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CPR.28 15/16
Corporate Policy and Resources Committee
27 October 2015

Subject: Budget and Treasury Management Monitoring – Quarter 2 2015/16 and Mid-Year Treasury Report

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 30 September 2015.

RECOMMENDATION(S):

a) **That Members accept the forecast out-turn position as at 30 September 2015.**

b) **Members approve the use of Earmarked Reserves.**

c) **Members approve the amendments to the Capital and Revenue budget, including creating budgets for projects funded by grants and not included in the original budget and note the property acquisitions to be added to the Asset Register.**

d) **That Members approve the Capital budget carry forwards.**

e) **That Members accept the Treasury Management Mid-Year Report and Treasury position for the six months to 30 September 2015.**

f) **Approve the increase to £5m per counterparty, Enhance Money Market Fund investments.**

g) **Recommend approval of the changes to the credit methodology whereby viability, financial strength and support ratings will not be considered as key criteria in the choice of creditworthy investment counterparties.**

IMPLICATIONS

Legal: None arising as a result of this report.

Financial FIN/54/16

The revenue forecast out-turn position for 2015/16 is estimated to be a surplus of £438k at 30 September 2015, 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 2015/16 is estimated to be £4,144k and reflects a variance of £7,385k against the revised budget. Of this balance £6,965k has been requested as carry forwards into next year. A review of further carry forwards will be undertaken throughout the year prior to financing the final out-turn position.

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

There have been no breaches of Treasury or 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 – Forecast out turn for 2015/16

1.1 The forecast Revenue Budget out turn for the 2015/16 financial year is a surplus position of £438k, (£115k previous forecast) the significant variances are;

EXPENDITURE	£000	Direction of Travel
SAVINGS		
Salary savings	-£123	↑
Saving on lease for Beaumont Street car park	-£21	↑
Reduced expenditure on Choice Based Lettings within the Housing service	-£10	↑
Base budget review after actual outturn savings	-£80	↑
Business case development	-£67	↑
PRESSURES		
Pressure due to essential maintenance at the Leisure Centre	£15	↑
Additional costs for district Elections and Electoral Registration	£29	↑
Increase in buildings insured due to purchases	£12	↑
Pressure for ill health insurance	£15	↑

INCOME	£000	Direction of Travel
WINDFALL INCOME/NEW GRANTS		
DCLG - New Burdens grant for Land Charges legal claims	-£30	↑
Legal shared services refund	-£21	↔
Unexpected dividend received from Heritable	-£80	↑
BUDGETED INCOME EXCEEDED		
NNDR Retention due to WLDC - August Forecast	-£29	↑
Development Control - Increased number of major applications	-£140	↑
Increased income from provision of wheeled bins (residual and garden waste)	-£15	↑
Increased income from season tickets in car parks	-£11	↑
BUDGETED INCOME NOT ACHIEVED		
Reduced admin grant for Housing Benefits and additional costs for postage/printing.	£24	↓
Building Control - reduced market activity in development sector and increased private sector competition, unachieved income	£15	↓
Taxi Licence income - reduction in number of applications partly due to policy changes, plus change in Government legislation to issue licences for 3 years, rather than 1 year as we do currently.	£15	↓
Reduction in market stallage fee income due to cancelled markets and lower stall numbers	£15	↓

1.2 The negotiations with Co-op have been concluded and the lease of Beaumont Street car park was terminated on 14th July 2015. As stated in the narrative above the termination of the lease has resulted in a reduction in costs against budget of £21k. We have also received a one-off payment of £80.7k which has been treated as a capital receipt.

2. Use and Contribution to Reserves

2.1 £117k to be released from the Property Asset Fund Earmarked Reserve for the Land & Property programme. Spend on staffing, consultants, appraisal work and surveys.

2.2 The Director of Resources has used delegated powers to approve the use of earmarked reserves under £50,000, totalling £113k;

- £9.7k - Works in default relating to planning enforcement cases from the Enforcement Reserve.
- £26k - Leisure options and facilities development from the Invest to Save Reserve.
- £18.5k - Community Transport from the Connectivity Fund.
- £7.8k – to refresh tablet stock from the IT Upgrades/Refresh Reserve.

The following are use of reserves for multi-year approved projects;

- £5k - Agri Foods from the Investment for Growth Reserve.
- £11k - Ex-MOD sites from the Investment for Growth Reserve.
- £3k - Tourism from the Investment for Growth Reserve.

- The capital costs of additional works relating to Heapham Road Junction will be in the region of £32k. This will be funded from the General Fund Balance.

3. Grants

As at 1st April 2015 we have an amount of £436k relating to grants received which have yet to be expended. Budget provision will be created throughout the financial year as required to deliver projects in accordance with grant terms.

3.1 Successful Grant Bids

There were no grant bids during quarter 2 2015/16.

4. Capital Budget Monitoring - Forecast out turn for 2015/16

The capital programme forecast spend for the year is £4,144k, which is a variance against revised budget of £7,385k.

Of this £6,965k is requested to be carried forward and represents slippage on the following schemes. Further narrative is included in the Capital Monitoring table at 10.6.

£1,600k - Land and Property Investments
£50k - Strategic Housing-Empty Homes
£4,900k - Housing and Infrastructure Investment
£80k - Replacement Refuse Freighters
£335k - Capital Enhancements to Council Owned Assets

5. Treasury Management Update – Forecast Out Turn for 2015/16

There have been no breaches of Prudential Indicators.

Interest received has been in excess of the 7 day libid benchmark.

An unexpected additional dividend of £80,000 has been received from Heritable Bank and as such is windfall income for the General Fund.

Over a consecutive period of 4 days the limit of £1m held in the Lloyds Bank current account was exceeded. This was due to a late payment of an investment that was subsequently returned due to a change in bank account details of the recipient, of which we had not been informed.

Approval to increase the investment in Enhanced Money Market Funds to £5m per counterparty from the current limit of £2m for all investments of this type.

6. INTRODUCTION

6.1 This is the second in a series of reports for the financial year 2015/16 that gives Members information on differences between the approved budgets and forecast outturn income and expenditure for the year ended 31 March 2016. The financial information has been presented in an income and expenditure layout.

6.2 The capital programme is presented within the body of the report.

6.3 Compared to the approved budget for 2015/16 the Council's forecast outturn revenue position as at 30th September 2015 is a surplus of £438k.

