POLICE AND CRIME COMMISSIONER FOR ESSEX

Report reference number: PCC/032/17 **Classification: Not protectively marked**
Title of report: Treasury Management Strategy 2017/18
Area of County/Stakeholders affected: All
Report by : Treasurer to the PCC **Date of report: 28th March 2017** **Enquiries to:** Charles Garbett, Tel: 01245 291612 or Matthew Tokley, Corporate Accounting Manager Tel: 0300 333 4444 ext 166308

1.0 Purpose of Report

1.1 To approve the Treasury Management Strategy (TMS) for 2017/18, this provides a framework for the effective management of the PCC's cash balances and related investments and borrowings. The strategy concentrates on 2017/18 but also considers treasury management for future years in the context of the major planned investment programme.

2.0 Recommendations

2.1 The PCC is requested to approve the Treasury Management Strategy 2017/18 attached incorporating a borrowing strategy, investment strategy, treasury management indicators, a minimum revenue provision policy and flexible capital receipts strategy.

3.0 Background

3.1 CIPFA defines treasury management as:

"The management of the local authority's investment 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"

3.2 One aspect of treasury management is to ensure that cash flow is adequately planned in order to ensure that cash is available when needed to meet payments when they are due. If not immediately needed any surplus monies are invested in low risk counterparties in order to earn interest.

3.3 The second main purpose of the treasury management strategy is the financing of the PCC's capital investment plans.

4.0 Police and Crime Plan

4.1 The Treasury Management Strategy ensures that there are sufficient funds available to meet financial commitments within the approved budget to meet operational and strategic requirements. This includes both day to day operations and longer term investment in order to deliver the Police and Crime Plan.

5.0 Police Operational Implications

5.1 Not applicable.

6.0 Financial Implications

6.1 Fully considered within the main body of this report.

7.0 Legal and Contractual Implications

7.1 Approval of the Treasury Management Strategy satisfies the requirements of the Local Government Act 2003, CIPFA Prudential Code, CLG MRP Guidance, CIPFA Treasury Management Code & CLG Investment Guidance. The post Stage 2 treasury management arrangements satisfies the requirements of the Police Reform & Social Responsibility Act 2011.

8.0 Staffing and Other Resource Implications

8.1 Not applicable

9.0 Equality and Diversity Implications

9.1 Not applicable

10.0 Background Papers

10.1 2017/18 Budget paper at the following link: http://www.essex.pcc.police.uk/wp-content/uploads/2015/08/Proposed-Precept-2017-18.pdf

Report Approval

The report will be signed off by the OPCC Chief Executive and Treasurer, prior to review and sign off by the PCC / DPCC .

Chief Executive/M.O — Sign: ....

Print: S. Hancock

Chief Financial Officer/Treasurer — Sign: ....

Print: CHARLES R GARRETT

Decision

I agree the recommendations to this report;

Sign: ....

Print: R. C. HIRST

PCC/Deputy PCC

Date signed: 31/3/17

I do not agree the recommendations to this report because;

....

....

....

Sign: ....

Print: ....

PCC/Deputy PCC

Date signed:

Publication

Report for publication **YES** [X] **NO** [ ]

Reasons for non-publication *(state 'None' if applicable)*

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Sign: ....

Print: ....

If the report is not for publication, the Chief Executive will decide if and how the public can be informed of the decision.

PCC
POLICE AND CRIME COMMISSIONER FOR ESSEX

Treasury Management Strategy (TMS) 2017/18

1. Introduction

1.1 This TMS provides a framework for the effective management of the PCC's cash balances and related investments and borrowings. The strategy concentrates on 2017/18 but also considers treasury management for future years in the context of the major planned investment programme.

2. Current Financing

2.1 The PCC has set a balanced budget for the Group for 2017/18. The Group also holds substantial cash balances, which totalled £18.6m at 31 December 2016. Cash flow needs will be covered from internal resources in the course of the current year.

