**OFFICE OF THE POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE
DECISION RECORD**

Decision Record Number: **01/2015**

Title: **Mid Year Treasury Management Review Report 2014/15**

Executive Summary:
The report provided details of the Treasury Management activity undertaken during the period 1 April to 30 September 2014 submitted. The report had been submitted to the Joint Independent Audit Committee on 19.12.14 where it had been recommended for approval.

Decision:
That the Treasury Management Mid Year Review Report 2014/15 be approved.

Background Report: Open

Police and Crime Commissioner for Humberside

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with my code of conduct.

Any such interests are recorded below.

The above decision has my approval.

Signature Matthew Grove **Date 07.01.15**

Joint Independent Audit Committee

Agenda Item 8

19 December 2014

Report of the Deputy Chief Executive and Treasurer

TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2014/15

PURPOSE OF THE REPORT

1. This report provides details of Treasury Management activity undertaken during the period 1 April to 30 September 2014. It demonstrates compliance with the agreed arrangements set out within the Treasury Management Strategy Statement (TMSS) approved by the Police and Crime Commissioner (PCC) in March 2014.

BACKGROUND

2. As members are aware, the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) underpins the system of capital finance which allows local authorities, including PCCs, to determine their own programmes for capital investment. The aims are to ensure authorities operate within a clear framework to satisfy themselves that investment plans are considered affordable, prudent and sustainable and treasury management decisions are taken in accordance with good professional practice.

3. The Code requires the PCC to agree a Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) which set out the responsibilities, delegation and reporting arrangements with regard to treasury management. They are designed to support and record local decision making in a manner that is publicly accountable.

4. The TMSS for 2014/15 was approved in March 2014. It requires those setting the policy and strategy to receive a minimum of a mid-year review and an annual report on treasury management activities.

5. The annual report for 2013/14 was considered at the last meeting of this Committee prior to approval by the PCC.

6. This report ensures that the requirements of the Strategy, and therefore the Code, and will need to be approved by the PCC at a future submissions session.

7. The Mid-Year Review Report has been prepared in conjunction with Capita Treasury Solutions, treasury management advisers to the PCC.

8. The Report for 2014/15 is attached at Appendix 1 and includes details of performance and information on relevant agreed Treasury and Prudential Indicators.

OPTIONS, RISKS AND OPPORTUNITIES

9. The TMSS sets out detailed information in relation to risks associated with treasury management activity and proposed mitigating actions whilst acknowledging that the risk cannot be entirely eliminated. The TMSS and the TMPs and the procedures detailed within them are intended to limit the exposure to unforeseen and unbudgeted financial consequences of treasury management activity.

10. The reporting requirements are intended to ensure that treasury management activity has been conducted in accordance with the policy and strategy agreed by the PCC and that treasury management operations have been performed within agreed limits. There is no option but to consider the report.

11. Capita Treasury Solutions have provided officers with ongoing detailed information in relation to treasury management activity. However it must continue to be recognised that the responsibility for all decisions with regard to policies, strategy and transactions remain with the PCC.

POLICING PLAN AND PERFORMANCE

12. Effective treasury management arrangements are an important factor in ensuring that the Force and the OPCC operate efficiently and seeks to contribute to the delivery of the Police and Crime Plan by seeking to make the best use of resources.

IMPACTS ON OR LINKS TO COLLABORATION

13. There are no direct links to collaboration as the treasury management activity relates solely to Humberside.

FINANCIAL IMPLICATIONS

14. The Treasury Management Mid-Year Review Report sets out details of the treasury management activity undertaken in the period 1 April to 30 September 2014. The financial implications of treasury management activity are factored into budget monitoring reports and have been incorporated into updates of the Medium Term Financial Strategy (MTFS). It is intended to expand the MTFS to become a Medium Term Financial Resources Strategy (MTRS) by including more detail on staffing issues. The MTRS will include modelling of the cashflow implications of potential budget and precept scenarios.

LEGAL IMPLICATIONS

15. The PCC is required to comply with the requirements of the Local Government Act 2003 and to have regard to guidance from the Department for Communities and Local Government and the CIPFA Code when

determining its treasury management policy and strategies together with detailed practices.