7. REVENUE OUT-TURN (April 2015 to September 2015)

7.1 The forecast revenue out-turn as at 30 September 2015 income and expenditure variances are shown in the table below.

Revenue Budget Monitoring September 2015	2015/16 Original Budget £	2015/16 Revised Budget £	2015/16 Budget Profile to 30 September £	2015/16 Actual to 30 September £	2015/16 Variance to Budget £	2015/16 Forecast Outturn £	2015/16 Outturn Variance £
Income							
Government Grants	(23,090,600)	0	0	0	0	0	0
Service Specific Government Grants	(644,400)	(23,435,700)	(11,524,992)	(12,186,027)	(661,035)	(23,653,020)	(217,320)
Other Grants and Contributions	(7,000)	(169,600)	(3,502)	(68,797)	(65,295)	(170,500)	(900)
Customer and Client Receipts	(2,483,600)	(3,039,470)	(1,552,199)	(1,867,115)	(314,916)	(3,331,700)	(292,230)
Total Income	**(26,225,600)**	**(26,644,770)**	**(13,080,693)**	**(14,121,939)**	**(1,041,246)**	**(27,155,220)**	**(510,450)**
Expenditure							
Employees	9,202,400	9,462,970	4,744,197	4,764,813	20,616	9,470,503	7,533
Premises	803,000	831,900	466,338	350,672	(115,666)	829,400	(2,500)
Transport	917,100	902,000	433,445	407,608	(25,837)	903,750	1,750
Supplies and Services	1,812,900	2,282,100	1,178,637	1,294,567	115,930	2,378,785	96,685
Third Party Payments	1,810,200	2,214,500	1,088,118	938,338	(149,780)	2,175,900	(38,600)
Transfer Payments	22,843,100	23,057,000	11,509,437	11,441,118	(68,319)	23,392,586	335,586
Total Expenditure	**37,388,700**	**38,750,470**	**19,420,172**	**19,197,116**	**(223,056)**	**39,150,924**	**400,454**
Business Units Controllable Total	**11,163,100**	**12,105,700**	**6,339,479**	**5,075,177**	**(1,264,302)**	**11,995,704**	**(109,996)**
Corporate Accounting							
Interest and Investment Income	(210,600)	(210,600)	(161,538)	(161,538)	(0)	(290,500)	(79,900)
Interest Payable	37,400	41,100	0	34,892	34,892	41,100	0
Parish Council Tax Requirement	1,551,200	1,551,200	1,551,200	1,551,438	238	1,551,400	200
Drainage Board Precept	331,700	331,700	165,850	167,368	1,518	334,740	3,040
Statutory Accounting							
Capital Expenditure Charged to General Fund	2,947,300	4,876,600	0	0	0	4,876,600	0
Support Services	5,292,600	5,423,300	0	30,095	30,095	5,423,300	0
Recharges	(5,292,600)	(5,423,300)	0	(29,856)	(29,856)	(5,423,300)	0
Movement in Reserves							
Transfer To / From General Fund	712,900	213,600	(1,450,580)	192,724	1,677,508	213,600	0
Transfer To / From Specific Reserves	(1,518,800)	(3,775,100)	993,396	0	(993,396)	(4,011,200)	(236,100)
Net Revenue Expenditure	**15,014,200**	**15,134,200**	**7,437,807**	**6,860,299**	**(543,304)**	**14,711,444**	**(422,756)**
Funded By							
Revenue Support Grant	(2,198,100)	(2,198,100)	(1,398,743)	(1,398,743)	0	(2,198,100)	0
Capital Grants and Contributions	(62,000)	(62,000)	(31,010)	72,717	103,727	(62,000)	0
Other Government Grants	(178,600)	(298,600)	(209,332)	(244,972)	(35,640)	(298,600)	0
Retained NNDR	(3,460,600)	(3,460,600)	1,146,655	1,146,655	0	(3,475,500)	(14,900)
New Homes Bonus	(1,986,000)	(1,986,000)	(1,002,085)	(1,002,085)	0	(1,986,000)	0
Council Tax	(5,400,400)	(5,400,400)	0	(102,128)	(102,128)	(5,400,400)	0
Parish Council Tax requirement	(1,551,200)	(1,551,200)	0	0	0	(1,551,200)	0
Council Tax Freeze Grant	(61,600)	(61,600)	(36,525)	(36,525)	0	(61,600)	0
Share of Council Tax Surplus	(115,700)	(115,700)	0	0	0	(115,700)	0
Total Funded By	**(15,014,200)**	**(15,134,200)**	**(1,531,040)**	**(1,565,081)**	**(34,041)**	**(15,149,100)**	**(14,900)**
(Surplus) / Deficit for the Year	**0**	**0**	**5,906,767**	**5,295,218**	**(577,346)**	**(437,656)**	**(437,656)**

7.2 The major variances of note are detailed below.

INCOME

Government Grants

An accounting adjustment has been actioned to move the Housing Benefits Rent Allowance Grant to its correct classification as a Service Specific Government Grants.

Service Specific Government Grants - £217k surplus

Housing Benefit Rent Allowance Grant – midyear estimate shows a difference of (£378k) to the initial budget figures, offset by increased spend within transfer payments.

Housing Benefit Admin Grant for 2015/16 known to be reduced by DWP by £83k.

Housing Benefit - Spending to date show a reduction in Discretionary Housing Payment expenditure of £45k.

DCLG New Burdens grant for Land Charges legal claim of (£30k). There is no current need to increase provision therefore windfall income at this stage.

The 2015/16 budget for income from Lincolnshire County Council (LCC) regarding the agreement for waste recycling was £138k, however negotiations were ongoing at the time of budget setting. LCC have agreed to a one off payment in 2015/16 for £33k – the use of £105k from the Budget Volatility reserve was earmarked for this eventuality.

Electoral Registration – extra income of (£12k) forecast for new procedures.

Customer and Client Receipts - £292k surplus

We have received a legal shared service refund of (£21k), which was a higher amount than anticipated.

Increased sales at the Trinity Arts Centre have resulted in additional income of (£22k).

Development Control forecast income has increased by (£140k) due to a rise in the number of major applications.

Housing Benefit overpayment are expected to be high this year generating a forecast surplus of (£72k).

Increased costs for all out Elections is expected to increase income by (£34k).

Increased income from the provision of wheeled bins (garden and residual waste) is forecast to be (£15k) above revised budget, based on year to date activity.

Increased income from season tickets in car parks is forecast to be (£11k) above revised budget. This is due to a number of factors, take up by our partners staff upon occupancy at the Guildhall and the impact of the closure of Beaumont Street Car Park.

Building Control – reduced market activity in development sector and increased private sector competition has resulted in a forecast reduction in income of £15k against revised budget.

Taxi Licence Income – a reduction in the number of applications, partly due to recent policy changes, and the impact of a change in Government policy to issue licences for 3 years rather than annually has resulted in a forecast reduction in income of £15k.

Market Stallage Fees – cancelled markets and lower stall numbers has resulted in a forecast reduction in income of £15k.

<u>EXPENDITURE</u>

Employees - £123k surplus

Salary costs are forecast to be £123k less than revised budget. This variance is due a reduction in costs arising from vacancies and maternity leave net of costs of interims.