3. 5 Year Capital Programme

3.1 The capital programme for 2017/18 onwards is a significant driver for cash flow and funding requirements and a considerable amount of work continues to be devoted to developing a capital programme that both meets the aspirations of the Strategic Board, chaired by the PCC and is affordable.

3.2 The 5-year Capital Programme presented to the Police and Crime Panel on 26th January included projects that have been fully approved and schemes that are subject to a business cases prior to approval. Significantly, all forecast capital receipts were taken into account, including the sale of the existing Force HQ but the cost of replacement was not included. The resulting capital surplus of £30.127m resulting in year 2021/22 shows the amount of capital projected to be available for investment in new technologies and in the estates programme including the procurement of new HQ facilities.

3.3 The dynamic nature of the capital programme, particularly with regards to capital payments and receipts results in some forecast changes each month. The approved capital programme was based on information available at 31st December 2016. An update on the capital programme is shown in table A based on information available at 1st March 2017.

3.4 In the interim, new investment in technologies to facilitate the modernisation of Essex Police and progress the Mobile First programme, in the amount of £7m, has been approved over the term to 2021/22.

3.5 The updated position results in a capital programme which remains affordable without recourse to external borrowing for 2017/18. However, the shortfalls of

£308k and £5,918k in the years 2018/19 and 2019/20 may not be affordable without recourse to external borrowing.

3.6 The substantial capital receipts forecast in 2020/21, largely from the sale proceeds from Force HQ will be available for additional capital investment from 2020/21, or earlier, if plans can be brought forward for their realisation.

Table A – 5 Year Capital Investment Programme 2017/18 to 2020/21 updated 1st March 2017

Capital Investment	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Opening funds balance	4,068	(1,557)	8,084	(308)	(5,918)	24,925	
Resources generated in year:							
Home Office Grant	1,100	935	935	935	935	935	5,775
Capital Receipts	3,261	25,131	6,900	1,360	33,200	0	69,852
POCA/Revenue contributions	800	537	0	0	0	0	1,337
A: Total Forecast Capital Resources	**9,229**	**25,046**	**15,919**	**1,987**	**28,217**	**25,860**	**76,964**
Less estimated capital payments in year:							
- Approved projects	10,786	8,344	2,579	3,062	2,323	2,280	29,374
- Estates business as usual	0	725	100	2,500	0	0	3,325
- Estates Strategy	0	3,477	3,231	150	0	0	6,858
- IT Services	0	4,206	1,195	1,183	150	0	6,734
- IT Services 2018-19 starts	0	0	9,042	1,010	819	438	11,309
- Other	0	210	80	0	0	0	290
B: Total Forecast Capital Expenditure	**10,786**	**16,962**	**16,227**	**7,905**	**3,292**	**2,718**	**57,890**
A less B: Closing funds balance	**(1,557)**	**8,084**	**(308)**	**(5,918)**	**24,925**	**23,142**	

4. External Context

4.1 A commentary on the wider economic context, provided by the PCC's treasury advisors Arlingclose, is set out in Appendix A.

4.2 CIPFA defines treasury management as:

"The management of the local authority's investment 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"

4.3 One aspect of treasury management is to ensure that cash flow is adequately planned in order to ensure that cash is available when needed to meet payments when they are due. If not immediately needed any surplus monies are invested in low risk counterparties in order to earn interest.

4.4 The second main purpose of the treasury management strategy is the financing of the PCC's capital investment plans.

4.5 The report fulfils the PCC's legal obligation under the Local Government Act 2003 which is to have regard to:

i) The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition, which requires the PCC to approve a treasury management strategy for 2017/18.

ii) The Department for Communities and Local Government (CLG) issued revised Guidance on Local PCC Investments in March 2010 requiring the PCC to approve an investment strategy.

