APPENDIX 1

ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE 2014/15 (INCORPORATING OUTTURN PRUDENTIAL INDICATORS)

1. The Council's Capital Activity During 2014/15

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- The Council did not borrow during 2014/15

2. Reporting of the Required Prudential and Treasury Indicators

- During 2014/15, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual Prudential and Treasury Indicators	2013/14 Actual	2014/15 Actual
Actual Capital Expenditure	12.552m	£9.503m
Total Capital Financing Requirement:	£2.601m	£2.000m
External Debt	£6.000m	£4.900m
Investments – Under 1 Year	£27.496m	£33.100m

The external debt relates to the Growing Places Funding from LEP (Local Enterprise Partnership) was received in July 2013 and is due to be repaid in July 2018. The money is being paid over to the LABV (Local Asset Backed Vehicle). Growing Places Funding that has not been transferred to the LABV is invested with the Government's DMO (Debt Management Office) for security.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Actual Capital Expenditure and Financing	2013/14 Actual £000	2014/15 Original Budget £000	2014/15 Latest Budget £000	2014/15 Actual £000
Capital Expenditure	12,552	18,421	15,149	9,503
Total Capital Expenditure				
Resourced by:				
• Capital Receipts	7,291	11,542	9,433	5,292
• Capital Grants	3,610	2,642	2,674	1,941
• Reserves	1,651	4,237	3,042	2,270
Unfinanced Capital Expenditure	**0**	**0**	**0**	**0**

3. Impact of This Activity on the Council's Underlying Indebtedness (the Capital Financing Requirement)

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2014/15 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

The Council's CFR for the year was zero. This includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Gross Borrowing Within Authorised Limit	2013/14 Actual	2014/15 Actual
Authorised Limit	£13m	£13m
Operational Boundary	£10m	£10m
Borrowing Position	£6m	£4.9m
Financing Costs as a Proportion of Net Revenue Stream (Interest over net cost of services)	-0.78%	-0.73%

4. Overall Treasury Position and the Impact on Investment Balances

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2014/15 the Council's treasury position was as follows:

Treasury Position	31 March 2014 Principal	Rate/ Return	31 March 2015 Principal	Rate/ Return
Total Debt	£6.000m		£4.900m	
CFR	£2.601m		£2.000m	
Investments - in House	£27.496m	0.58%	£33.100m	0.68%
Total Investments	**£33.496m**	**0.58%**	**£40.000m**	**0.68%**

The maturity structure of the investment portfolio was all under one year.

The exposure to fixed and variable rates was as follows:

Exposure to Fixed and Variable Rates	31 March 2014 Actual	31 March 2015 Actual
Fixed Rate (Principal or Interest)	£14.000m	£20.100m
Variable Rate (Principal or Interest)	£19.496m	£13.000m

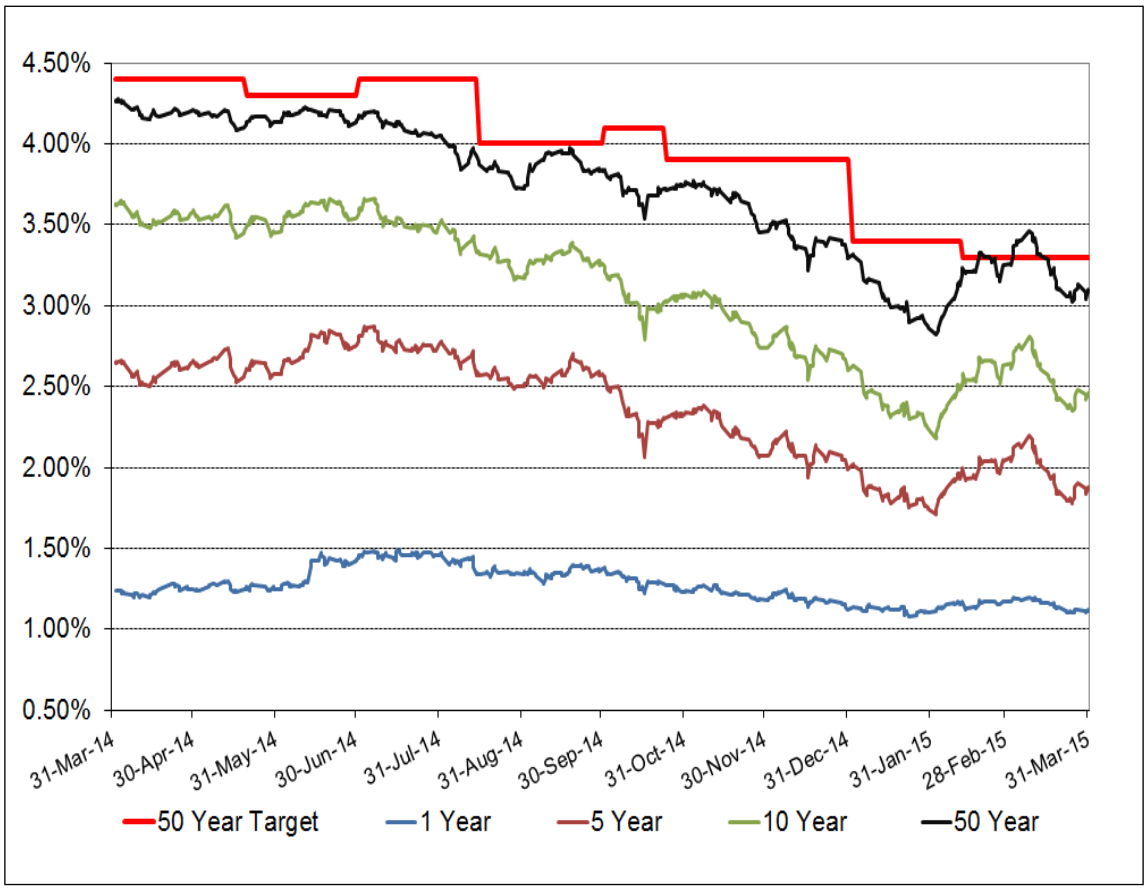
5. The Economy and Interest Rates – Capita Asset Services Report

The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved.

6. Borrowing Rates in 2014/15 – Capita Asset Services Report

PWLB borrowing rates - the graphs and table for PWLB certainty maturity rates below, show, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.



7. Investment Rates in 2014/15 – Capita Asset Services Report

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year.

8. Investment Outturn for 2014/15

Investment Policy – the Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 29 January 2014. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies.

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

Resources – the Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows;-

Balance Sheet Resources	31 March 2014	31 March 2015
General Fund	£0.500m	TBC
Earmarked Reserves	£15.090m	TBC
Usable Capital Receipts	£13.420m	TBC
Total	**£29.010m**	**£0.0m**

Investments Held by the Council - the Council maintained an average balance of £30.298m in 2014/15 of internally managed funds with an average rate of return of 0.61%.