graph below is unable to show separate lines for 25 and 50 year rates as those rates were almost identical)

1 Year	5 Year	10 Year	25 Year	50 Year
1.12%	1.94%	2.54%	3.24%	3.22%
31/12/2014	16/12/2014	16/12/2014	16/12/2014	16/12/2014
1.38%	2.56%	3.24%	3.85%	3.84%
01/10/2014	01/10/2014	01/10/2014	01/10/2014	01/10/2014
1.24%	2.23%	2.91%	3.60%	3.60%



5. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.

5 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget and draws together the main strategy elements of the capital expenditure plans (above), highlighting the original capital programme, and the expected financing arrangements of this capital expenditure. Any borrowing need increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR).

Capital Expenditure	**2014/15 Original Estimate £'000**	**2014/15 Revised Estimate £'000**
Total Unsupported spend	4,566	3,346
Financed by:		
Capital receipts	2,034	1,336
Capital grants	462	381
Revenue	2,070	1,524
S106	0	105
Total financing	4,566	3,346
Borrowing need	0	0

5.3 There have been no changes to the Treasury or Prudential Indicators.

The Director of Resources reports that no difficulties are envisaged for the current or future years in complying with prudential indicators.

Prudential and Treasury Indicators as at 31st December 2014

The Treasury and Prudential monitoring information is reported below;

	Original £'000	Q1 £'000	Q2 £'000	Q3 £'000
Treasury Indicators				
Authorised limit for external debt	3,000	3,000	3,000	3,000
Operational boundary for external debt	303	303	303	303
External Debt	0	0	0	0
Long term Leases	303	303	303	303
Investments	13,195	20,600	19,700	19,583
Net Borrowing	**12,892**	**20,297**	**19,397**	**19,777**
Prudential Indicators				
Capital Expenditure	4,566	3,364	2,684	3,346
Capital Financing Requirement (CFR)*	1,428	1,428	1,428	1,428
Annual change in CFR*	-225	-225	-225	-225
In year borrowing requirement	0	0	0	0
Under/(over)borrowing	1,125	1,125	1,125	1,125
Ratio of financing costs to net revenue stream*	0.30%	0.25%	0.20%	0.18%
Incremental impact of capital investment decisions:				
Increase in Council Tax (band change per annum)	£1.91	£1.22	£0.97	£0.90

Investments held as at 31st December 2014 compared to our counterparty list:

CAPITA
Treasury solutions

Asset Services

West Lindsey District Council

Monthly Investment Analysis Review

December 2014

West Lindsey District Council

Monthly Economic Summary

General Economy

Although December 2014 was a busy month, it was oil prices plummeting to a 5 year low, putting stress on energy exporting nations, that was most influential. The end of November saw shoppers rushing to the high street and online to make the most of the US styled Black Friday and Cyber Monday sales, pushing retail sales growth to a 10 year high. In addition, The Prudential Regulatory Authority (PRA) released the results of its stress tests of eight UK banks, with only the Co-operative Bank failing.

Growth in Manufacturing output fell to 0.7%, its biggest monthly decline since May. This was hit by a 4.5% fall in computer, electronic and optical products. Manufacturing Purchasing Managers' Index (PMI) rose marginally to 53.5 from 53.3 in October due to growth in new orders helping to push employment in the sector up to a four month high. The Construction PMI fell to 59.4 from 61.4, the weakest reading since October 2013. However, Britain's services sector expanded faster than expected last month, suggesting the economy may be slowing less than previously thought. The Services PMI rose to 58.6 after falling sharply to 56.2 in October, beating all market expectations. This rise in the index was the biggest in over a year and it has exceeded the 50 level that represents growth for nearly two years. The data showed that falling oil prices, which hit a five-year low, were helping firms to offset the effect of staff costs as hiring increased at its fastest rate since July.

Inflation fell for a third consecutive month to 1% in December, the lowest level seen in 12 years. This is partly due to the strength of sterling, which has helped by cutting the price of imports, as well as downward pressure from food and oil prices.

In the Autumn Statement, Chancellor George Osborne abolished the residential slab system so in future the stamp duty rates will only apply to the part of the property price that falls within their respective bands. As a result, stamp duty will be cut for the 98% of homebuyers who pay it. Multinational firms and banks will be taxed 25% on profits generated from economic activity in the UK which gets shifted out of the country.