4.6 This report fulfils the PCC's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

4.7 In accordance with the CLG Guidance, the PCC will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

5. Funding Capital Investment

5.1 Our approach to capital funding will follow the following sequence:

(i) Utilise capital grants
(ii) Apply capital receipts
(iii) Utilise any available revenue reserves (internal borrowing)

5.2 It is anticipated that there will not be any structural borrowing requirement during 2017-18 or subsequent years.

5.3 Any borrowing requirement is calculated using the following methodology:

(i) The Capital Financing Requirement, represented by:
- capital expenditure not funded from capital reserves
- less Minimum Revenue Provision (MRP)

(ii) Less the cash position, represented by:

- usable reserves, i.e. reserves backed by cash
- working capital surplus

(iii) Add the Minimum liquidity required, i.e. additional borrowing to provide a liquidity buffer for unexpected cash calls

5.4 Following the above methodology it is only when the final sum is negative that there is a borrowing requirement. The calculation below shows that where the resultant amount is positive there is no borrowing requirement.

Table C: Calculation of borrowing requirement

Borrowing Requirement	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£000	£000	£000	£000
Capital Financing Requirement:				
Capital expenditure not funded from reserves	(nil)	(308)	(5,918)	(nil)
Less Minimum Revenue Provision	500	500	500	500
Historic internal borrowing	(7,565)	(7,065)	(6,565)	(6,065)
Total Capital Financing Requirement	**(7,065)**	**(6,873)**	**(11,983)**	**(5,565)**
Cash position:-				
General reserves	13,000	13,000	13,000	13,000
Working capital deficit (31 March 16)	(3,612)	(3,612)	(3,612)	(3,612)
Total cash position	**9,388**	**9,388**	**9,388**	**9,388**
Minimum liquidity / contingency	(nil)	(nil)	(nil)	(nil)
Resulting Borrowing Requirement (including internal borrowing)	**2,323**	**2,515**	**(2,595)**	**3,823**

5.5 The above borrowing requirement is highly sensitive to the approved capital programme and updating the final accounts for 2016/17.

5.6 Although there is no borrowing requirement for 2017/18 the low level of general reserves means that there is a susceptibility to needing short term borrowing to meet peak working capital requirements.

5.7 There is a potential borrowing requirement of £2,595k in 2019/20 unless the investment programme is curtailed or forecast capital receipts are realised earlier.

6. Borrowing Strategy

6.1 There will be no long term external borrowing during 2017-18. Any temporary shortfall in funding capital expenditure will be met from short term internal borrowing and funded from the application of reserves if available.

7. Treasury Management Performance to date

7.1 Table D summarises the investment position at 1 April and 31 December 2016:

Table D: Investments at 1 April and 31 December

Investments	1st April 2016 £'000	31st December 2016 £'000
Call Accounts	10,159	3,000
Fixed Term Deposits	0	18,500
Lloyds Current Account	4,399	-2,892
Total	**14,498**	**18,608**

Full details of the investments are shown at Appendix B.

7.2 There was no long term borrowing during the period from 1st April to 31st December 2016.

8. Investment Strategy

8.1 Both the CIPFA Code and the CLG Guidance require the PCC to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The PCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

8.2 For 2017/18 the PCC may invest its surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown in the table below:

Counterparty	Cash limit	Maximum Duration
UK financial institution whose lowest published long-term credit rating is A (or equivalent)	Higher of 5% or £1m	1year
Lloyds Bank: i) 5%/£1m limit applies with the exception where planned cash outflows for salaries and creditor payments necessitate a maximum up to £5m provided that Lloyds remains a UK bank and has a credit rating of A or better	£5m	Overnight
ii) If at any time Lloyds credit rating is less than A	£1m	Overnight
UK Central Government including Debt Management Office (irrespective of credit rating)	unlimited	50 years
UK Local Authorities (irrespective of credit rating)	£5m	1year

8.3 **UK Financial Institutions:** these are defined as:

i) those that have no foreign parent bank, e.g. Barclays
ii) building societies
iii) those that are 100% owned by a UK bank, e.g. National Westminster (which is fully owned by Royal Bank of Scotland)
iv) UK banks, and their formally guaranteed subsidiaries, that are owned by foreign parent banks, provided that the UK banks meet the following criteria:
a. they are registered in the UK as companies in their own right or are a full branch of a bank registered and regulated in the European Union or passported under EU legislation
b. they operate under a banking licence issued by the Bank of England
c. they are regulated by the Financial Conduct Authority

8.4 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with UK Central Government may be made in unlimited amounts for up to 50 years.

