Treasury Management Mid-year Report for 2015/16

SUMMARY

Report to advise members of the Treasury Management Service performance for 2014/15 as at 30th September 2015 and to illustrate the compliance to-date with the Prudential Indicators for 2015/16.

PORTFOLIO	**Finance** **Councillor Richard Brooks**	**Date consulted:**
WARDS AFFECTED	**All**	

RECOMMENDATION

The Committee is advised to NOTE and COMMENT on the report and make recommendations to Executive as appropriate;

1. RESOURCE IMPLICATIONS

1.1 None directly as a result of this paper, but the investment income is used to support the current revenue expenditure.

2. KEY ISSUES

Background

2.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

2.2 The Authority's Revised Treasury Management Strategy for 2015/16 was approved by full Council on 25th February 2015.

2.3 The Authority has invested and borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

Local Context

2.4 At 31/3/2015 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1.567m, while usable reserves and working capital which are the underlying resources available for investment were £21m.

2.5 At 31/3/2015, the Council had no borrowing and £20m of investments. However since then there has been significant investment in property funded by external borrowing.

The Council is expected to have an increasing CFR over the next 3 years due to the extensive capital programme and lack of capital receipts. This may be funded by external or internal borrowing and may impact investment returns.

Borrowing Strategy

2.6 At 30/9/2015 the Authority held £17.9m of loans, all of which have been entered in to in this financial year, as part of its strategy for funding capital acquisitions.

2.7 The Authority does not expect to borrow any more in 2015/16 however this may change if a signifincant investment opportunity presents itself during the year. If this happens then a separate report will be presented to Council to approve.

2.8 The Authority's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

2.9 Affordability remained an important influence on the Authority's borrowing strategy particularly as interest rates at the moment are currently low.

2.10 The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2014. In April the Authority submitted its application to the CLG along with the 2015/16 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2015.

2.11 The Authority funded £17.9m of its capital expenditure from borrowing. In total £16.4m of new fixed rate loans with an average rate of 3.1% and an average life of 50years were raised. The Public Works Loans Board (PWLB) was the Authority's preferred source of borrowing given the transparency and control that its facilities continue to provide. In addition a further £1.5m was borrowed from the Enterprise M3 Local Enterprise Partnership interest free for a period of 5 years.

Investment Activity

2.12 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held.

2.13 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2015/16

2.14 The table below summarises the treasury management transactions undertaken during the first half of this financial year.

		Principal Amount £m	Average Interest Rate %
Investments	- as at 31st March 2015	22.9	1.2%
	- as at 30th Sept 2015	30.7	
Debt	- as at 31st March 2015	0.0	0.0%
	- as at 30th Sept 2015	17.9	2.9%
Net Investments at 31st March 2015		22.9	
Net Investments at 30th September 2015		12.8	

2.15 Investment returns balanced against security of capital continued to be the Authority's main investment objective in the strategy approved in February 2015.

2.16 Counterparty credit quality was assessed and monitored with reference to credit ratings, credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and advice from the Council's treasury advisors.

2.17 Given the increasing risk and continued low returns from short-term unsecured bank investments, and having estimated that £8m was available for longer-term investment, the Authority diversified into higher yielding asset classes such as pooled funds which have the advantage of diversifying investment risks without the need to own and manage the underlying investments, coupled professional fund management. This has resulted in greater returns but also increased volatility as to the underlying value of these investments

Credit Risk

2.18 Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
30/06/2015	7.37	AA+	6.06	AA+
30/09/2015	7.37	AA+	6.77	AA

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

2.19 The Council has sought to balance risk against return by diversifying across a wide range of banks, building societies, local authorities and money market funds. The poor returns offered by banks linked to the Bank of England base Rate being so low has meant that the Council has moved investments in to property, corporate bond and equity managed funds. These provide better returns but are subject to the volatility of the underlying investments hence any investment needs to be made for the longer term. Currently these investments have sustained capital paper losses due to the down turn in the stock market however our advisors are confident that this is due to the cyclical nature of the stock market and in the longer term will recover. This policy of diversified investment has mean that the Council is likely to exceed the budgeted interest earned for 2015/16.