16. The TMSS requires the PCC to consider a mid-year review of treasury management activity.

EQUALITIES AND DIVERSITY AND HUMAN RIGHTS

17. There are no equality and diversity and human rights issues in the context of this report.

CONCLUSIONS

18. This Mid-Year Review Report sets out information on treasury management activity undertaken during the period 1 April – 30 September 2014. It includes a commentary on events affecting the money markets during the period, and action taken locally to utilise counterparties with the highest credit quality.

19. The report provides detailed information on compliance with the treasury management practices agreed by the PCC and indicates that the treasury management operation has operated within the agreed Treasury and Prudential Indicators.

RECOMMENDATION

20. It is recommended that:-:

(a) Members note the report on the treasury management activity that has been undertaken during the period 1 April to 30 September 2014 and

(b) The report be recommended to the PCC for approval.

John Bates

Deputy Chief Executive and Treasurer

Office of the Police and Crime Commissioner for Humberside

Background Documents: JB/File/TM/2014/15 Q2

Contact Officers: John Bates, Deputy Chief Executive and Treasurer

Tel: 01482 220785

APPENDIX 1

Police and Crime Commissioner for Humberside

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-year Review Report 2014/15

1 Background

The Police and Crime Commissioner for Humberside (PCC) operates a balanced budget, which broadly means cash raised during the year will meet 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 PCC's capital plans. These capital plans provide a guide to the PCC's borrowing need, essentially the longer term cash flow planning to ensure that capital spending operations can be met. 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 PCC's risk or cost objectives.

Accordingly, treasury management is defined as:

> "The management of the organisation's 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."

2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by the PCC on 20 March 2014.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the PCC's policies and objectives of treasury management activities.
2. Creation and maintenance of Treasury Management Practices(TMPs) which set out the manner in which the PCC will seek to achieve those policies and objectives.

3. Receipt by the PCC of an annual Treasury Management Strategy Statement (TMSS) - 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 PCC 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 PCC of the role of scrutiny of treasury management strategy and policies to a specific named body. For the PCC the delegated body is the Joint Independent 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 2014/15 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The PCC's capital expenditure (prudential indicators);
- A review of the PCC's investment portfolio for 2014/15;
- A review of the PCC's borrowing strategy for 2014/15;
- A review of any debt rescheduling undertaken during 2014/15;
- A review of compliance with Treasury and Prudential Limits for 2014/15.

3 Economic update

3.1 Economic performance to date and outlook

3.1.1 U.K.

After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appeared very likely that strong growth would continue through 2014 and into 2015 as forward surveys for the services and construction sectors, were very encouraging and business investment was also strongly recovering. The manufacturing sector was also encouraging although figures indicated some weakening in the future trend rate of growth. However, it was recognised that for this recovery to become more balanced and sustainable in the longer term, it 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 lacklustre performance. This overall strong growth resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC was particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. Major improvements in labour productivity, which has languished at dismal levels since 2008, are also required to support increases in pay rates. Most economic forecasters were expecting growth to peak in 2014 and then for this to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates 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.

The sharp fall in inflation (CPI), reaching 1.5% in May and July, the lowest rate since 2009 was also encouraging. Forward indications were that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets were expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. In September the first increase in Bank Rate were expected in Q1 or Q2 2015 although it is now anticipated that this will be delayed. Rates are still expected to rise after that at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The return to strong growth was expected to lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget . These debt forecasts were updated in the Chancellor's Autumn Statement on 3 December 2014 to show borrowing falling from £97.5bn last year to £93.1bn this year, £75.9bn next year, then £40.9bn and £14.5bn with a surplus of £4bn in 2018/19. This surplus is now expected to grow to £23bn by 2019/20.

3.1.2 U.S.

The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised).

3.1.3 Eurozone

The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked on full quantitative easing (purchase of sovereign debt).

Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

3.1.4 China and Japan

Japan is causing considerable concern as the increase in sales tax in April has suppressed consumer expenditure and growth. In Q2 growth was -1.8% q/q and -7.1% over the previous year. The Government is hoping that this is a temporary blip.

As for China, Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has raised fresh concerns. There are also major worries as to the creditworthiness of much bank lending to corporates and local government during the post 2008 credit expansion period and whether the bursting of a bubble in housing prices is drawing nearer.