The PRA tested the balance sheets of eight major UK Banks to see how they would fair against another economic down turn. The results of the test came as no surprise with the Co-operative Bank being the only bank to fail to meet the required capital ratio. The part-nationalised banks Lloyds and RBS only narrowly managed to pass but they are still too vulnerable for comfort. The European Banking Association also released stress test results in December with all four UK banks passing.

UK GDP in year on year terms was revised down to 2.6% for the third quarter, down from 3.0% in a previous estimate. However, the economy is showing positive signs with supermarket competition and cheap fuel prices, encouraging consumer spending. This is also supported by unemployment remaining stable at 6% and wages outstripping inflation, showing that Britain's economy still looks on course to expand at a strong pace in 2015.

Britain's goods trade deficit narrowed in October to its lowest level in seven months. The overall trade deficit narrowed to £2.02bn in October, down nearly £800m and hitting its lowest level since March. This was due to lower fuel imports and a slight rise in exports.

The UK saw US styled "Black Friday" discounts causing record sales growth as retail sales grew at their fastest annual rate in more than a decade in November. Retail sales grew 6.4% on the year which is the fastest annual growth since May 2004. This is due to downward pressure from falling food and oil prices and rising wages, which has resulted in consumers having more money to spend. The GfK consumer confidence index, however, edged down in December to its lowest level since March, as optimism about the economy hit a 17-month low.

The US economy grew to 5.0% annually, revised up from an original estimate of 3.9%, the fastest pace of growth since the third quarter of 2003. With a rapidly strengthening labour market and lower oil prices, there should be enough momentum to keep the Federal Reserve on course to start raising interest rates by the middle of 2015. Furthermore US employers added the largest number of workers in nearly three years with Nonfarm Payrolls rising by 321,000 last month. The unemployment rate remained at a six-year low, at 5.8%. This confirms that the economy is coping well despite slowdowns in China, the Eurozone and a recession in Japan.

Housing Market

Mortgage lender Nationwide reported that British house prices eased for a fourth consecutive month in December, slowing to 0.2% from 0.3%. Year on year house prices rose by 7.2% in December.

Forecast

Capita Asset Services kept its Bank Rate forecast unchanged this month, expecting the first increase in Q2 2015. Capital Economics did not alter their forecast this month