Supplies and Services - £70k deficit

Additional costs of £10k for district Elections and Electoral Registration have resulted in a forecast outturn above revised budget. The majority of these costs will be recovered by parish election payments.

Housing benefits have incurred additional costs for postage and printing of £12k.

Third Party Payments - £49k surplus

There has been an increase in buildings insurance of £12k due to additional property purchases and the insurable valuation.

Additional costs of £22k for district Elections and Electoral Registration have resulted in a forecast outturn above revised budget. The majority of these costs will be recovered by parish election payments.

Ill Health Insurance has increased by £15k against budget due to changes to the LGPS and the rise in state pension age which has increased the cost of ill health early retirements.

The budget for business case development to support Business Improvement and Transformation and Invest to Earn projects is expected to underspend by £67k. A review of original proposals will be carried out and considered as part of the 2016/17 Business Planning process. Any savings will require approval to be carried forward for future business case development.

Transfer Payments - £335k deficit

As stated above in Government Grants - Housing Benefit Rent Allowance Grant – midyear estimate shows a difference of (£378k) to the initial budget figures, offset by increased spend within transfer payments of £378k.

8. Aged Debt Summary

<u>Aged Debt Summary Quarter 2 Monitoring Report</u>

At the end of September 2015 there was a total of £279,684.18 outstanding debt over 90 days. The majority of this debt was over 150 days old and mainly comprised of £17k for Waste, £35k due to Public Protection, £39k for Housing Benefit Overpayments, £67k for Housing, £96k for Property and Assets (£4k LCC, £17k Island Gas, £52k Job Centre Plus and £4k Vida Partners).

Month	90 – 119 days	120 – 149 days	150+ days	Total

April	1,382.35	4,896.68	168,868.58	175,147.61
May	6,724.54	1,318.43	169,553.39	177,596.36
June	66,242.51	5,971.53	167,523.18	239,737.22
July	82,585.18	29,359.38	184,589.04	296,533.60
August	13,904.07	75,538.58	197,214.99	286,657.64
September	64,730.71	14,077.00	200,876.47	279,684.18

9. CHANGES TO THE ORGANISATION STRUCTURE

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

Building Control - 2 Building Control Officer posts have been amended from a Band 9 to progressive posts 6/7/8. Savings realised in 2015/16 £15k.

Finance – A restructure of the Finance Team has been agreed within existing budgets. This will ensure that technical skills within the team are enhanced, and the business partnering role strengthened to support services in delivery of the financial strategy. The post of temporary Commercial Accountant (currently funded from reserves) will become a substantive post within the establishment.

10. Capital Programme Forecast Out turn

10.1 The Capital Programme 2015/16 was approved at Council on 2nd March 2015 and totalled £11,353k.

10.2 The capital programme forecast spend for the year is £4,144k, which is a variance against revised budget of £7,385k.

Of this forecast variance £6,965k is requested to be carried forward and represents slippage on the following schemes. Further narrative is included in the Capital Monitoring table below.

£1,600k - Land and Property Investments
£50k - Strategic Housing-Empty Homes
£4,900k - Housing and Infrastructure Investment
£80k - Replacement Refuse Freighters
£335k - Capital Enhancements to Council Owned Assets

10.3 Amendment to the Capital Programme

There are no amendments to the capital programme for quarter 2 2015/16.

10.4 Property Acquisitions to Q2

117 Lea Road, Gainsborough for £43k - 30th April 2015

13 Waterworks Street, Gainsborough for £35k - 11h September 2015

10.5 Capital Receipts to Q2 £1.049m

We have received a one-off payment of £81k in relation to a lease settlement agreement

£678k has been received from CAN for balances on the Community Asset Fund held at the end of our contract.

£36k has been received in repayments of Disabled Facilities Grants

£254k has been received from ACIS in accordance with our stock transfer agreement.

10.6 The forecast capital out-turn as at 30 September 2015 and capital programme variances are shown in the table below.

SCHEME	Original Budget	Revised Budget	Actual to 30 Sep 15	Commit-ments to 30 Sep 15	Budget to Period	Variance To Period	Forecast Outturn	Outturn Variance	Reason
	2015/16	2015/16	2015/16	2015/16	2015/16	2015/16	2015/16	2015/16	
	£	£	£	£	£	£	£	£	
PROGRAMME									
Capital Enhancements to Council Owned Assets incl Energy Efficiency Measures	632,850	753,750	56,509	75,293	393,028	(261,226)	418,750	(335,000)	It is anticipated that the majority of the money will be used to carry out identified works from the condition survey findings, further spends will be made on re-roofing the Trinity Arts Centre including improving thermal insulation of the roof. Funding of £100k, received from Wren, must be spent within 12 months. Work is currently ongoing to renew our Car Park ticket machines with more modern units that offer a "Back Office" function which provide intelligent data on the car parks usage. £30k will be used to provide services (water, electricity & drainage) to the former recycling centre on Heapham Road to make the site attractive to potential business leases. £335k will be carried forward to 16/17.
Civic Enhancements	106,000	106,000	0	0	106,000	(106,000)	106,000	0	Specification being drawn up for Microphone System. Civic Vehicle options are currently under consideration.
Land and Property Investment	1,555,920	2,555,920	0	0	1,278,470	(1,278,470)	955,920	(1,600,000)	A commercial investment model is currently being developed which will set out property investment over the next 5 years. It is envisaged that investment in property will begin later this year and currently we are in negotiations for potential land acquisitions in 15/16. Further investments will take place next year and the year after, therefore any variance in the current year will be required over the life of the project. £1.6m of these funds will be carried forward into following financial years.
Gainsborough Growth Fund	347,940	368,840	18,790	0	106,514	(87,724)	368,840	0	Currently there are a range of potential eligible projects which are being discussed with business clients however they have not been taken to the full application stage yet. Eminox and ECS are looking to apply for the max amount of £100k.
Private Sector Renewal - DFG's	410,500	361,870	130,232	0	205,330	(75,098)	361,870	0	All allocated DFG funding will be spent in year in line with the approved policy. Full performance measures are reported via progress and delivery.
Strategic Housing - Empty Homes	420,130	532,130	152,778	75,806	266,168	(37,584)	482,130	(50,000)	Additional £50k carry forward to 16/17 for final payment of Gainsborough Foyer. Further £70k allocated to empty property refurb and purchase. The remaining £412k will be spent in year in line with the empty property policy,
Independent Living	62,000	53,220	15,820	4,143	31,010	(11,047)	53,220	0	All IL funding is being allocated to ground floor properties as part of the future proofing work being undertaken with Acis. All funding will be allocated in year.
Housing and Infrastructure Investment	4,900,000	4,900,000	0	0	2,450,980	(2,450,980)	0	(4,900,000)	Funding not available until May 2016 on achievement of LDO confirmation for development of Riverside Gateway from s/s. Development feasibility work across all HZ sites is underway and results will inform profile of spend from 2016. In addition full options appraisal is required to determine cost and benefit of drawdown vis a vis use of Council's own borrowings. All funds to be carried forward into the next financial year.