3.2 Interest rate forecasts

The PCC's treasury advisor, Capita Treasury Solutions provided the following forecast as at September 2014:

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%
10yr PWLB rate	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%
25yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%
50yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%

Capita Treasury Solutions undertook a review of its interest rate forecasts in mid August, after the Bank of England's Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there was much volatility in rates as news ebbs and flows in negative or positive ways. This forecast included a first increase in Bank Rate in quarter 1 of 2015.

The PWLB forecasts were based around a balance of risks. However, there were potential upside risks, especially for longer term PWLB rates, as follows: -

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Downside risks included:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- UK strong economic growth is currently dependent on consumer spending and the unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partners - the EU and US, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalising of European banks requiring more government financial support.

- Lack of support from citizens in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.
- There are also increasing concerns that the reluctance of western economies to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future), has created potentially unstable flows of liquidity searching for yield and therefore heightened the potential for an increase in risks in order to get higher returns. This is a return of the same environment which led to the 2008 financial crisis.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by the PCC on 20 March 2014. The details in this report update the position in the light of the updated economic position and budgetary changes already approved. No policy changes to the TMSS are recommended;

Prudential Indicator 2014/15	Original £m	Revised Prudential Indicator £m
Authorised Limit	71.147	68.194
Operational Boundary	69.147	66.194
Capital Financing Requirement	66.726	63.773

5 The Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The PCC'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.

Capital Expenditure by Service	**2014/15 Original Estimate £m**	**Current Position £m**	**Variation £m**
Total	**11.985**	**11.479**	***(0.506)***

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting how the original capital programme is to be financed and variations from these assumptions. Borrowing increases underlying indebtedness by way of corresponding increases in the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2014/15 Original Estimate £m**	**Latest Forecast £m**	**Variation £m**
Total spend	**11.985**	**11.479**	**(0.506)**
Financed by:			
Capital receipts	Nil	Nil	Nil

Capital grants	1.700	1.700	Nil
Capital reserves	Nil	Nil	Nil
Revenue	Nil	0.006	0.006
Total financing	**1.700**	**1.706**	**0.006**
Borrowing need	**10.285**	**9.773**	**(0.512)**

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to remain within the original forecast Capital Financing Requirement.

Prudential Indicator – External Debt / the Operational Boundary

	2014/15 Original Estimate £m	***Latest Foercast £m***
Prudential Indicator – Capital Financing Requirement		
Capital Financing Requirement	***66,726***	***63,773***
Net movement in CFR	***7.559***	***6.689***
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	*39.478*	*32.986*
Other long term liabilities*	*0.278*	*0.278*
Total debt 31 March	***39.756***	***33.264***

* *Finance lease*

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and next two financial years. This allows some flexibility for limited early borrowing for future years. The PCC has approved the arrangements for borrowing in advance of need and these will be adhered to if this proves prudent.

	2014/15 **Original Estimate £m**	**Latest Forecast £m**	**Position at 30 September 2014 £m**
Gross borrowing	39.478	32.986	30.486
Plus other long term liabilities*	0.278	0.278	0.278
Gross borrowing	39.756	33.264	30.764
CFR* (year end position)	66.726	63.773	63.773

**includes Finance lease.*

The Deputy Chief Executive and Treasurer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	***2014/15*** **Original Indicator**	**Revised Indicator**

	£m	£m
Borrowing	70.869	67.916
Other long term liabilities*	0.278	0.278
Total	71.147	68.194

** Finance lease*

6 Investment Portfolio 2014/15

In accordance with the Code, the priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the PCC's risk appetite. As set out in Section 3, 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. Indeed, the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the 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 PCC held £26.20m of investments as at 30 September 2014 (£7.16m at 31 March 2014) and the investment portfolio yield for the first six months of the year is 0.60% against a benchmark of 0.35%, the 7-day linked rate.

Details of the investments held at the end of each month are available to our PCC and members of the JIAC via the PCC's website.

The Deputy Chief Executive and Treasurer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2014/15.

The budgeted investment return for 2014/15 is £110k, and performance for the year to date is in line with the budget.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS has met the requirement of the treasury management function. 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. However, more recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during this financial year. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of support that has been built into ratings through the financial crisis. The eventual removal of implied Government support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of the future methodology adopted by Capita Asset Services 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 they have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, Capita Asset services will continue to utilise CDS prices as an overlay to ratings in our new methodology.