8.5 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the PCC's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

8.6 **Other Information on the Security of Investments:** The PCC understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the PCC will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

8.7 If these restrictions mean that insufficient financial institutions of high credit quality are available to invest the PCC's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

8.8 The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

8.9 The PCC defines "high credit quality" organisations as those having a credit rating of A or higher that are domiciled in the UK or a foreign country with a sovereign rating of AAA or higher. For money market funds "high credit quality" is defined as those having a credit rating of AAA or higher.

Non-specified Investments

8.10 Any investment not meeting the definition of a specified investment is classed as non-specified.

Approved Instruments

8.11 The PCC may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments

8.12 The PCC may use a custodian service; which is defined as "a financial institution that holds customers' securities for safekeeping so as to minimize the risk of their theft or loss". A custodian service will provide access to tradable instruments, higher interest rates and a wider range of counterparties that fit with the PCC's investment criteria.

8.13 Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

Liquidity management:

8.14 The PCC uses a comprehensive cash flow model to forecast its cash flow and to determine the maximum period for which funds may prudently be committed.

8.15 For 2017/18 there have been some recent changes that impact on cash flows, these are:

i) The profile of expected capital receipts has moved from 2016/17 into the first quarter of 2017/18.
ii) Profiled estates capital payments arising from the estates strategy have been realigned with the updated capital programme shown in Table B above.
iii) The pension top-up grant from the Government has increased from £33m in 2016/17 to £40m in 2017/18.

8.16 The impact of the above changes has significantly reduced the forecast short term borrowing need of the PCC for the first quarter of 2017/18. However, the profile of cash inflows and outflows can significantly change and it is prudent to allow for a short term borrowing facility of up to £10m and this requirement is reflected in the treasury management indicators in section 9.

9. Treasury Management Indicators

9.1 The purpose of these is to limit treasury risks and provide a control and performance framework for treasury activities.

9.2 **Interest Rate Exposures**: This indicator is set to control the PCC's exposure to interest rate risk for borrowing. The upper limits on short term and variable rate interest rate exposures will be:

	2017/18	2018/19	2019/20
	£m	£m	£m
Upper limit on short term interest rate exposure	10	10	10
Upper limit on variable interest rate exposure	10	10	10

The balance of borrowing between short term and variable loans is subject to review once the investment profile is clear and the relative advantages of fixed and variable loans can be assessed alongside interest rate exposure.

9.3 **No funds will be invested beyond 365 days:** The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end or over 365 days	£0m	£0m	£0m

9.4 **Operational Boundary**
This term refers to a limit on total debt, which the PCC would not normally expect to exceed. The borrowing figures below are based on the currently approved capital programme which is subject to significant change and variation in borrowing need.

	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	10	10	10

There is no statutory limit on borrowing but there are prudential borrowing limits which need to be determined with reference to a range of indicators such as operational costs, level of reserves, savings requirements, robustness of budgetary control and reserves available. Taking all of these aspects into account the repayment of any borrowing has to be affordable.

9.6 **Authorised Limit for External Borrowing**
This is the limit that the PCC is required to set for total external borrowing, including short-term borrowing. Once set for 2017/18, it cannot be exceeded, as determined in section 3 (1) of the Local Government Act 2003. The limits for each subsequent year can be reset on an annual basis.

	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	10	10	10

Other Items

9.7 There are a number of additional items that the PCC is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

9.8 **Policy on Use of Financial Derivatives:** A financial derivative is a financial contract which derives its value from the performance of another entity such as an asset, index, or interest rate.