SCHEME	Original Budget 2015/16 £	Revised Budget 2015/16 £	Actual to 30 Sep 15 2015/16 £	Commit-ments to 30 Sep 15 2015/16 £	Budget to Period 2015/16 £	Variance To Period 2015/16 £	Forecast Outturn 2015/16 £	Outturn Variance 2015/16 £	Reason
Commercial Loan	0	350,000	0	0	0	0	350,000	0	Discussion underway in relation to potential commercial loan
Rural Broadband (BDUK)	555,000	555,000	0	0	277,608	(277,608)	555,000	0	Contribution to be made by the end of the financial year
Rural Broadband (Quickline)	105,000	105,000	35,000	0	70,000	(35,000)	35,000	(70,000)	3rd of the 5 Tranche 3 payments, for £35k, has been made this year. This leaves the final 2 remaining. Quickline have now confirmed in writing they do not require the final two £35k tranches.
Website replacement (CMS)	75,000	75,000	0	0	37,500	(37,500)	75,000	0	There have been delays during the procurement & evaluation process and the contracts as at 2/10/15 have not been signed. Whilst we know the project and software costs are £16620, there will be more development costs required for integrations with 3rd party suppliers. Hosting has been costed at £6960 pa, but it is the intention to agree that the maintenance starts on 1 April each year, therefore the first hosting costs is likely to be approximately 15 months worth (est. £8700), met from the project costs as the existing revenue costs have been used to pay the current year's maintenance to the existing supplier. Therefore I have left the out-turn at £75000, but this will be reduced once the project progresses. By the next quarter report, the figures should all be confirmed.
Replacement Refuse Freighters	129,000	188,800	0	55,000	94,436	(39,436)	108,800	(80,000)	£80k to be carried forward into 16/17 to purchase leased freighters. This years budget to replace TLY, KWZ and bulky waste
Caistor Townscape Heritage Scheme	25,000	25,000	0	0	25,000	(25,000)	0	(25,000)	This is no longer required
Scotter - River Eau Flood Alleviation Scheme	30,000	30,000	0	0	30,000	(30,000)	30,000	0	Awaiting information from the Environment Agency as to whether works will be progressing.
Parish Council Loan - Big Society	300,000	300,000	0	0	150,060	(150,060)	0	(300,000)	A loan offer had been issued but it has been declined. The provision of this budget will be reviewed as part of the 2016/17 capital programme.

SCHEME	Original Budget 2015/16 £	Revised Budget 2015/16 £	Actual to 30 Sep 15 2015/16 £	Commit-ments to 30 Sep 15 2015/16 £	Budget to Period 2015/16 £	Variance To Period 2015/16 £	Forecast Outturn 2015/16 £	Outturn Variance 2015/16 £	Reason
Desktop Refresh/SAN and SQL replacement	18,000	18,000	(15)	0	9,004	(9,019)	10,000	(8,000)	One of the projects was delivered in a different way which resulted in a £8k saving
Commercial Toolkit - Experian Mosaic	17,000	17,000	0	0	0	0	0	(17,000)	As costs will now be deminimis at £8,500 for a 1 year licence these costs will now be treated as revenue.
Financial Ledger Suite	0	38,700	18,705	21,895	19,356	21,244	38,700	0	Bank Reconciliation module implementation date to be agreed with provider. Investment in Intelligent Scanning module will result in efficiencies within Services and ongoing cost savings for Financial Services.
CCTV System Upgrade	0	180,000	0	0	0	0	180,000	0	CCTV Upgrade currently going through tender process to select a supplier. Tender evaluation taking place in November with contract award date in December. Expected upgrade completion date and launch of new system by end of March 2016.
Customer Self Service Pod	0	15,000	15,000	0	15,000	0	15,000	0	Project now completed
Total Investment	**9,689,340**	**11,529,230**	**442,821**	**232,137**	**5,565,464**	**(4,890,507)**	**4,144,230**	**(7,385,000)**	

The forecast underspend on the Capital Programme of £7,385K includes £6,965k of proposed carry forwards into 2016/17. The details of which are included in the narrative for each scheme in the table above.
Remaining forecast underspend on Capital Programme for 2015/16 is £420k.

	£
land and property investments	1,600,000
strategic housing-empty homes	50,000
housing and infrastructure investment	4,900,000
replacement refuse freighters	80,000
Capital Enhancements to Council Owned Assets incl Energy Efficiency Measures	335,000
	6,965,000

11. Treasury Management Mid-Year and Quarter 2 April – 30 September 2015

11.1 Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

> "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

11.2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 3 March 2011.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Governance and Audit Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2015/16 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2015/16;
- A review of the Council's borrowing strategy for 2015/16;
- A review of any debt rescheduling undertaken during 2015/16;
- A review of compliance with Treasury and Prudential Limits for 2015/16.

11.3 Key Changes to the Treasury and Capital Strategies

Changes in credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

11.4 Economic Background

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about

Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016. **EZ.** In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

11.5 Interest Rate Forecast

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be 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 disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

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

- Uncertainty around the risk of a UK exit from the EU.

- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.

- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to 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.

11.6 Treasury Management Strategy and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 2 March 2015.

There are no policy changes to the TMSS; the details in this report update the position in light of the updated economic position and budgetary changes already approved.

However, with regard to limits on Enhanced Money Market Funds (EMMF), these are high quality, liquid investments requiring 7 day notice, the Committee are requested to approve a maximum investment of £5m per counterparty fund. The funds are individual investment instruments and very low risk having AAA ratings. Our current limit is a total of £2m for EMMF investments.

11.7 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.

Prudential Indicator for Capital Expenditure, Changes to the Financing of the Capital Programme

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The table below draws together the main strategy elements of the capital expenditure plans, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2015/16 Original Estimate £'000**	**2015/16 Revised Estimate £'000**
Total Unsupported spend	9,689	4,144
Financed by:		
Capital receipts	1,249	900
Capital grants	743	680
Revenue	2,797	2,460
S106	0	104
Total financing	4,789	4,144
Borrowing need	4,900	0

11.8 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR)

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.

The reduction in Indicators at Q2 reflect the impact of the revised Capital Programme.