7 Borrowing

The PCC's capital financing requirement (CFR) for 2014/15 is £63.773m. The CFR denotes the underlying need to borrow for capital purposes. If the CFR is positive the PCC 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. Table 5.4 shows that forecast borrowings total £33.264m with the capacity to borrow up to a further £30.509m which includes cashflow funds that have been temporarily used to finance capital expenditure in lieu of borrowing. This is considered a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

Due to the overall financial position and the underlying need to borrow for capital purposes, new external borrowing of £2m was undertaken from the PWLB on 4 September 2014, a 10-year EIP loan at 2.57%. (the corresponding maturity rate on this date for a 10-year loan was 3.46%).

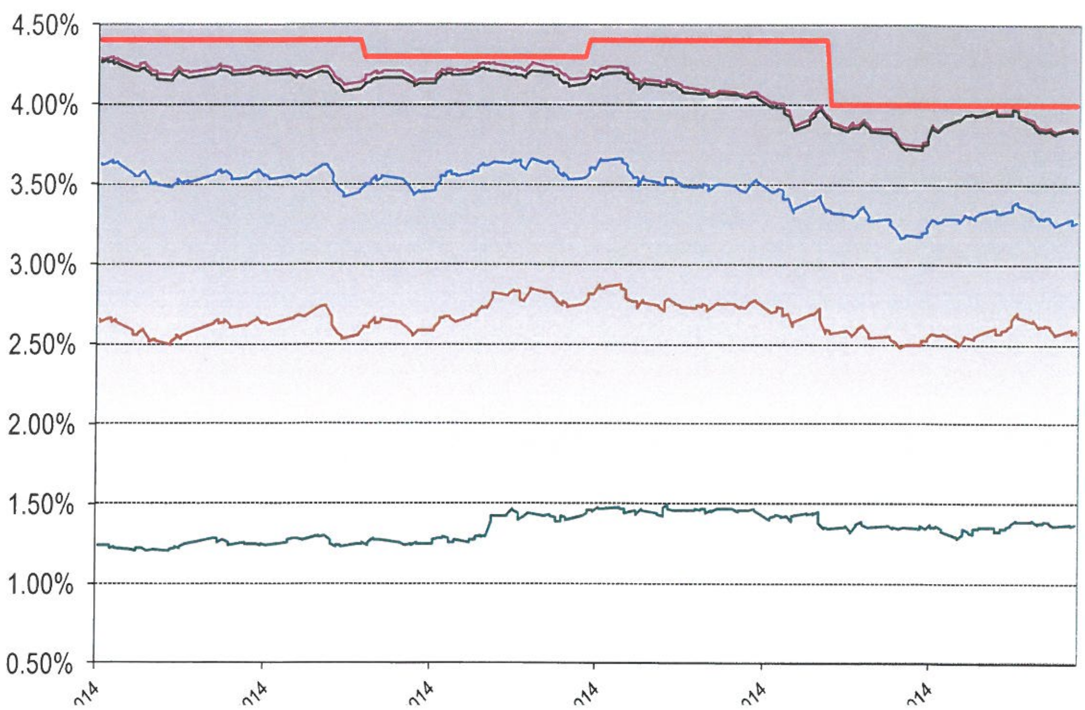
As outlined below, the general trend has been a decrease in interest rates during the six months, across longer dated maturity bands, but a rise in the shorter maturities, reflecting in part the expected rise in the Bank rate.

It is anticipated that further borrowing of at least £2.5m will be undertaken during this financial year.

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

PWLB certainty rates on maturity loans at half year ended 30 September 2014

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.20%	2.48%	3.16%	3.75%	3.73%
Date	10/04/2014	28/08/2014	28/08/2014	29/08/2014	29/08/2014
High	1.48%	2.86%	3.66%	4.29%	4.26%
Date	15/07/2014	04/07/2014	20/06/2014	02/04/2014	01/04/2014
Average	1.34%	2.65%	3.67%	4.10%	4.17%