These can be distinguished between:
a) Standalone financial derivatives, i.e. those that are not embedded into a loan or investment, e.g. such as swaps, forwards, futures and options. In the absence of a legal power, the PCC will not use standalone derivatives

b) Embedded derivatives, e.g. forward investments and callable deposits. These may be used, but within the normal parameters of risk management

9.9 **Investment Training:** The needs of the PCC's treasury management staff for training in investment management are assessed as part of the annual staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

9.10 **Investment Advisers:** The PCC has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by periodic comparison of the service delivered against the requirements set out in the contract specification. The contract with Arlingclose, which ends in April, is currently subject to competitive tender.

9.11 **Investment of Money Borrowed in Advance of Need:** Should the PCC decide to borrow in the future, it will not borrow more than or in advance of needs in order to profit from the investment. Any decision to borrow in advance will be within the approved Capital Financing Requirement estimates and will be considered carefully to ensure that this represents the best long term value for money.

Since amounts borrowed will be invested until spent, the PCC is aware that he will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the PCC's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £10m during 2017/18.

10. Minimum Revenue Provision (MRP) Policy Statement

10.1 The PCC is required to pay off an element of the CFR through the MRP and through additional voluntary payments if required. CLG Regulations require the PCC to approve an MRP Statement in advance of each financial year. A variety of options are available, so long as there is prudent provision.

10.2 The PCC's policy is to provide for an MRP at a fixed £500k for historic capital expenditure.

11. Flexible Capital Receipts Strategy

11.1 The Government have issued statutory guidance on the flexible use of capital receipts. The PCC is able to use capital receipts generated in year to finance individual projects that would otherwise be a charge to the revenue account.

11.2 Expenditure that qualifies for the flexible use of capital receipts is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years.

11.3 A Capital Receipts Strategy needs to contain, as a minimum, a list of projects that plan to make use of the capital receipts flexibility along with the expected savings/service transformation. The Strategy should be prepared before the start of the financial year and referred to as the 'initial Strategy'. Any subsequent revision to the initial Strategy can be replaced at any time during the year with the 'revised Strategy'. The initial Strategy and any revised Strategy should, once approved, be made available online to the public free of charge.

11.4 The PCC's initial Strategy is to have the option of financing the one-off cost of feasibility and planning fees for estates and IT, currently a 2017/18 revenue budget of £2.1m, from capital receipts.

11.5 The estates/IT budget of £2.1m is to facilitate the reconfiguration, restructuring and rationalisation of these enabling services in support of the police transformation programme. The use of these monies to design and implement IT and estate facilities for policing services alongside fire and rescue services across Essex would also support the proposed Local Business Case for greater collaboration with the fire and rescue services.

11.6 The initial Strategy has minimal impact on the PCC's Prudential/Treasury Management Indicators shown above although it must be recognised that use of capital receipts to fund revenue expenditure pre-empts the use of the same amount for capital investment.

Appendix A

External Context

Following the sharp decline in household, business and investor sentiment that was prompted by the unexpected outcome of the referendum on EU membership in Q2, the preliminary estimate of Q3 2016 GDP defied expectations as the economy grew 0.5% quarter-on-quarter, down only slightly from 0.7% in Q2 and year/year growth running at a healthy pace of 2.3%.

Economic data continued to challenge the current sentiment throughout the quarter. Consumer Price Inflation (CPI) fell to 0.9% in October but rose to 1.2% in November, both predominantly driven by clothing, fuel and hotel prices although the Office for National Statistics (ONS) were quick to point out that there was little evidence to link this rise to the decline in the value of sterling. With sterling having now fallen by around 20% with its impact on prices still to come, according to the ONS, CPI will be heading close towards the Bank of England's target rate of 2% in the first half of 2017, consistent with the forecasts contained within the Bank's last quarterly *Inflation Report* issued in November 2016.

After a weak August, British consumers picked up the pace of their spending in Q3. UK retail sales growth surged to a 14-year high in October as consumers kept spending and colder weather boosted clothing sales. According to the British Retail Consortium (BRC), fears over Brexit are likely to weigh on sales in the period ahead.