The Treasury and Prudential monitoring information is reported below;

	Original £'000	**Q1 £'000**	**Q2 £'000**
Treasury Indicators			
Authorised limit for external debt	12,500	12,500	12,500
Operational boundary for external debt	608	608	608
External Debt	9,900	0	0
Long term Leases	608	608	364
Investments	16,887	20,600	24,600
Net Borrowing	**6,379**	**19,992**	**24,236**

Prudential Indicators			
Capital Expenditure	9,689	3,364	4,144
Capital Financing Requirement (CFR)*	6,260	6,260	1,429
Annual change in CFR*	4,693	4,693	-202
In year borrowing requirement	4,900	4,900	0
Under/(over)borrowing	-3,935	-3,935	1,065
Ratio of financing costs to net revenue stream*	1.63%	1.63%	1.43%
Incremental impact of capital investment decisions:			
Increase in Council Tax (band change per annum)	£0.98	£0.98	£0.47

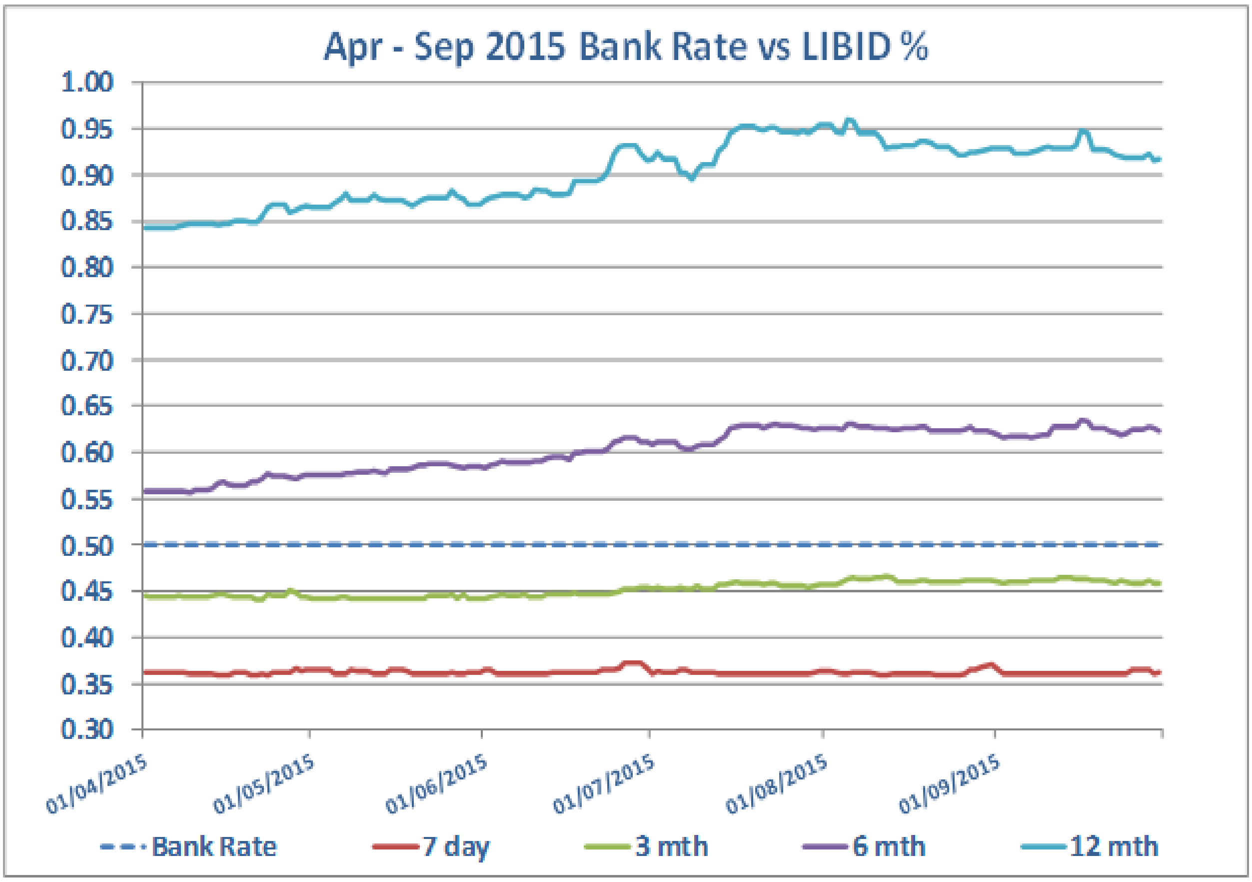
11.9 Investment Portfolio 2015/16

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

The average level of funds available for investment purposes during the quarter was £25.2m (£22.1m Q1). These funds were available on a temporary basis, 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 £17m core cash balances for investment purposes (i.e. funds available for more than one year). The annualised investment rate for the first six months of the year is 1.12% against a benchmark 7 day libid of 0.36 %.

Investment performance for period ended 30th September 2015

Benchmark	Benchmark Q1	Actual P1	Interest Earned P1 £	Benchmark Q2	Actual Q2	Interest Earned Q2 £
Overnight	0.35%	0.42%	9,277	0.35%	0.43%	14,785
7 day	0.36%	0.94%	3,960	0.36%	0.94%	5,121
1 month	0.38%	-	-	0.38%	-	-
3 month	0.44%	0.55%	1,236	0.45%	-	-
6 month	0.58%	0.73%	1,252	0.60%	0.78%	3,362
12 month	0.86%	1.00%	22,006	0.90%	1.01%	17,592
Other	-	5.47%	27,262	-	5.28%	26,617
Total			**64,993**			**67,477**



The Director of Resources confirms that the approved limits within the Annual Investment Strategy were breached twice during the first six months of 2015/16. On the 1 October a payment was authorised but not transacted leaving the balance in the bank account overnight. The issue was brought to light the following morning and the payment was made immediately. Later that day the payment was returned to our bank account, the recipient had changed their bank details to what we had on our system. This led to the money being in our bank account over the weekend. Further checks have now been implemented into the procedures to prevent any reoccurrence of this situation.

As illustrated, the Council continues to outperform the benchmark. The Council's budgeted investment return for 2015/16 is £0.200m, and performance for the year to date is in line with the budget.

The Council held £24.683 (£23.740 Q1) of investment as at 30 September 2015 and investment portfolio yield for the first 6 months of the year for investments is 1.00% (1.13% Q1) as shown in the Appendix, the improvement reflects the investment in the Local Authority Property Fund .

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'.

11.10 Investment Counterparty criteria

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

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

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of the new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the credit element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

11.11 Borrowing

The Council's capital financing requirement (CFR) for 2015/16 is £6.26m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

As outlined below, the general trend has been an increase in interest rates during the first quarter but then a fall during the second quarter.