Counterparty Update

2.20 All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

2.21 Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeeten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

2.22 Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thueringen.

2.23 S&P reviewed UK and German banks in June downgrading Barclays' long-term rating to A- from A, RBS to BBB+ from A- and Deutsche Bank to BBB+ from A. [if applicable] As a result of this the Authority has made the decision to temporarily suspend Deutsche Bank as a counterparty for new unsecured investments. S&P has also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.

2.24 At the end of July, the council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

Budgeted Income and Outturn

2.25 The average cash balances were £25m during the quarter. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels.

2.26 The Authority's budgeted investment income for the year is estimated at £200k of which £128k has been received in the first six months. The Council anticipates being ahead of budget by the end of the year.

Update on Investments with Icelandic Banks

2.27 The Council currently has the equivalent of £676k in Icelandic Kronor held on deposit in Iceland. This is earning interest 4.2% but cannot be converted to sterling at the present time due to currency controls imposed by the Icelandic Government.

Compliance with Prudential Indicators

2.28 The Authority can confirm that it has complied with its Prudential Indicators for 2015/16, which was set in February 2015 as part of the Authority's Treasury Management Strategy Statement. Details of treasury-related Prudential Indicators can be found in Appendix 1.

Economic Review and Outlook for the remainder of the year

2.29 The Council's advisors Arlingclose have provided an Economic Review of the year so far and an outlook for Qtrs 3 and 4. This is included in Annex D

3. OPTIONS

3.1 The Committee can make recommendations on the report as appropriate. Executive can receive, amend or reject this report.

4. PROPOSALS

It is proposed that the Committee NOTE and COMMENT on the report as make recommendations to Executive as appropriate;

5. CORPORATE OBJECTIVES AND KEY PRIORITIES

5.1 The Treasury Management processes support the Council's objective of 'Delivering services efficiently, effectively and economically'.

6. POLICY FRAMEWORK

6.1 The Council fully complies with the requirements of the CIPFA Code of Practice on Treasury Management. The current relevant criteria and constraints incorporated into the Treasury Management Policy Statement are:

6.2 New borrowing is to be contained within the limits approved by the Council, in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities, and the Council's prudential indicators.

6.3 Investments to be made in accordance with the CLG guidance on Local Authority Investments, on the basis of Fitch, Moody's and Standard & Poors credit ratings and as detailed in the Treasury Management Policy statement and approved schedules and practices.

6.4 Sufficient funds to be available to meet the Council's estimated outgoings for any day.

6.5 Investment objectives are to maximise the return to the Council balanced against the risks to protect reserves.

7. LEGAL ISSUES

7.1 None.

8. RISK MANAGEMENT

8.1 Weak returns on investments could lead to a reduction in income required to support the revenue budget.

8.2 The limits in this report in respect to counterparties and investments are the overall limits for agreement by Council. However from time to time these may be tightened temporarily by the Head of Corporate Finance in consultation with the portfolio holder

for Resources to reflect increased uncertainty and increase in perceived risk in financial institutions and the economy. This will usually be at the cost of lower returns.

8.3 The Council has taken and acted on advice from its advisors in relation to increasing returns albeit at increased risk. These investments may go up or down in value and the full capital sum is not protected

8.4 The investments ratings provided by credit ratings agencies are only a guide and do not give 100% security. There is always a risk that an institution may be unable to repay its loans whatever the credit rating.