Bank Rate	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%

West Lindsey District Council

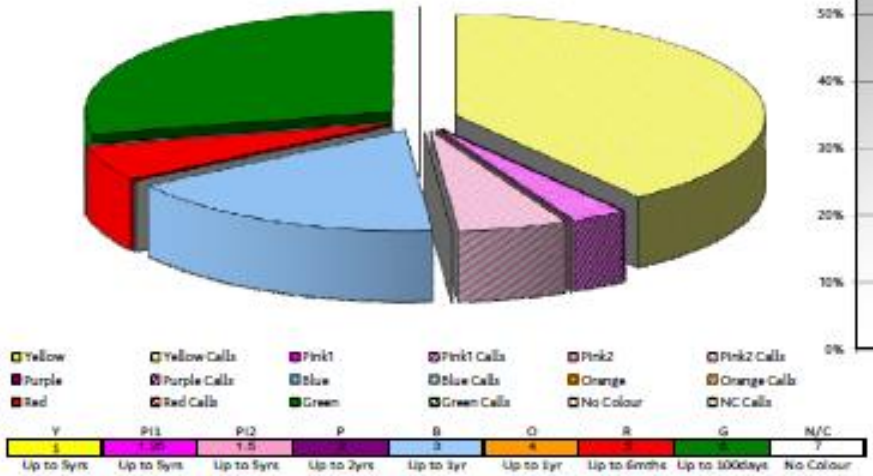
Current Investment List

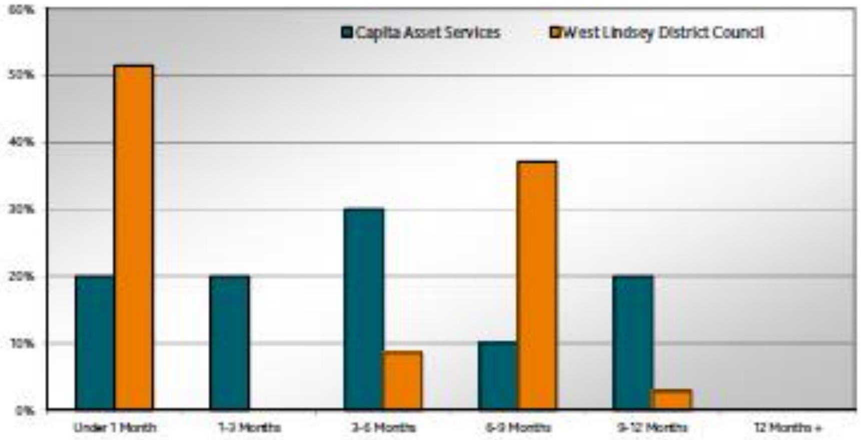
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Insight	2,000,000	0.44%		MMF	AAA	0.000%
MMF LGIM	5,000,000	0.45%		MMF	AAA	0.000%
EMMF Insight Liquidty plus	1,000,000	1.30%		EMMF	AAA	0.000%
EMMF IGNIS Short Duration Cash Fund	500,000	0.63%		EMMF	AAA	0.000%
Lloyds Bank Plc	500,000	0.57%	17/10/2014	19/01/2015	A	0.005%
Lloyds Bank Plc	1,000,000	0.95%	19/06/2014	17/06/2015	A	0.040%
Lloyds Bank Plc	500,000	0.70%	19/12/2014	19/06/2015	A	0.040%
Lloyds Bank Plc	500,000	0.95%	18/08/2014	14/08/2015	A	0.054%
Nationwide Building Society	1,000,000	0.98%	15/09/2014	15/09/2015	A	0.061%
Goldman Sachs International Bank	5,000,000	1.03%	16/09/2014	16/09/2015	A	0.061%
Lloyds Bank Plc	500,000	1.00%	10/10/2014	12/10/2015	A	0.068%
Borrower - Property Fund	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
Total Investments - excluding Property Fund	**£17,500,000**	**0.77%**				0.028%
Property Fund	2,000,000					
Total Investments - Including Property Fund	**£19,500,000**					

December 2014

West Lindsey District Council

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria





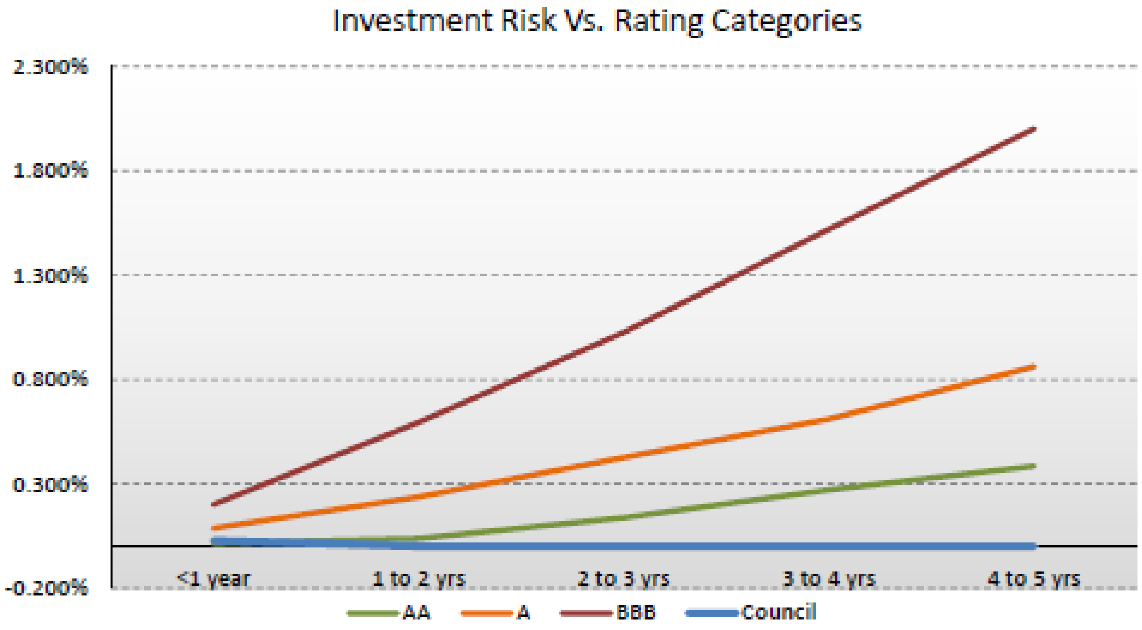
Portfolios weighted average risk number = 3.04