Labour market data also proved resilient, showing a small rise in the level of unemployment by 10,000, and average earnings dipping slightly, but at 2.3% still delivering real earnings growth although clearly under pressure from higher prices. The ILO unemployment rate remained at 4.9%, its lowest level in 11 years.

At its August meeting, the Bank of England's Monetary Policy Committee (MPC) had stated that the majority of members expected to support a further cut in Bank Rate at one of the MPC's forthcoming meetings during the course of the year. However, in the final calendar quarter of 2016 the MPC kept Bank Rate unchanged at 0.25% and asset purchases at £435 bn.

In a further twist to an extraordinary year in political events, the US voted Donald Trump as the 45th President of the United States who will take up office on 20th January 2017. Uncertainty surrounds whether or not the President-elect will make good the fiscal, regulatory and policy initiatives and changes which were central to his campaign and, if so, their timing and size and their effect on growth, employment and inflation both domestic and globally.

Following a strengthening labour market, in a move that was largely anticipated, at its meeting in December, the Federal Reserve's Open Market Committee (FOMC) increased the target range for official interest rates for just the second time in the last decade. The range was increased to between 0.5% and 0.75%, from 0.25% and 0.5%. In the accompanying statement, FOMC Chair Janet Yellen also highlighted the expectation of three further rate hikes in 2017, followed by three hikes in each of 2018 and 2019.

Market reaction: Following the referendum result, gilt yields had fallen sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. Since September there has been a reversal in longer dated gilt yields which have moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, which is almost back at pre-Brexit levels of 1.37% on 23rd June. 20- and 50-year gilt yields have also risen considerably in the third quarter to 1.76% and 1.7% respectively, and are nearly back up to pre-Brexit levels.

However, this recovery was not realised across all maturities. The 1 year gilt yield dropped from 0.13% at the end of September to -0.004% at the end of December. The one year gilt yield first went negative at the beginning of December, having only been negative intra-day previously. 2 and 3 year gilt yields have also continued to fall.

Movements in gilt yields are reflected in the PWLB borrowing rates.

After recovering from an initial sharp drop in Quarter 2, equity markets appear to have continued their rally, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7142.83 and 3873.22 respectively on 30th December, up 3.5% and 3.1% over the quarter.

Money market rates for very short-dated periods (overnight to 1 month) have largely started recovering from a noticeable fall in the previous quarter. 7-day and 1-month LIBID rates increased by about 0.1%, to 0.35% and 0.61% respectively. Longer-dated periods (6 months to 2 years) also increased by between 10 and 20 basis points; on 30th December the 6-month LIBID rate was 0.64%, 12-month 0.81% and the 2-year swap rate 0.60%.

Appendix B

Investment Position at 1 April 2016 and 31 December 2016

	1 April 2016 £000	Start date	Maturity date	Rate %
Call accounts				
Santander UK Plc	159			0.40%
Barclays Bank Plc	10,000			0.30%
Total	**10,159**			
Fixed term deposits				
Total	**0**			
Lloyds current account	4,339			0.40%
Total all Investments	**14,498**			

	31 Dec 2016 £000	Start date	Maturity date	Rate %
Call accounts				
Santander UK Plc	0			0.15%
Barclays Bank Plc	3,000			0.25%
Total	**3,000**			
Fixed term deposits				
Bank of England DMO	3,500	08-Dec-16	09-Jan-17	0.15%
Northants CC	3,000	27-Oct-16	27-Jan-17	0.28%
Buckinghamshire CC	3,000	08-Nov-16	03-Jan-17	0.24%
Coventry	2,000	30-Nov-16	03-Jan-17	0.23%
Coventry	1,000	07-Dec-16	09-Jan-17	0.23%
Nationwide	3,000	07-Nov-16	07-Feb-17	0.28%
Leeds	3,000	21-Oct-16	23-Jan-17	0.31%
Total	**18,500**			
Lloyds current account	**-2,892**			
Total all Investments	**18,608**			