9. OFFICER COMMENTS

9.1 None.

ANNEXES	**Annexe A – Investments as at 30th September 2014** **Annexe B – Treasury Management Performance Indicators**
BACKGROUND PAPERS	**CIPFA code on Treasury Management**
AUTHOR/CONTACT DETAILS	Kelvin Menon 01276 707257 e-mail:kelvin.menon@surreyheath.gov.uk
HEAD OF SERVICE	Kelvin Menon 01276 707257 e-mail:kelvin.menon@surreyheath.gov.uk

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

	Required	Consulted	Date
Resources			
Revenue	✓		
Capital			
Human Resources			
Asset Management			
IT			
Other Issues			
Corporate Objectives & Key Priorities	✓		
Policy Framework			
Legal			
Governance			
Sustainability			
Risk Management			
Equalities Impact Assessment			
Community Safety			
Human Rights			
Consultation			
P R & Marketing			

ANNEXE A

Investments as at 30th September 2015

		Maturity Date
Lloyds Bank Call Account	501,661	Instant Access
Goldman Sachs Bank	2,000,000	11-Dec-15
Total Banks	**2,501,661**	
Debt Management Office	**0**	
Nationwide Building Society	2,000,000	09-Oct-15
Total Building Society	**2,000,000**	
Icelandic Banks	676,779	In Receivership
Total Banks, Building Societies and DMO	**5,178,440**	
Greater London Authority	2,000,000	30-Oct-15
Lancashire County Council	1,500,000	30-Sep-16
The London Borough of Islington	2,000,000	28-Oct-16
Glasgow City Council	2,000,000	30-Oct-18
Total Local Authorities	**7,500,000**	
AAA Rated MM Fund - Aberdeen (SWIP)	2,956,200	N/A
AAA Rated MM Fund - Blackrock	2,000,595	N/A
AAA Rated MM Fund - CCLA	1,000,000	N/A
AAA Rated MM Fund - Insight	1,002,581	N/A
AAA Rated MM Fund - Standard Life (Ignis)	2,000,000	N/A
Total Money Market Funds	**8,959,376**	
CCLA Property Fund	2,080,885	N/A
M & G Investments - Global Dividend Fund	833,883	N/A
M & G Investments - Strategic Corp Bond Fund	1,951,156	N/A
Threadneedle - Global Equity Income Fund	932,386	N/A
Threadneedle - Strategic Bond Fund	1,925,175	N/A
Total Longer Term Investments	**7,723,484**	
Total Invested (excluding the NatWest SIBA)	**29,361,300**	
NatWest SIBA	1,300,158	Instant Access
Total Invested (including NatWest SIBA)	**30,661,459**	
War Stock	13	
Total Invested (Including SIBA & War Stock)	**30,661,472**	

Annexe B

Prudential Indicator Compliance

(a) Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Executive Head of Finance reports that the Authority had no difficulty meeting this requirement in 2014/15 and 2015/16 (to date).

(b) Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m
Total	21.272	21.272	0.525	0.525

Capital expenditure will be financed or funded as follows:

Capital Financing	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m
Capital receipts	0.903	0.903	0.000	0.000
Government Grants	0.280	0.280	0.280	0.280
External Funding and Contributions	0.183	0.183	0.000	0.000
Revenue Contributions	1.729	1.729	0.245	0.245
Total Financing	**3.095**	**3.095**	**0.525**	**0.525**
Funding Requirement – assumed to be external borrowing	18.177	18.177	0.000	0.000
Total Funding	**18.177**	**18.177**	**0.000**	**0.000**
Total Financing and Funding	**21.272**	**21.272**	**0.525**	**0.525**

The table above shows that the capital expenditure plans of the Authority can/cannot be funded entirely from sources other than external borrowing.