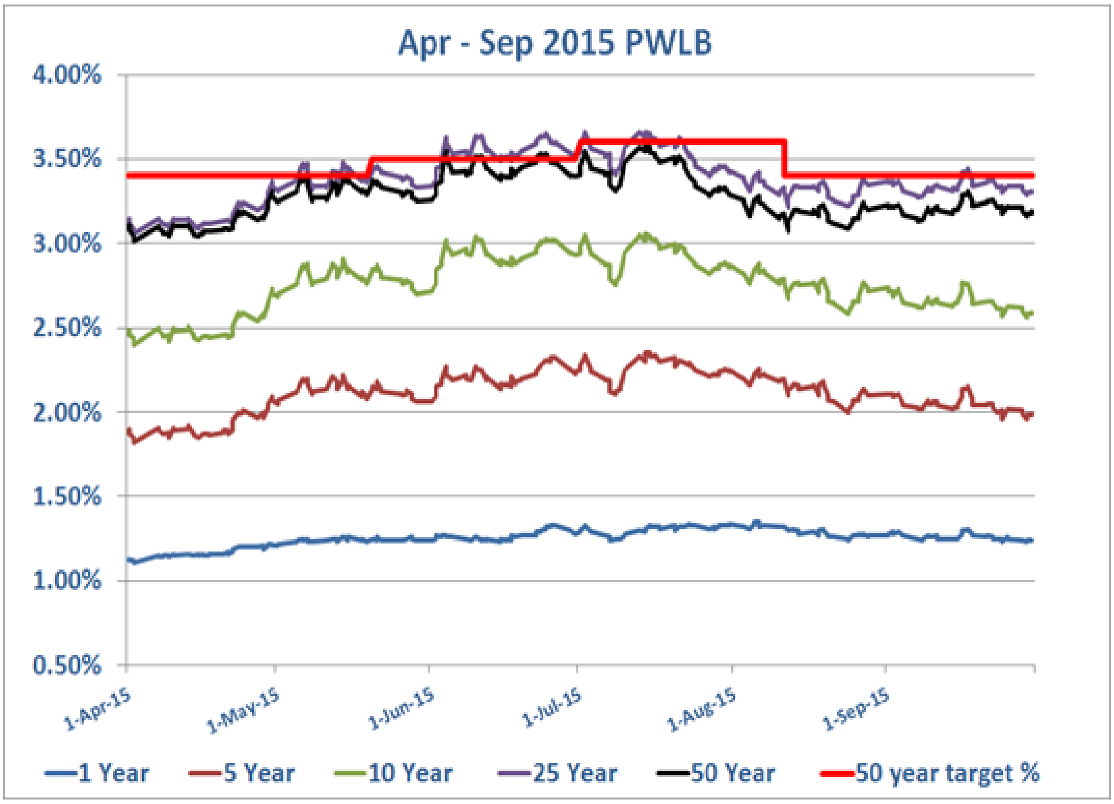
During the six months to 30 September, no borrowing – either long or short term was undertaken. However, credit arrangements such as finance leases are classified as borrowing under the capital control arrangements for local authorities. The Council procures replacement vehicles and certain other assets (telephone system, 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 2015/16 is £0.680m (relates to finance lease principal).

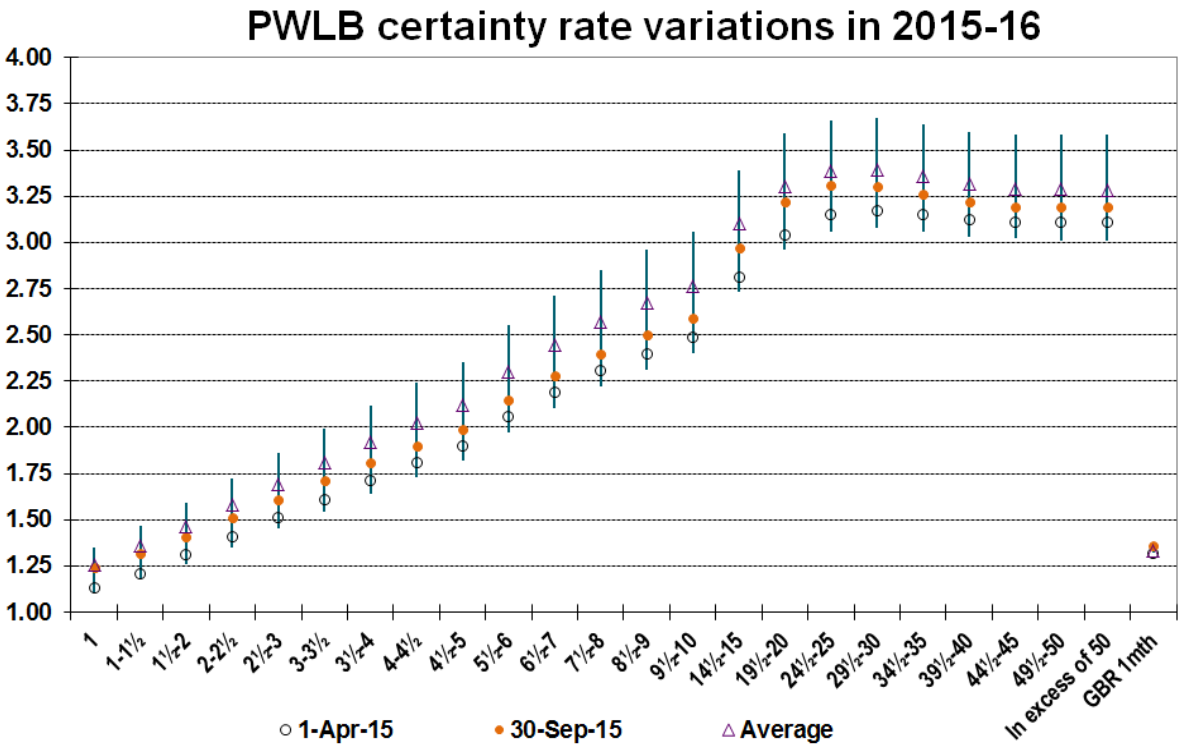
The Council has not borrowed in advance of need during the period ended 30th September 2015 and has not borrowed in advance in all of 2015/16.

The table and graphs below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2015 to 30th September 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
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	1.26%	2.12%	2.76%	3.39%	3.29%




PWLB certainty rate variations in 2015-16
4.00
3.75
3.50
3.25
3.00
2.75
2.50
2.25
2.00
1.75
1.50
1.25
1.00
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-40
44½-45
49½-50
In excess of 50
GBR 1mth
1-Apr-15
30-Sep-15
Average

CAPITA
Treasury solutions

Asset Services

West Lindsey District Council

Monthly Investment Analysis Review

September 2015

West Lindsey District Council

Monthly Economic Summary

General Economy

After months of speculation, a highly awaited Federal Reserve (Fed) meeting led to no change in the base rate. The Fed cited "Recent global economic and financial developments" for why monetary policy was left unchanged. This was in the context of China's economy showing no improvement as its manufacturing sector had its worst month since the global financial crisis of 2009.