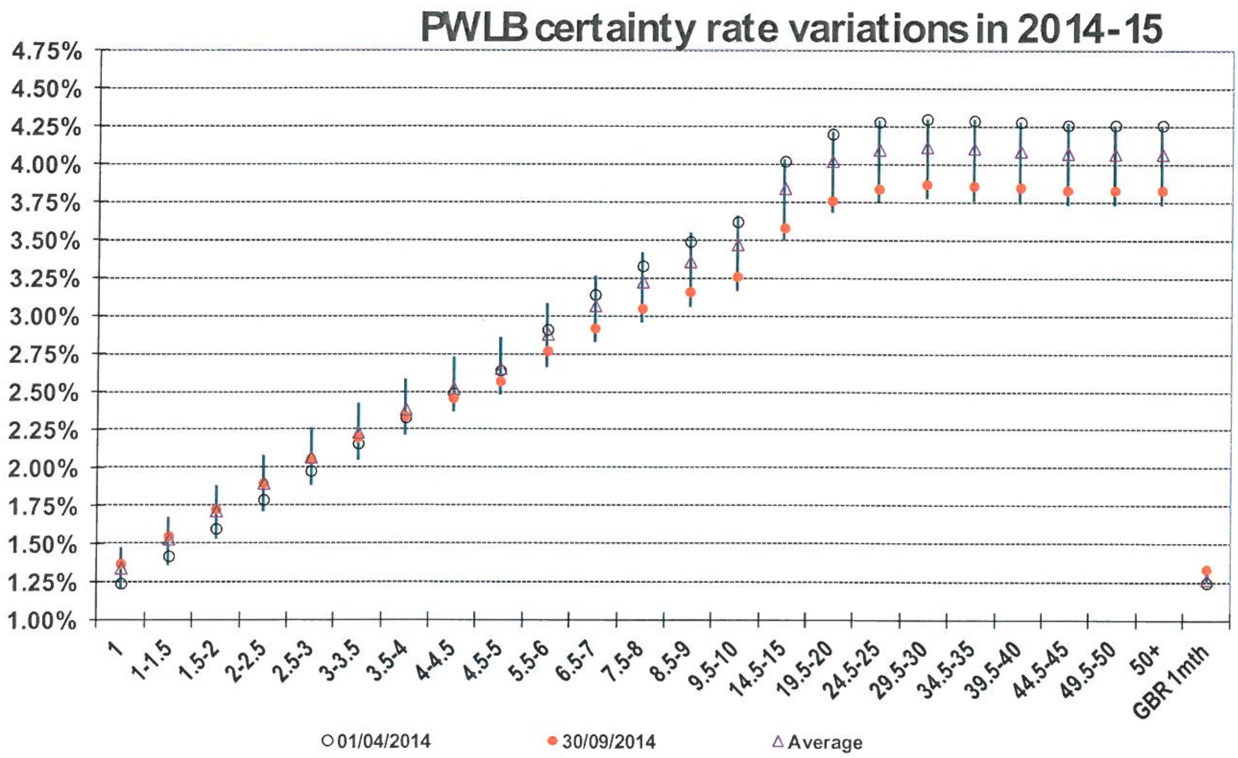
8 Debt Rescheduling

No debt rescheduling was undertaken during the first six months of 2014/15.

ANNEX

PWLB certainty rates for the half year ended 30.9.14

	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/14	1.240%	1.420%	1.980%	2.330%	2.640%	3.620%	4.280%	4.260%	1.250%
30/9/14	1.370%	1.550%	2.060%	2.340%	2.570%	3.260%	3.840%	3.830%	1.340%
High	1.480%	1.680%	2.260%	2.580%	2.860%	3.660%	4.290%	4.260%	1.340%
Low	1.200%	1.360%	1.880%	2.210%	2.480%	3.160%	3.750%	3.730%	1.250%
Average	1.343%	1.532%	2.071%	2.386%	2.655%	3.472%	4.098%	4.070%	1.275%
Spread	0.280%	0.320%	0.380%	0.370%	0.380%	0.500%	0.540%	0.530%	0.090%
High date	15/7/14	3/7/14	4/7/14	3/7/14	4/7/14	20/6/14	2/4/14	1/4/14	17/9/14
Low date	10/4/14	10/4/14	10/4/14	10/4/14	28/8/14	28/8/14	29/8/14	29/8/14	2/6/14



Investment performance for 1st April 2014 to 30th September 2014

Benchmark	Benchmark Return	PCC Performance	Investment Interest Earned
7 day	0.35%	0.60%	£67,369