(c) Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Approved	2015/16 Revised	2016/17 Estimate	2017/18 Estimate
Total	1.90%	1.90%	1.90%	1.90%

(d) Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m
Total CFR	10	18.2	18.6	18.4

(e) Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2015/16	2016/17 Estimate	2017/18 Estimate
Increase in Band D Council Tax	£1.47	£5.95	£6.09

(f) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Authority to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

	Authorised Limit (Approved) as at 31/03/2016 £m	Operational Boundary (Approved) as at 31/03/2016 £m	**Actual External Debt** as at 30/09/2015 £m
Borrowing	24.00	22.00	17.9
Other Long-term Liabilities	2.00	2.00	0
Total	**26.00**	**24.00**	**17.9**

(g) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
Full Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 22nd February 2012

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

(h) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limits for 2015/16 £m	Maximum during 2014/15 £m	Compliance with set limits
Upper Limit for Fixed Rate Exposure	20.0	11.5	Yes
Upper Limit for Variable Rate Exposure	0	0	Yes

(i) Maturity Structure of Fixed Rate Borrowing

1 This indicator is set to control the Council's exposure to refinancing risk i.e. to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

The Council has no borrowings at the present time

	Upper Limit	Lower Limit	Actual Fixed rate Borrowing as at 30/9/15 £m	Compliance with Set Limits
Under 12 months	100%	0%	0	Yes
12 months and within 24 months	100%	0%	0	Yes
24 months and within 5 years	100%	0%	1.5	Yes

5 years and within 10 years	100%	0%	0	Yes
10 years and above	100%	0%	16.4	Yes

(j) Upper Limit for Total principal sums invested for periods longer than 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2015/16 Approved £m	30/9/2015 Actual £m	31/03/2016 Estimate £m	31/03/17 Estimate £m
	15.0	4.00	5.0	5.0

(k) Security: average credit rating

2 The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	Target	Actual	Met?
Portfolio average credit rating	A	AA+	Yes

Annexe C

Economic Review provide by the Council's Treasury advisors Arling Close

1) As the year began, economic data was largely overshadowed by events in Greece. Markets' attention centred on the never-ending Greek issue stumbled from turmoil to crisis, running the serious risk of a disorderly exit from the Euro. The country's politicians and the representatives of the 'Troika' of its creditors - the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) – barely saw eye to eye. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. Prime Minister Tsipras blindsided Greece's creditors by calling a referendum on 5th July on reform proposals which by then were off the table anyway. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

2) On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. This U-turn saw a revolt within the ruling Syriza party and on 27th August, Alexis Tsipras resigned from his post as Prime Minster of Greece after just eight months in office by calling a snap election, held on 20th September. This gamble paid off as Tsipras led his party to victory once again, although a coalition with the Independent Greeks was needed for a slim parliamentary majority. That government must now continue with the unenviable task of guiding Greece through the continuing economic crisis – the Greek saga is far from over.

3) The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported $3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24th August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

4) The UK economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.7%. Q2 2015 GDP growth bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.4%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's projections for inflation remained largely unchanged from the May report with them expecting inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO

unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

5) The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

6) The US economy slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at a twice-revised 3.9% (annualised). This was largely due to a broad recovery in corporate investment alongside a stronger performance from consumer and government spending and construction and exports. With the Fed's decision on US interest rate dependent upon data, GDP is clearly supportive. However it is not as simple as that and the Fed are keen to see inflation rise alongside its headline economic growth and also its labour markets. The Committee decided not to act at its September meeting as many had been anticipating but have signalled rates rising before the end of the year.

7) Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August and September. Bond markets were also distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.

Outlook for Q3 and Q4 2015/16

8) Arlingclose's expectation for the first rise in the Bank Rate (base rate) remains the second calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited. The appropriate level for Bank Rate for the post-crisis UK economy is likely to be lower than the previous norm. We would suggest this is between 2.0% and 3.0%. There is also sufficient momentum in the US economy for the Federal Reserve to raise interest rates in 2015, although risks of issues from China could possibly push this back.

9) The weak global environment and resulting low inflation expectations are likely to dampen long term interest rates. We project gilt yields will follow a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued. The uncertainties surrounding the timing of UK and US interest rate rises, and the Chinese stock market-led turmoil, are likely to prompt short term volatility in gilt yields.