The Monetary Policy Committee (MPC) voted 8-1 in favour of keeping rates unchanged at their historic low of 0.5% in its September meeting. The MPC believed it was too soon to confirm the extent of the adverse impacts of China's slowing economy on the UK. The committee further stated that price pressures showed little change on the month and that higher levels of core inflation are compensated by dropping oil prices. In the past few months, the Governor of the central bank has hinted that a rate hike could be appropriate around the turn of the year, but market expectations have now shifted to next summer. The Governor has, however, said that he believes China's problems do not appear to have yet had a detrimental effect on the UK.

British inflation stumbled to 0% again as a result of the biggest drop in oil prices since the beginning of the year. Another factor contributing to lower inflation is a slower seasonal increase in prices of clothing than in 2014. Inflation remaining stubbornly below the Bank of England's 2% target is likely to keep the Bank's outlook dovish. The final reading of UK Q2 GDP saw economic growth revised down to 2.4%, year on year. UK public finances for August added more gloom as it recorded the widest budget deficit since 2012. Public Sector Net Borrowing rose to £12.1bn in August from £10.7bn, well above economists' forecasts. However, income tax receipts for July have still yet to be accounted for, which may well change the figure. The unemployment rate in the UK remained stable at 5.5% in the three months to July, a record low since before the financial crisis. In addition, average weekly earnings displayed a 2.9% rise in the 3 months to July, both excluding and including bonuses. Furthermore, private sector pay grew even faster, rising by 3.7%. Non-existent inflation combined with solid wage growth figures displayed that households are finally starting to experience strong real income gains.

The European Central Bank (ECB) left its rate unchanged at 0.05%, as expected. The central bank downgraded its inflation forecasts and ECB President Mario Draghi stated the bank is prepared to increase its €1.1tn bond buying programme. The 19-nation bloc experienced deflation for the first time in 6 months as annual inflation fell to -0.1% in September predominantly driven by a decline in energy prices. This reinforced the argument for the ECB to expand its asset purchasing programme. On a more positive note, the second reading of Q2 Eurozone GDP was revised up to 0.4% quarter-on-quarter from its previous estimate of 0.3%. Year-on-year, the Eurozone expanded by 1.5%. The revision was mainly due to Italy's economy performing better than expected, as well as Germany and France reporting stronger growth figures. Eurozone unemployment was announced at 11% for August, with the July figure being revised upwards also to 11% from a previously reported 10.9%. Spain and Greece are still experiencing the highest unemployment levels in the bloc, with 22.2% and 25.2% respectively, whilst Germany, Austria and Malta were among the lowest.

The August Non-farm payrolls data release showed the US economy created 173,000 jobs, far less than the expected figure of 220,000. The manufacturing sector lost the most jobs in more than two years and the August figure showed the lowest increase in five months. The unemployment rate, however, fell to 5.1%, the lowest in nearly 10 years. US Q2 GDP was revised up to 3.9% from the 3.7% previously reported. The rise was mainly attributed to growth in consumer spending, particularly on healthcare and transport.

A widely anticipated Federal Reserve meeting, which some analysts believed would finally result in a rate hike, was of little excitement as the Fed maintained the status quo. Although the forecasts for the current year were upbeat with GDP and inflation forecasts both revised up and unemployment revised down, global economic weakness was the main reason to keep rates steady. Particularly, China's economic slowdown was viewed as a great cause for concern. However, the Fed is still open to the possibility of a rate rise later this year with 13 out of the 17 Fed policymakers predicting a rate rise later this year.

Currency

Sterling opened the month at $1.533 against the US dollar and closed at $1.514. Against the Euro, Sterling opened at €1.361 and closed at €1.356.

Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the second quarter of 2016. Capital Economics left their forecast unchanged in September. They expect the first Bank Rate increase to come in Q2 2016.

Bank Rate	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
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%

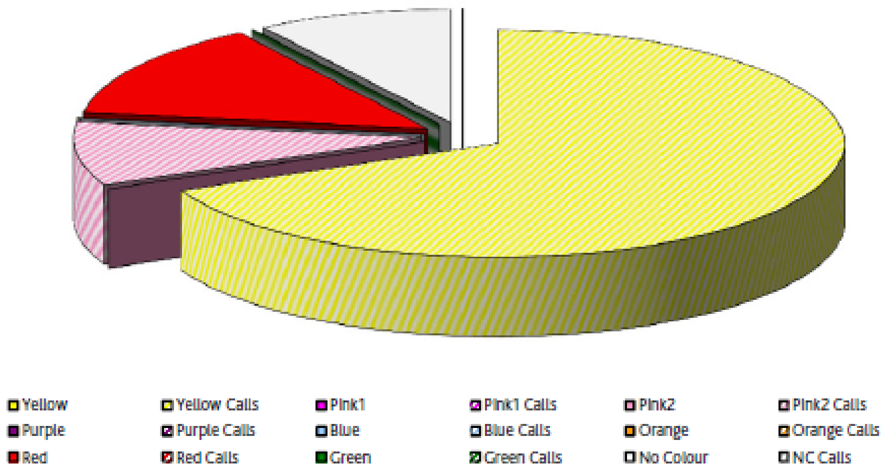
West Lindsey District Council

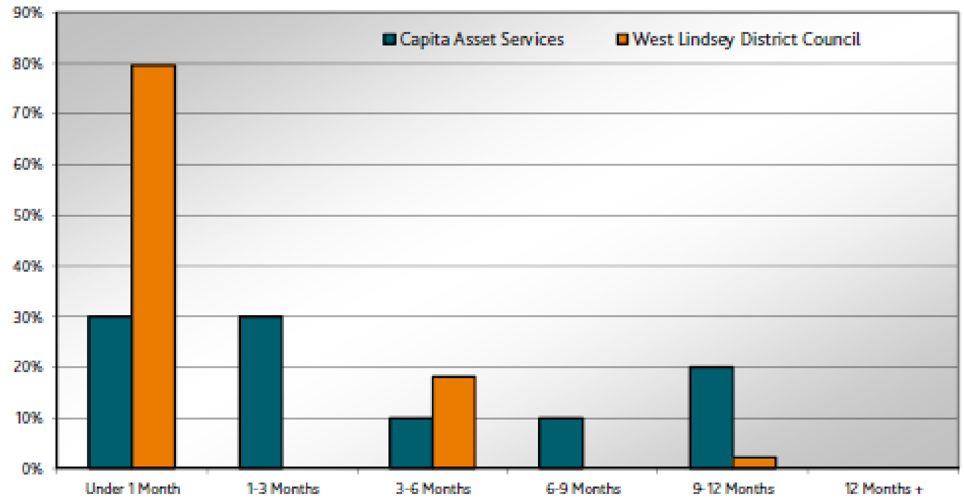
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF LGIM	5,000,000	0.48%		MMF	AAA	0.000%
MMF Insight	5,000,000	0.47%		MMF	AAA	0.000%
EMMF Insight Liquidty Plus	2,000,000	1.31%		EMMF	AAA	0.000%
MMF Standard Life	5,000,000	0.44%		MMF	AAA	0.000%
Lloyds Bank Plc	500,000	1.00%	13/10/2014	12/10/2015	A	0.002%
Lloyds Bank Plc	1,000,000	1.10%	14/04/2015	10/02/2016	A	0.023%
Standard Chartered Bank	2,000,000	0.73%	21/08/2015	19/02/2016	A+	0.024%
Lloyds Bank Plc	1,000,000	0.90%	19/08/2015	19/02/2016	A	0.024%
Lloyds Bank Plc	500,000	1.00%	10/09/2015	12/09/2016	A	0.059%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
CCLA Property Fund	2,000,000					
Total Investments	**£24,000,000**	**0.59%**				0.005%
Total Investments - excluding Funds	**£22,000,000**	**0.64%**				0.006%
Total Investments - Funds Only	**£2,000,000**	**0.00%**				