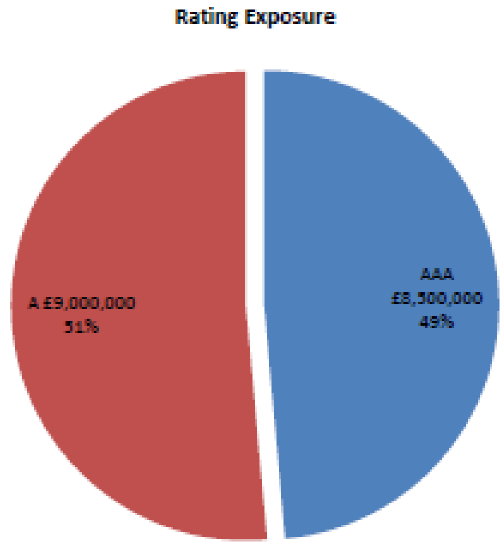
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/EMMFs WAM	Excluding Calls/MMFs/EMMFs WAM at Execution
Yellow	40.00%	£7,000,000	100.00%	£7,000,000	40.00%	0.44%	0	0	0	0
Pink1	2.86%	£500,000	100.00%	£500,000	2.86%	0.63%	0	0	0	0
Pink2	5.71%	£1,000,000	100.00%	£1,000,000	5.71%	1.30%	0	94	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	17.14%	£3,000,000	0.00%	£0	0.00%	0.85%	173	288	173	288
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	5.71%	£1,000,000	0.00%	£0	0.00%	0.98%	258	365	258	365
Green	28.57%	£5,000,000	0.00%	£0	0.00%	1.03%	259	365	259	365
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£17,500,000**	**48.57%**	**£8,500,000**	**48.57%**	**0.77%**	**118**	**180**	**230**	**339**

West Lindsey District Council

Investment Risk and Rating Exposure





Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.017%	0.038%	0.137%	0.271%	0.384%
A	0.087%	0.237%	0.425%	0.610%	0.861%
BBB	0.201%	0.595%	1.025%	1.519%	2.000%
Council	0.028%	0.000%	0.000%	0.000%	0.000%

Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

West Lindsey District Council

Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
15/12/2014	1316	France Sovereign Rating	France	Downgraded to 'AA' from 'AA+', removed from 'Negative Watch' and placed on a 'Stable' Outlook.

West Lindsey District Council

Monthly Credit Rating Changes

MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/12/2014	1313	Sumitomo Mitsui Banking Corporation Europe Ltd	UK	Moody's downgraded the Long Term Rating to 'A1' from 'Aa3', placed on a Stable Outlook. Affirmed Short Term Rating at 'P-1'. The Financial Strength Rating remained at 'C' with a Stable Outlook.
19/12/2014	1318	HSBC Bank USA, N.A.	U.S.A	Affirmed Long Term Rating at 'A1', 'Stable' Outlook. Affirmed Short Term Rating at 'P-1'. Affirmed Financial Strength Rating at 'C-', Outlook changed to 'Stable' from 'Negative'.
19/12/2014	1319	ING Bank NV	Netherlands	Affirmed Long Term Rating at 'A2', 'Negative' Outlook. Affirmed Short Term Rating at 'P-1'. Affirmed Financial Strength Rating at 'C-', Outlook changed to 'Stable' from 'Negative'.

West Lindsey District Council

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
02/12/2014	1314	Bank of America, N.A.	U.S.A	Affirmed the Long Term Rating at 'A', Outlook changed to 'Stable' from 'Negative'. Affirmed the Short Term Rating at 'A-1'.
02/12/2014	1314	Merrill Lynch International	UK	Affirmed the Long Term Rating at 'A', Outlook changed to 'Stable' from 'Negative'. Affirmed the Short Term Rating at 'A-1'.
05/12/2014	1315	Saudi Arabia Sovereign Rating	Saudi Arabia	Affirmed at 'AA-', Outlook changed to 'Stable' from 'Positive'.
17/12/2014	1317	Arab National Bank	Saudi Arabia	Affirmed at 'A', Outlook changed to 'Stable' from 'Positive', Short Term Rating Affirmed at 'A-1'.