10)

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Average
Official Bank Rate														
Upside risk			0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.32
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.08
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-0.70

Appendix 1

Money Market Data and PWLB Rates

11) The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

12) Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015		0.50		0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015		0.50		0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015		0.50		0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015		0.50		0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015		0.50		0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015		0.50		0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015		0.50		0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
Average		**0.50**		**0.40**	**0.46**	**0.43**	**0.53**	**0.76**	**0.99**	**1.03**	**1.25**	**1.58**
Maximum		**0.50**		**0.48**	**0.58**	**0.56**	**0.65**	**0.86**	**1.02**	**1.17**	**1.44**	**1.82**
Minimum		**0.50**		**0.17**	**0.40**	**0.43**	**0.51**	**0.55**	**0.97**	**0.87**	**1.04**	**1.29**
Spread		**--**		**0.31**	**0.18**	**0.13**	**0.14**	**0.31**	**0.05**	**0.30**	**0.40**	**0.53**

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	128/15	1.32	2.07	2.66	3.21	3.34	3.30	3.28
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
29/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
28/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
	Low	1.31	2.02	2.60	3.16	3.28	3.23	3.21
	Average	1.46	2.32	2.96	3.51	3.59	3.52	3.49
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

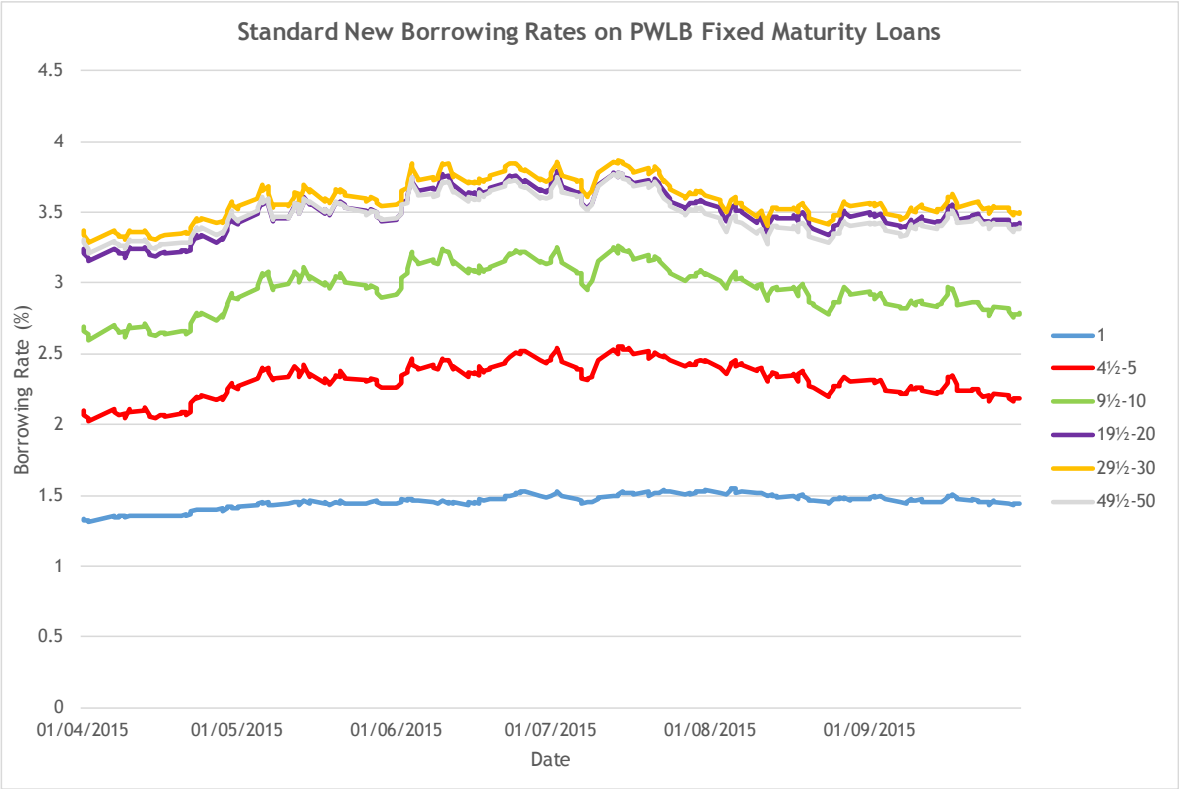

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/15	1.63	2.11	2.68	3.00	3.22	3.32
30/04/2014	166/15	1.79	2.31	2.92	3.24	3.45	3.54
29/05/2014	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2014	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2014	294/15	1.96	2.50	3.09	3.39	3.57	3.63
28/08/2014	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2014	379/15	1.76	2.23	2.82	3.19	3.43	3.51
	Low	1.60	2.06	2.62	2.94	3.16	3.26
	Average	1.84	2.37	2.99	3.31	3.51	3.59
	High	1.99	2.60	3.28	3.61	3.79	3.87

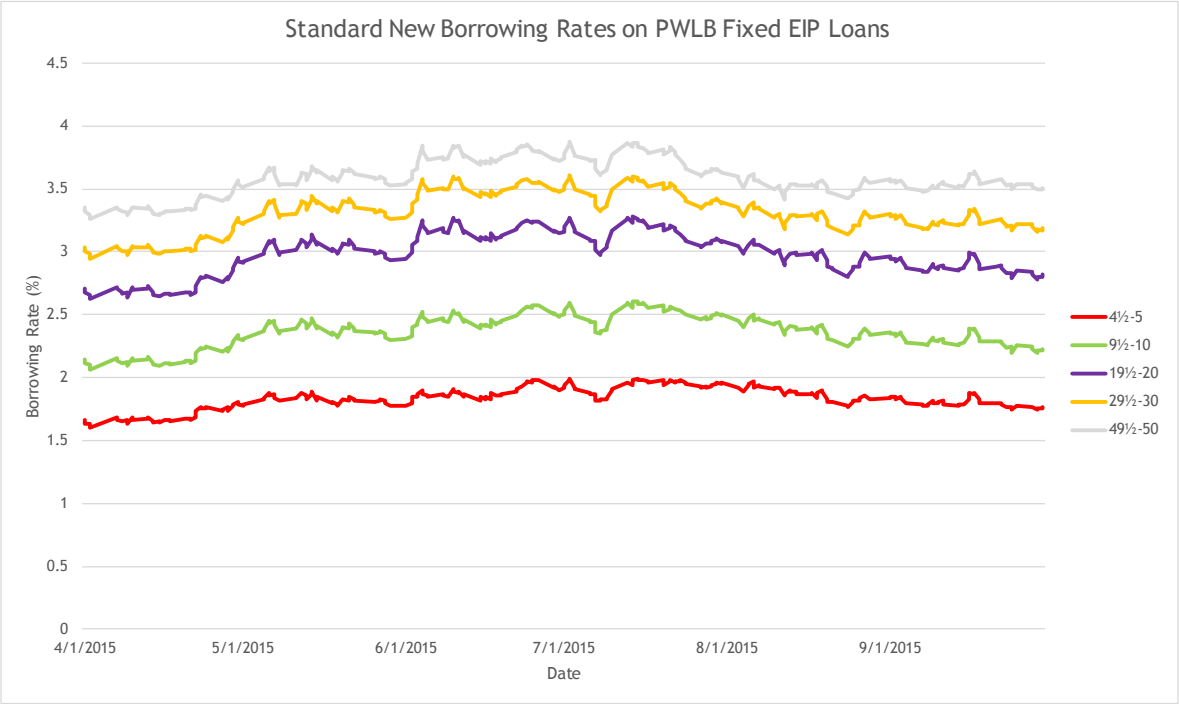

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
29/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
28/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
Low	0.62	0.61	0.66	1.52	1.51	1.56
Average	0.63	0.65	0.70	1.53	1.55	1.60
High	0.66	0.69	0.78	1.56	1.59	1.68