West Lindsey District Council

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria





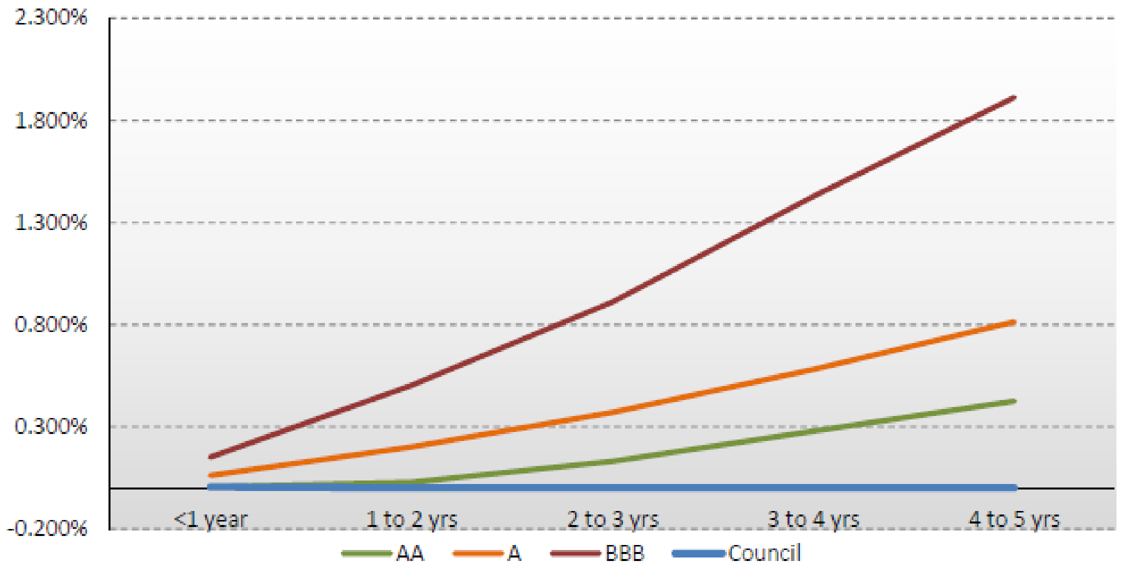
Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

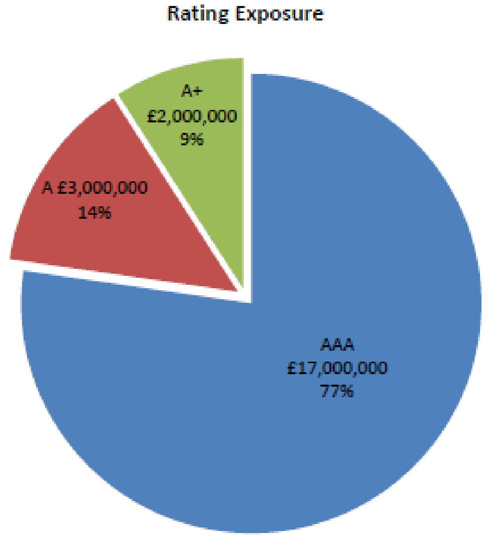
Portfolios weighted average risk number = 2.14

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	68.18%	£15,000,000	100.00%	£15,000,000	68.18%	0.47%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	9.09%	£2,000,000	100.00%	£2,000,000	9.09%	1.31%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	13.64%	£3,000,000	0.00%	£0	0.00%	1.00%	152	284	152	284
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	9.09%	£2,000,000	0.00%	£0	0.00%	0.73%	142	182	142	182
	100.00%	**£22,000,000**	**77.27%**	**£17,000,000**	**77.27%**	**0.64%**	**34**	**55**	**152**	**243**

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	0.007%	0.029%	0.130%	0.278%	0.425%
A	0.062%	0.202%	0.370%	0.581%	0.813%
BBB	0.150%	0.502%	0.910%	1.428%	1.912%
Council	0.006%	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
02/09/2015	1382	Riyad Bank	Saudi Arabia	Changed the Outlook on the Long Term Rating of Riyad Bank to Negative from Stable. Affirmed its 'A' Long Term and 'F1' Short Term Ratings

West Lindsey District Council

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
17/09/2015	1385	Sumitomo Mitsui Banking Coporation Europe Ltd	United Kingdom	Downgraded the Long Term Rating to 'A' from 'A+' and changed the Outlook to Stable from Negative.
25/09/2015	1389	Finland	Finland	The Long Term Rating was affirmed at 'AA+' and the Outlook was changed to Negative from Stable.

West Lindsey District Council

Monthly Credit Rating Changes

MOODY'S

Date	Update Number	Institution	Country	Rating Action
16/09/2015	1383	Skipton Building Society	United Kingdom	Affirmed the 'Baa2' Long Term and 'P-2' Short Term Ratings of Skipton Building Society. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
17/09/2015	1384	Santander UK plc	United Kingdom	Affirmed the 'A1' Long Term and 'P-1' Short Term Ratings of Santander UK plc. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
18/09/2015	1386	Abbey National Treasury Services	United Kingdom	Affirmed the 'A1' Long Term and 'P-1' Short Term Ratings of Abbey National Treasury Services plc. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
21/09/2015	1387	France	France	Downgraded the Sovereign Rating to 'Aa2' from 'Aa1' and the Outlook was changed to Stable from Negative
24/09/2015	1388	Credit Industriel et Commercial	France	Downgraded the Long Term Rating to 'Aa3' from 'Aa2' while the Short Term Rating was affirmed. The Outlook on the Long Term Rating was changed to Stable from Negative.